

# Protection

## ***Risk Management***

Life is full of surprises which can take you off the path toward your goals. Personal Risk Management is the way we manage the risk. There are 3 basic strategies for managing risk:

1. Reducing Risk
2. Assuming Risk
3. Insuring for Risk

Reducing risk is always a prudent choice. Insurance companies often provide resources and incentives to help you reduce risk. Don't forget, they benefit too.

You should always evaluate the risk and your financial position prior to assuming a risk. Assuming a risk could be catastrophic depending on your financial position. If you can't afford a loss, you should consider insuring for the risk. Generally speaking, you should insure what you can't afford to lose.

## ***What Is Insurance?***

A contract, referred to as a policy where an insured pays a sum of money referred to as a premium, to an insurer, who in return agrees to pay for loss the insured suffers in defined circumstances.

Insurance is a protection against financial loss (or claim) arising upon an unexpected event. Insurers collect premiums to provide this protection to various people. The Insurance company collects data and develops sophisticated risk models which help them predict the likelihood of a claim.

For Example, in a Life Policy, by paying a premium to the Insurer, the family of the insured person receives a fixed compensation on the death of the insured or at the completion of the policy at said terms.

Similarly, in a car insurance policy, in the event of a car accident, the insured receives compensation to the extent of damage or the actual value of the vehicle insured.

# What Risks Can I Insure?

Almost any risk can be insured, but the most common are outlined below.

## Life Insurance

Why buy life insurance? The main reason for insuring your life is to replace an income you are generating that someone else relies on. The most common case is a one- or two-earner family with young children. If an earner dies, life insurance can enable the survivors to go on without having to make financial sacrifices.

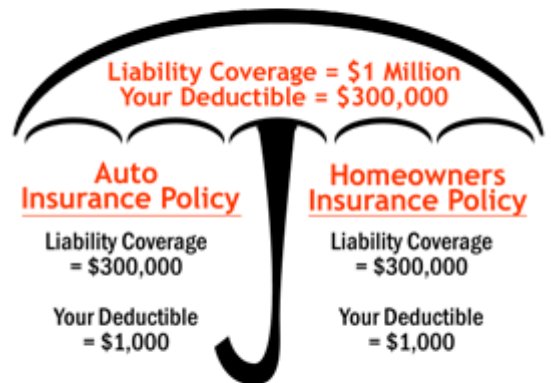
Life insurance can also pay for one-time costs that are connected with death, such as funeral and burial costs, administration costs (e.g., for probate and transferring title to property to the heirs), estate and inheritance taxes, and outstanding debts (such as final medical expenses not covered by health insurance). There are several other reasons to buy life insurance. Life insurance can be used as a tool to build savings and assist in estate planning.

## Umbrella Liability Protection

General Liability or Umbrella Policies can protect you from the costs of legal action that may arise from an accident or unexpected event that causes a loss to someone other than yourself. An Umbrella policy works with your auto and home owner's insurance to increase your overall coverage in the event of litigation. If you are liable for damages suffered by a plaintiff who brings a lawsuit against you, it will also damages up to the limits of the policy.

It is especially important to have sufficient coverage to protect your income or assets from a judgment you could be required to pay from your own assets or income.

### HOW AN UMBRELLA LIABILITY POLICY WORKS



You get sued. You settle with the claimant for \$1 million. You pay a \$1,000 deductible for the basic policy involved (auto or homeowner's). That policy pays \$299,000. Your umbrella policy kicks in because the \$300,000 deductible has been met. It pays \$700,000. You pay nothing.

## Home Owner's Insurance

Homeowners insurance provides financial protection against disasters. A standard policy insures the home itself and the things you keep in it.

Homeowners insurance is a package policy. This means that it covers both damage to your

property and your liability or legal responsibility for any injuries and property damage you or members of your family cause to other people. This includes damage caused by household pets.

Damage caused by most disasters is covered but there are exceptions. The most significant are damage caused by floods, earthquakes and poor maintenance. You must buy two separate policies for flood and earthquake coverage. Maintenance-related problems are the homeowners' responsibility.

If you put less than a 20% down payment on your house the financial institution may require that you put aside 1/12<sup>th</sup> of the annual premium payment in an escrow account.

## ***Car Insurance***

Auto insurance protects you against financial loss if you have an accident. It is a contract between you and the insurance company. You agree to pay the premium and the insurance company agrees to pay your losses as defined in your policy.

Auto insurance provides property, liability and medical coverage:

- Property coverage pays for damage to or theft of your car.
- Liability coverage pays for your legal responsibility to others for bodily injury or property damage.
- Medical coverage pays for the cost of treating injuries, rehabilitation and sometimes lost wages and funeral expenses.

An auto insurance policy is comprised of six different kinds of coverage. Most states require you to buy some of these coverage's. If you're financing a car, your lender may also have additional requirements.

Most auto policies are for six months to a year. Your insurance company should notify you by mail when it's time to renew the policy and to pay your premium.

## ***Disability Protection***

Disability insurance pays an insured person an income when that person is unable to work because of an accident or illness.

Disability income insurance complements health insurance by replacing income lost in the event of a sickness or accident. At age 40, the average worker faces only a 14 percent chance of dying before age 65 but a 21 percent chance of being disabled for 90 days or more.

Although replacement income is available for workers under some circumstances from workers compensation (if the injury or illness is job-related), auto insurance (if disability results from an auto accident) and the Department of Veterans Affairs;

There are three basic ways to replace income:

**1. Employer-paid disability insurance**

Many employers provide some short-term sick leave. Some larger employers provide long-term disability coverage as well, typically with benefits of up to 60 percent of salary lasting from five years to age 65, and in some cases extended for life.

**2. Social Security disability benefits**

The Social Security Administration pays a benefit to qualified workers whose disability is expected to last at least 12 months and is so severe that no gainful employment can be performed. To be fully insured a worker must earn 10 credits in the social security system. A credit is earned for each period of 3 months with an income of \$1300.

**3. Individual disability income insurance policies**

For most workers, even those with some employer-paid coverage, an individual disability income policy is the best way to ensure adequate income in the event of disability. When you buy a private disability income policy, you can expect to replace from 50% to 70% of income. Insurers won't replace all your income because they want you to have an incentive to return to work. However, when you pay the premiums yourself, disability benefits are not taxed. (Benefits from employer-paid policies are subject to income tax.)

## ***Long Term Care Protection***

Due to advances in health care technology people are living longer than ever. Many people find themselves living longer than they ever expected. A greater number of people are experiencing mental decline from illnesses such as Alzheimer's disease, Physical decline due to diseases like Diabetes, Parkinson Disease and Multiple Sclerosis, or injury, some people find themselves in need of help with eating, bathing, dressing, and other physical activities. Long-term care insurance can help pay for such care in the future, in the event you are faced with the need for such assistance. Additional benefits of Long Term Care insurance will be discussed in the Estate Planning Section.

## ***Insurance Consultation (Check Up)***

You have to make many choices when insurance: how much to buy, which type of insurance to buy; and which one of the hundreds of life insurance companies to choose. Even if you "shop" online, it is in your interest to work with a knowledgeable professional who can understand your needs and constraints, answer your questions, and help you find the most appropriate solutions. We are please to offer free Insurance Check Ups to help you make the most confident decision about insurance protection.

# Bibliography

Boston Institute of Finance 2005, Certified Financial Planner Curriculum Content, 12/29/2005 content.acadient .com

Fontaine, Constance J. Fundamentals of Estate Planning 8<sup>th</sup> Edition Bryn Mawr, PA.: American College Press 2004

Federal Trade Commission website [www.ftc.gov](http://www.ftc.gov) 11/30/2005

Insurance Information Institute website [www.iii.org](http://www.iii.org) 12/21/2005

Keown, Aurthur J. Personal Finance: Turning Money into Wealth 3<sup>rd</sup> Edition Upper Saddle River NJ: Pearson Prentiss Hall 2004

Quinn, Jane Bryant Making the Most of Your Money New York: Simon & Schuster 1997

Rigg, Terry Sr. Budget Stretcher Newsletter <http://www.homemoneyhelp.com/> 11/21/2005  
[http://www.debtsmart.com/cgi-pl/article.cgi?cmd=print&article\\_num=379](http://www.debtsmart.com/cgi-pl/article.cgi?cmd=print&article_num=379)

Social Security Administration Website [www.ssa.gov](http://www.ssa.gov) 12/29/2005  
<http://www.ssa.gov/r&m1.htm>

Society of Certified Senior Advisors Working With Seniors: Health, Financial and Social Issues Society of Certified Senior Advisors 2005

Vaughan, Emmett J and Therese Fundamentals of Risk and Insurance 9<sup>th</sup> Edition Hoboken, NJ: John Wiley & Sons 2003