Don't Die Without It

Last month we spoke about Health, Auto, Homeowner's and Renter's Insurance. I also talked about how financial planning is forward-looking. Insurance is an important part of a complete financial plan, not because it is forward-looking, but because it is 'what if?' looking.

Life is risky and brings all types of obstacles that can derail a financial plan. Insurance helps transfer some of that risk to an insurance company. We do that by paying premiums, and in exchange, they agree to share some of our risk.

Many people get their health insurance through their employer. If you are just starting out, you probably get your auto insurance as inexpensively as you can. You also purchase homeowner's or renter's policies. These types of insurance can be purchased on your own or through an insurance agent.

A Financial Advisor can help you personalize and buy the next three types of insurance:

Life Insurance pays money to your beneficiaries at your death. Life insurance is NEEDS based, which means that the amount and type you purchase is based on your particular needs. The premium you pay is determined by the amount and length of coverage, your age, and your health.

There are two types of life insurance: **term** and **permanent**. I call them 'If I die' and 'When I die' policies.

Term policies are **'if I die'** and they insure you while there is a need for a specific time period, or **term**. When we are young and have a growing family, we may have large debts, such as a mortgage, student loans, etc. In this situation, we have a larger need for insurance.

Why? Because my family needs me to earn a wage. If I were to die, those earnings would go away. That would be catastrophic for my spouse and kids.

In this case, I might buy a term policy to cover the length of time that I have this huge need. Let's say 30 years, for example. That would cover the time remaining on my mortgage. It would also help raise my kids through high school or even college. For a young couple with a family, you could easily need a 7-figure death benefit.

Over that 30-year term, three things will hopefully happen: my kids will move out, my mortgage balance will decrease or get paid off, and we will hopefully have saved enough to live on for the rest of our lives. As those things happen, the need for term insurance diminishes. If I pay the premium for 30 years and am still living, my beneficiaries will not receive a life insurance benefit.

The **"when I die"** life insurance is **permanent** insurance. It will pay a benefit when I die.

There are three basic types of permanent insurance: Whole Life, Universal Life (UL) and Variable Universal Life (VUL). Since this insurance does pay out a benefit when you die, the premiums are higher. If you have questions about which type of life insurance you should have, I can coach you through that.

Disability Insurance (DI) is another type of insurance that is often overlooked, and clients are often unaware of its importance. DI protects your income if you get sick or hurt and are unable to work.

Disability Insurance is NOT the same as Workers' Compensation Insurance. Workers' Comp pays a benefit if you get hurt **at work,** assuming your employer has purchased that insurance.

Disability insurance replaces a percentage of your income regardless of where the injury or illness occurred. DI is often available to employees as part of their workplace benefits. It can also be purchased privately through a Financial Advisor.

Short-term DI starts soon after an injury or illness, but it only pays for 3-6 months. If your disability lasts longer than that, you would then switch over to your long-term DI.

Since DI protects your income, you must have earned income to qualify for a disability policy. Disability insurance has no deductible, but there is a waiting period which acts like a deductible. If you want to receive benefits 90 days after you become disabled, you will pay a higher premium. If you have a cash cushion and can live without your income for 180 days, your premium will be less (see ***Cash Cushion***). DI stops at age 65, even if you continue to work.

The last type of insurance we will discuss is **Long Term Care** insurance (LTCi). Most clients look at purchasing LTCi at about 60 years of age, although some may buy it earlier or later.

Long Term Care benefits are available if someone is unable to perform two or more activities of daily living. This includes eating, toileting, bathing, dressing, walking, and transferring (moving from one place to another). It also pays a benefit if there is mental or cognitive impairment.

It's not fun to think about, but this level of incapacitation requires more attention than most families can provide. LTCi will reimburse the expense (up to the policy limits) of bringing someone to the home to assist.

If you need to move to an assisted living or skilled nursing facility, LTCi covers that, as well. There is a waiting period, which is called an elimination period. With both DI and LTCi, you will want to get an inflation rider to make sure the insurance benefit increases for many years down the road.

Life, disability, and long-term care insurance are complex products. The structure and strategy in those policies will vary based on what you need. A Financial Advisor can help you make sense of your need and create an insurance portfolio that fits your budget.

You are welcome to reach out to me if you have questions or would like to discuss this further. Call or text me at **(913) 828-3688** or shoot me a quick email @ mailto:sean.tucker@prosperityadvisors.com.

Respectfully,

Sean