OXFORD FINANCIAL GROUP, LTD.™

WEALTH COUNCIL INSIGHTS EDUCATION SERIES: ASSET PROTECTION AND INSURANCE

PART 1 – THE FUNDAMENTALS OF INSURANCE

TYLER ROSSER, JD
Wealth Strategist

Over the course of four articles, we will explore the most common asset protection strategies and categories of insurance, including:

I. Part 1, focusing on the fundamentals of insurance and asset protection;
II. Part 2, focusing on common types of insurance, including medical, disability, homeowners, automobile, umbrella, and life insurance;
III. Part 3, focusing on asset protection strategies and utilizing the Limited Liability Company ("LLC") for enhanced asset protection; and
IV. Part 4, focusing on life insurance and utilizing the Irrevocable Life Insurance Trust ("ILIT") to preserve and enhance generational wealth.

INSURANCE FUNDAMENTALS

> *"The principle of risk shifting from policyholder to insurance company is inherent in every type of insurance contract."*

At its core, an insurance policy is an agreement between the policyholder and the insurance company where the insurance company agrees to assume a specific risk that would otherwise be borne by the policyholder. In consideration for the assumption of risk, the insurance company charges and receives premium payments from the policyholder. If a risk covered by an insurance policy occurs, the policyholder files a claim and the insurance company then makes payments to the policyholder (or on behalf of the policyholder) pursuant to the terms of the policy. The principle of risk shifting from policyholder to insurance company is inherent in every type of insurance contract.

TYPES OF INSURANCE AND KEY PROVISIONS

The following are the most common types of insurance that a person will encounter and utilize throughout their life – medical insurance, disability insurance, homeowners insurance, automobile insurance, umbrella insurance and life insurance. These insurance types will be explored in greater detail in part two of this series. Although the details and specifics of each insurance policy type will differ, the following are key provisions that are relevant to most types of insurance:

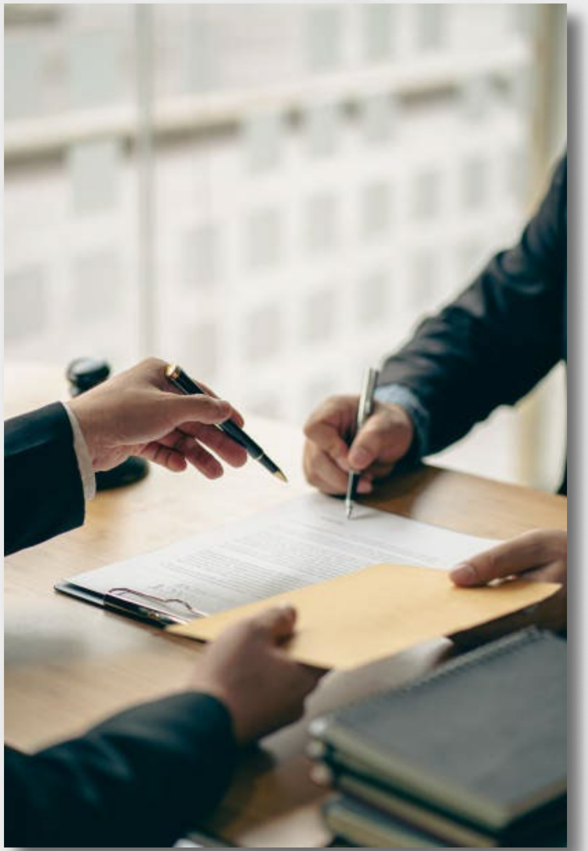
I. **Premium** – The amount the policyholder pays for the insurance policy. This amount is generally stated and paid as an annual, semiannual or monthly amount. It is important that premium payments are made on time and according to the terms of the policy because if a premium payment is missed, it is possible that the insurance policy could lapse and no longer provide the expected level of protection.

II. **Deductible** – The amount the policyholder must pay out-of-pocket before the insurance company pays remaining claims. The amount of the deductible is inversely correlated to the amount of the premium – a lower deductible generally results in a higher premium. Oftentimes, an insurance company will provide a policyholder several options of deductible and premium combinations to choose among. Once the deductible is met (exceeded), the insurance company makes payments to the policyholder or on behalf of the policyholder. The deductible may reset annually or could be event-specific.

III. **Coverage Limit** – The maximum amount an insurance company will pay to satisfy a policyholder's claims. It is possible the coverage limit is a lifetime limit, an event-specific limit or a periodic (annual) limit. The coverage limit is positively correlated to the amount of the premium – a higher coverage limit generally results in higher premium payments because the insurance company's total exposure is greater. Once the coverage limit is exceeded, the policyholder will be responsible for any additional amounts owed.

ASSET PROTECTION

Insurance is a critical component in an overall asset protection strategy because it limits potential financial losses when certain events occur. Without adequate insurance coverage, financial assets are at risk of loss. With all insurance planning, a primary consideration is protecting financial assets from dissipation due to potential risks. Part three of this series details common asset protection concerns and strategies.



PART 1 – THE FUNDAMENTALS OF INSURANCE *(continued)*

To illustrate how the insurance premium, deductible and coverage limit function together to provide various levels of asset protection, consider the following hypothetical scenarios:

INSURANCE TYPE	CLAIM #1	CLAIM #2
HOMEOWNER'S INSURANCE: Bryce purchased a homeowner's insurance policy to insure his home with the following terms: I. Premium – $1,500/year II. Deductible – $5,000/event III. Dwelling Coverage Limit – $450,000	Bryce's home sustained $20,000 of damage when a pipe burst and flooded part of his downstairs bathroom. This type of flooding was covered under his homeowners insurance policy. After paying the $5,000 deductible, the insurance company paid the remaining $15,000 to restore the downstairs bathroom.	A strong tornado caused extensive damage to Bryce's entire home. After an assessment of the damage, it was determined that the home was a total loss and would need to be rebuilt. The cost to rebuild the home ultimately totaled $500,000 because of inflation and material shortages. After paying the $5,000 deductible, the insurance company paid for $450,000 of the costs to rebuild the home, and Bryce paid the remaining $45,000 out-of-pocket.
AUTOMOBILE INSURANCE: Bryce's automobile insurance policy has the following terms: I. Premium – $150/month II. Deductible – $2,000/event III. Property Damage Coverage Limit – $50,000/accident	Bryce was found to be the at-fault driver in an accident that totaled Toby's brand new car. The cost to replace Toby's car was $70,000. After paying the $2,000 deductible, the insurance company paid for $50,000 of the cost to replace Toby's car, and Bryce paid the remaining $18,000 out-of-pocket.	A tree branch fell on the hood of Bryce's car leaving several significant scratches. This type of damage was covered under his insurance policy. The cost to repair the damage was $1,200. Because Bryce's deductible is $2,000, he paid for the cost of the repair out-of-pocket, and the insurance company did not make any payments or reimbursements.

Insurance plays a key role in a well-designed estate and financial plan. Your Oxford Team partners with you and trusted specialists to position your insurance needs in line with your overall estate and financial plan.