

The average cost of nursing home care in the U.S. is \$75,000 a year.

Source: AARP



WEALTH MANAGEMENT

LOSS PREVENTION

As with all aspects of wealth management, what one person needs to insure for loss may be very different from his or her neighbor. It is pertinent for individuals to review their own situations in order to make sure they are prepared for the unexpected.

"I believe a portfolio of insurance is like a portfolio of investments," said Katheigh Degen, co-owner of Twin Financial. "And not everyone will need the same things, but it should help provide protection and security."

Consider examining each of the following areas to make sure you and your family are adequately covered.

The Basics

Most all experts agree that *everyone* should have health, homeowners and auto insurance. It's elementary. However, many individuals do not adequately protect with the right amount of insurance—this is especially true when it comes to their homes.

"Matching the assets they have with the insurance they have is something many people do not do adequately," said Richard March, an insurance officer with UMB Scout Insurance Services. "We advise clients to pay a higher deductible in order to get the higher liability limit that will protect their assets when necessary."

For example, said March, a quarter of flood-related losses occur outside of designated flood plains. Many people either do not have flood insurance because they do not think they need it, or they have it through the National Flood Insurance Program, which caps claims at \$250,000, not nearly enough to cover the destruction of many homes.

March also points out that the inflation protection built into home-

owner's insurance often is not sufficient. Therefore, individuals should review their policies regularly to make sure they will meet their needs—before something happens that forces the use of the insurance.

Life Insurance

"Life insurance is essential to have in order to meet the needs of your survivors," said Peter Mallouk, principal of Creative Planning. "I want to know that if something happened to me, my wife and children would be taken care of. I help clients plan for this situation by looking at how much money their family would need to live on, pay off any debts and put kids through college. We then determine the amount of money required to meet those needs and the length of time the money will be necessary."

The big life insurance debate is whether whole or term insurance is necessary. While term may be sufficient for most, there may be some situations where whole life is needed. Mallouk suggests that permanent insurance may make sense for estate taxes, but not for survivor needs, which can be met at lower costs with term life.

"As a general rule, if you need permanent insurance to be in place at death, such as to fund a trust, whole life may be necessary. However, term life insurance is frequently used when you can tell the duration of the need, such as to protect against premature death or to fund a buy-sell agreement," said Troy Bender, president of UMB Scout Insurance Services.

Bender often uses life insurance with his clients for estate planning purposes, such as to pay estate taxes or for estate equalization purposes.

"The ability to use life insurance for estate equalization is overlooked

By the Numbers

\$600/year	Approximate cost of a no-frills long-term care insurance plan providing four years of coverage at \$150 a day for a person at age 50;
\$1,300/year	Approximate cost of the same plan for a person at age 65;
\$5,300/year	Approximate cost of the same plan for a person at age 79;
\$74,000/year	Average annual cost of a nursing home;

Source: AARP The Magazine

Don't wait too long to examine your insurance needs, or you may be sorry.

quite often. For example, a business owner may have five kids, and while one of them is heir apparent to the family company, the other four are off doing other things. The parent can use their company to buy four policies and pay the premiums, and at death the company stays intact and is passed on to the one child while the other four get an equal amount," said Bender.

Disability and Long-Term Care

In addition to home, auto, health and life insurance, many experts agree that the two other essential policies may be disability and long-term care. Yet like all other types of insurance, this need depends on where an individual is in her stage of life—financially and physically. Is she still accumulating wealth and needing to work in order to continue to build wealth or is she nearing her golden years with a significant amount of wealth?

Disability insurance is important for individuals whose source of wealth is their income. By having disability insurance, they can rest

assured their income stream will continue even if they cannot work. However, not everyone agrees that the benefits of disability insurance outweigh the costs, so it is important to examine your individual situation.

Long-term care insurance is often overlooked, yet it can be critical to wealth preservation. For example, imagine someone who has worked for decades to build his wealth, yet in his older years has deteriorating health and must live in a nursing home or requires a regular nursing staff. This care could go on for years, potentially sapping the nest egg he intended to pass on to his children or the assets his spouse expects to rely on if she lives longer than him.

“Long-term care insurance can protect against assets being eaten away by the high cost of living in a nursing home for several years,” said Bender.

One caveat that Chris Costello, CEO of The Retirement Planning Group, points out about long-term care insurance is that sometimes people make the mistake of over-buying.

“Long-term care insurance is generally sold on a dollar per day basis, meaning you take a look at the average per day cost of a nursing home in your geographical area—around \$150 here if you don’t want a roommate,” he said. “Then you price the policy on a dollar amount per day. The mistake many people make is purchasing coverage for 100 percent of the per day cost when almost everyone will have assets that can be used to co-insure the risk, therefore saving a good amount.

“For example,” Costello continued, “your costs may be \$150 per day, but you may only need your insurance to cover \$100 per day. Also, you must be sure to add the inflation rider to the policy, considering the rising cost of long-term care.”

Don’t wait too long to examine your insurance needs, or you may be sorry.

“Nothing is sadder than when someone has insurability problems,” said Degen. “The sooner you start, the greater your options will be.”