

# The Role of Insurance in Your Financial Plan

## Key Points

- [What Are Your Insurance Needs?](#)
- [Auto Insurance](#)
- [Homeowner's Insurance](#)
- [How Much Coverage Do You Need?](#)
- [Liability Insurance](#)
- [Life Insurance](#)
- [Helpful Resources](#)
- [Disability Income Insurance](#)
- [Health Insurance](#)
- [Long-Term Care Insurance](#)
- [Points to Remember](#)

Insurance is an important element of any sound financial plan. Different types of insurance protect you and your loved ones in different ways against the cost of accidents, illness, disability, and death.

## What Are Your Insurance Needs?

The insurance decisions you make should be based on your family, age, and economic situation. There are many forms of insurance and, unfortunately, no one-size-fits-all policy. Life insurance, for example, is a virtual necessity if you have a spouse and children, but perhaps is less important for a single person. Disability insurance, which provides an income stream if you are unable to work, is important for everyone.

Following is a list of the forms of insurance most people require.

## Auto Insurance

Auto insurance protects you from damage to the often considerable investment in a car and/or from liability for damage or injury caused by you or someone driving your vehicle. It can also help cover expenses you or anyone in your car may incur as a result of an accident with an uninsured motorist.

Auto liability coverage is necessary for anyone who owns a car. Many states require you to have liability insurance before a vehicle can be registered. However, state-required minimum coverage often does not provide adequate protection. Suggested minimums are \$100,000 for medical expenses per injured person, \$300,000 for the total per accident, and \$50,000 for property damage. Collision, fire, and theft coverage is also advisable for a vehicle having more than minimal value. You can cut costs, however, by choosing a higher deductible -- the amount of loss that must be exceeded before you are compensated.

The cost of auto insurance varies greatly, depending on the company and agent offering it, your choice of coverage and deductible, where you live, the kind of vehicle, and the ages of drivers in the family. Substantial discounts are often available for safe drivers, nonsmokers, and those who commute to work via public transportation.

## Homeowner's Insurance

Homeowner's insurance should allow you to rebuild and refurnish your home after a catastrophe and insulate you from lawsuits if someone is injured on your property. Coverage of at least 80% of your home's replacement value, minus the value of land and foundation, is necessary for you to be covered for the cost of repairs. There are several grades of policies, ranging from HO-1 to HO-8, with increasingly comprehensive coverage and cost. Unless you increase coverage, most homeowner's policies cover the contents of the

house for 50% to 75% of the amount for which the house is insured. The liability coverage in many homeowner's policies is \$300,000.

### **How Much Coverage Do You Need?**

Suggested minimum amounts are:

<b>Homeowner</b>	80%-100% of the full replacement value of your home and its contents in Property Insurance; \$300,000 in Liability
<b>Renter</b>	\$4,000 in Property Insurance to protect against loss or damage; \$100,000 in Liability

## **Liability Insurance**

Often called umbrella liability coverage, this takes effect when the personal liability and lawsuit coverage in other policies is exhausted. The cost for \$1 million worth of protection -- especially necessary for high-income individuals and those with considerable assets -- may be only a few hundred dollars a year.

## **Life Insurance**

Life insurance, payable when you die, can provide a surviving spouse, children, and other dependents with the funds necessary to maintain their standards of living, can help repay debt, and can fund education tuition costs. The amount you need depends on your situation. If you make \$100,000 a year, have a sizable mortgage, and have two kids headed to an expensive college, you could need \$1 million in coverage.

Talk with an insurance agent who offers policies from companies whose financial strength is ranked high by rating agencies. And remember that you can shop around.

### **Helpful Resources**

- **National Association of Insurance and Financial Advisors** (877) 866-2432

This group can refer you to an insurance advisor who can help you determine how much insurance you need and refer you to an agent.

- **A.M. Best** (908) 439-2200 ext. 5742
- **Standard & Poor's** (212) 438-2400
- **Moody's** (212) 553-0377

These agencies rank and rate insurance companies and can give you information about an insurance company's financial strength. A small fee will be charged for these services.

## **Disability Income Insurance**

A long-term disability policy is activated, replacing a portion of your lost income, when you are unable to work for an extended period. Some, but certainly not all, employers cover their employees with some form of company-paid disability income insurance. Typically, such coverage is only partial and/or short-term in nature. Thus, many people seek to purchase an individual disability income insurance policy. If you're buying, try to get a noncancelable policy with benefits for life, or at least to age 65, and as much salary

coverage as you can afford. However, keep in mind that the duration of coverage may be limited because of your occupation.

Insurers will usually cover up to 65% of your salary. Generally, you should have total coverage equal to two thirds of your current pretax income.

If your company provides disability insurance, check to see whether it's enough for your needs. Group disability insurance policies may be capped at six months and provide benefits that won't cover your expenses.

## Health Insurance

Most people enjoy medical insurance as an employee benefit, often with their employers paying whole or part of the premiums. Many employers offer a choice between HMOs (health maintenance organizations) and traditional fee-for-service care. Rates for HMOs are usually cheaper but have more constraints. Privately purchased health insurance is much more expensive -- often by several hundred dollars a month -- depending on such things as deductibles, coverage choices, and location.

## Long-Term Care Insurance

With an aging population and uncertainty about the future of Social Security, insurance to cover the high cost of nursing home or at-home health care is becoming more widespread. Medicare pays very little of the cost of long-term care in the United States. Medicaid will pay for the care, but only for patients whose assets are almost completely depleted.<sup>1</sup>

With Congress always debating the future funding of these programs, financial planning for long-term care is more crucial than ever.

Medigap insurance can help pay medical expenses of the elderly not covered by Medicare. However, it doesn't cover custodial nursing home costs. In fact, about half of all nursing home residents pay for the care with personal savings.<sup>1</sup>

Contact a qualified insurance professional or AARP for more information on long-term care insurance.

## Points to Remember

1. Your insurance needs will vary based on your family, age, and economic situation.
2. Anyone who owns a car should have auto liability insurance. Collision, fire, and theft coverage can protect your investment in a valuable car.
3. Homeowner's insurance should provide coverage up to 80% of the cost of replacing your home, minus land and foundation. Homeowners should also have liability coverage, and those with considerable assets may want to purchase liability up to \$1 million.
4. Life insurance is important for those who have families to cover living and other expenses in the event of death.
5. Long-term care insurance can be expensive and complex, but may be a necessity for older people as the long-term coverage of Medicare is often inadequate.

<sup>1</sup>Source: [www.Medicare.gov](http://www.Medicare.gov).

© 2011 McGraw-Hill Financial Communications. All rights reserved.

May 2011 — This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Allan W. Moskowitz, CFP®, AIF®, a local member of FPA.

Registered Representative and Investment Advisor Representative through Protected Investors of America, Member FINRA, SIPC, and SEC Registered Investment Advisor.

The information contained in these pieces does not necessarily reflect the views of PIA or any of its affiliates