

# RISK MANAGEMENT

## Insurance Coverage Considerations



By Christine Messmer, M.S.F., CFP®

Risk management is an important aspect of the financial planning process. As a financial advisor, it is essential to assess a person's insurance coverage to determine areas of strength and areas for improvement. Any person who is not adequately covered with life, disability, medical, automobile, homeowners and any other appropriate insurance may have a serious risk management problem. For retirees, an appropriate medicare supplemental plan and possibly a long-term care policy should be in place.

Life insurance is essential to create assets when your assets are insufficient to protect your family and loved ones in the case of your premature or untimely death. Life insurance is used to pay final expenses, to provide cash flow to your loved ones and to fund financial goals, such as paying off your mortgage and other debts or funding your children's education or providing for a more secure nest egg for your spouse. Term insurance is generally recommended when there is a need, since it is generally inexpensive and may be acquired for a 10, 15, 20 or even a 30 year period. Permanent plans, such as whole life, universal life or variable universal life are much more expensive because they offer savings or cash value, as well as protection. In my opinion, there are better ways to save for the future other than through a life insurance policy. However, sometimes permanent insurance makes sense. Keep in mind that group insurance through work goes away upon separation from service, so it may be important to have an individual plan in place.

Disability insurance protects your income in the case of serious sickness or disability if you are unable to work for an extended period of time. Business owners can acquire business overhead insurance in addition to disability income to cover business expenses for a period of time, such as for one year. Disability income insurance covers only 60 percent of your income. Some professionals are able to obtain a higher replacement income, such as 80 percent. If your long term disability income plan is employer paid, then benefits are taxable. On the other hand, when you pay the premiums, the benefit is not taxable income. Disability plans require the insured to choose a 30, 60 or 90-day waiting period before the benefit commences, so it is important that you have a cash reserve to replace your income until you begin receiving benefits. Waiver of premium is an optional rider on a life insurance policy that is beneficial and inexpensive to add, so if you become sick or disabled, the rider allows your premiums to be paid and then you do not run the risk of losing your life insurance benefits.

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## INSURANCE COVERAGE CONSIDERATIONS

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Medical insurance should be in place for catastrophic or major medical expenses. The four types of plans are fee-for-service, managed care, high deductible health plans and, of course, Medicare for persons age 65 or older. Medicare supplements plans are also essential for persons on Medicare. The specifics for each plan is out of my realm, but the important thing is that people have comprehensive coverage to best meets their needs. For example, a high deductible plan that allows for doctor and specialist visits without getting a referral may be important to some people. Whereas, an indemnity plan that covers many services with certain limits or exclusions may be better suited for other people.

My recommendation is to acquire the most comprehensive medical plan with the least amount of exclusions. Please consider finding a specialist for specific questions about medical insurance, since it has changed dramatically over the past few years and most likely will be changing again in the future.

Property and casualty insurance should be reviewed to be certain it is adequately protecting your home and automobiles. Be certain that your coverage provides full replacement cost on your home and automobiles. Please be sure to review coverages with your property and casualty agent every year or every couple of years because your agent understands the property and casualty business best and can help you to navigate what is best for you.

Your auto insurance policy should have adequate liability limits. Liability protects against injury claims and property damage brought on by other drivers or property owners when you are at fault in an accident. Collision coverage reimburses you for repairs if your vehicle is damaged in a collision. Comprehensive covers vandalism, theft, fires or storms. Personal

injury covers medical expenses from an auto accident regardless of who is at fault. Uninsured or underinsured liability coverage protects you and any passengers if your car is hit by a motorist without insurance or inadequate insurance, and it is very important to be sure these limits are adequate.

Homeowners insurance protects against home losses from fire, smoke damage, wind storms, explosions and damage or losses from a theft. It covers your dwelling, other structures on the property, your personal belongings and liabilities if a guest suffers an injury. It also covers legal expenses if you are sued and the cost of repairing damage you accidentally caused to someone else's property. Renters also need a policy to cover personal belongings.

Umbrella Liability Policies may provide \$1 million to \$5 million in protection over and above the liability limits of your regular home and auto policies. It protects you in the case of negligence claims, libel, slander or defamation or a catastrophic accident when you are held responsible for damages or bodily injuries, and it helps to protect your valuable assets and your future. Other insurance plans, such as professional liability are available for business owners and professionals.

As a financial advisor, my role is to assess your situation, point out areas for improvement and follow up to be sure that the risk management part of your financial planning is in order. The best way to avoid a serious risk management situation is to take the time to review all of your insurance plans. Then, make plans to correct areas in need of improvement. You do not want to have a loss only to find out that your coverage is inadequate causing a very real setback to your overall financial plans. Please visit [www.christinemessmer.com](http://www.christinemessmer.com) for more resources.