

Protection Against Risk

Questions and Concerns:

- Are you adequately covered for home, auto, health, disability and premature death?
- Do you have substantial assets that need to be protected from liability?
- Are you prepared for the occurrence of long-term care health costs?
- Does your business or other activities expose you to personal liability?

Risk management is the review of unexpected events that can impact your financial well being. Individuals have several choices when they deal with risk: accept risk, self-insure risk, and insure risk. You accept risk if you are not setting aside funds to cover potential risk or buying an insurance policy to cover risk. Essentially, insurance protects an individual's assets. If you have substantial assets you are exposed to out-of-pocket costs to cover an uninsured car, healthcare or a lawsuit. This can have more negative impact on your investments than the 2008 market meltdown. The types of risks that will be reviewed are death, disability, health, home casualty and auto causality. Beyond preserving assets, it can also mean the quality of care as in having health insurance and long-term care insurance.

Are you adequately covered for home, auto, health, disability and premature death?

Home and Auto Policies – The minimum amount of coverage depends on many factors. New Mexico does not mandate the minimum required for home insurance, however for auto insurance there is a minimum required liability amount. In order to qualify for a loan, lenders will require a minimum property amount to protect the balance of the loan. For individuals who have little in assets, one can argue that it is best to get the best insurance coverage available especially because, after basic coverage, it is relatively inexpensive. The extra cost of the insurance is worth the person's peace of mind. On the other hand, if you have substantial insurance coverage you are more vulnerable to getting sued. Many individuals, who have been sued, found that experience to be traumatic, emotional and messy. Overall, the right amount of coverage depends on the amount one can afford.

If an individual has substantial assets, then adequate coverage is necessary. To be minimally insured, one is self-insuring for amounts above the minimum. Generally, home liability coverage is a relatively inexpensive way to protect your assets. The question to ask one's self is "Is putting your assets at risk worth the small savings in premium payments?"

Disability – According to the Life and Health Insurance Foundation for Education (LIFE) you are more likely to become disabled while working than to die prematurely. Imagine not being able to cover your expenses upon disability. Disability coverage can be provided as follows:

Social Security – Social Security provides limited disability payment and there are restrictions on the qualifications.

Worker's Compensation – If you are injured on the job, the state worker's compensation program can provide income loss protection.

Employer Sponsored Programs – Many employers provide basic group disability benefits and often allow employees to buy additional coverage.

Private Disability Insurance – Individuals who are self-employed or whose employer does not have disability benefits may purchase private disability insurance. A person might also buy additional coverage privately if s/he does not feel their employer’s coverage is adequate. The premium depends on the benefit amount, waiting period, term of benefits, and disability definition.

The Life and Health Insurance Foundation for Education (LIFE) and the Council for Disability Awareness provides in depth information and disability coverage calculators. It is important to disclose that members of both of these organizations are from the insurance industry.

LIFE: Disability	http://www.lifehappens.org/disability-insurance/
LIFE: What you need to know about disability insurance. (PDF)	http://www.lifehappens.org/pdf/printable-consumer-guide/disability-pcg.pdf
LIFE: Disability Need Calculator	http://www.lifehappens.org/disability-insurance-needs-calculator/
Council for Disability Awareness: Personal Disability Quotient	http://www.disabilitycanhappen.org/chances_disability/pdq.asp

Life Insurance – One of the major risks that concern many individuals with dependents is premature death. This includes any parent who provides income to the household and/or provides homecare to the children. Such a loss can be devastating emotionally as well as financially. Fortunately this is not a likely occurrence and using term life insurance to protect against this loss is relatively inexpensive. When considering investment savings, retirement savings, educational savings and retiring debt, one can buy staggered sets of term insurance to end as the need for the insurance decreases. Use the calculator link from the Life and Health Insurance Foundation for Education (LIFE) to determine the amount of insurance needed.

LIFE: Insurance Need Calculator	http://www.lifehappens.org/life-insurance-needs-calculator/
LIFE: Human Life Calculator	http://www.lifehappens.org/human-life-value-calculator/

Do you have substantial assets that need to be protected from liability?

Individuals who have a substantial net worth are exposed to liability risk from catastrophic events. Accidents happen from a dog bite to a young inexperienced teenage driver who can expose you to such risk. It is essential to obtain comprehensive liability insurance or an umbrella insurance to protect against these events. The good news it is cheap to get at least a \$1,000,000 policy. In order to qualify your home and auto policy must meet minimum coverage requirements. An auto and home insurance agent will help you coordinate the three policies.

What can I do about long-term care health care (LTC)?

The purpose of long-term care coverage is to provide quality of life care in the event such need arises. Long-term health care premiums can be pricy. It is not a difficult decision when you have a high net worth and a strong cash flow. It becomes problematic when the cost of the LTC premiums affects the current quality of life. Below are three methods to cover long-term health care: self-insure, health care insurance and life insurance.

	Self Insure	Traditional LTC Policy	Single Premium Insurance	Life
Premium	N/A	Periodic (Monthly)	One Payment	
Amount	N/A	Varies based on age and health	25k Minimum	
Eligibility		Formal Underwriting	Minimal Underwriting	
CPI Adjustments		Yes	Depends on Policy	
Waiting Period		None	One Year	
Beneficiary		None	Yes	
Benefits	This is for individuals who have substantial assets do not mind using these resources. This is also for individuals for minimal assets that qualify for Medicaid	This is for individuals who have a steady cash flow and does not have substantial investment assets.	This is for individuals who have substantial assets and are concerned want it to go to an estate if not used.	

Below is further information from the National Association of Insurance Commissioners.

LONG-TERM CARE INSURANCE: What You Should Know	http://www.naic.org/documents/consumer_alert_ltc.htm
Ten things you should know about long-term health insurance	http://www.naic.org/index_ltc_section.htm
DO YOU NEED LONG-TERM CARE INSURANCE?	http://www.naic.org/Releases/2007_docs/long_term_care.htm

Does your business or other activities expose you to personal liability?

Business owners need to consider commercial insurance. Professionals such as physicians need malpractice insurance. Accountants, attorneys, CPAs and other professionals rely on errors and omission insurance. In addition, do you belong to a profit or non-profit board? If so, it is important that the organization have full insurance to cover board members. Home, auto and umbrella policies will not cover liabilities arising from these activities. Another activity is title coverage for the purchase of real estate. It is important to have a real estate attorney review the exclusions on the title insurance before the settlement of the real estate transaction.

How can a financial planner help you in risk management?



One of the major aspects of planning is mapping out a client's goals and understanding what is important to them. Often it entails taking care of their family while they are alive as well as after they have died. Working with the financial statements and cash flow provides the client insight into their exposed risk. The financial planner will often help the client save for emergencies, education, retirement, investments and pay off debt. As these goals are met, it becomes apparent that the need for life insurance to protect dependents diminishes over time. That means significant lower insurance expense as projected savings increase and debt decreases are determined. It also means that over time with asset exposure it may require more asset protection in terms of liability and property coverage.

DISCLAIMER

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