WEALTH COUNCIL INSIGHTS EDUCATION SERIES: ASSET PROTECTION AND INSURANCE

PART 2 – COMMON TYPES OF INSURANCE

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In this second article of our series focusing on Asset Protection and Insurance Planning, we will focus on the most common types of insurance that a person will encounter and utilize during their life. Specifically, this article will explore the characteristics of medical, disability, homeowners, automobile, umbrella and life insurance.

MEDICAL INSURANCE

Medical insurance is designed to protect the policyholder against the risks and costs associated with becoming sick or injured. The costs incurred due to a significant sickness or injury, including hospitalization, surgery and medical treatment plans, can be devastating. For example, specialized treatment care for certain cancer diagnoses can exceed $1 million depending upon the complexity and duration of the treatment. Without adequate medical insurance coverage in place, one could exhaust significant financial assets paying for medical treatments and eventually become unable to continue treatment if paying out-of-pocket becomes infeasible.

Approximately 58.1% of people in the United States who are under the age of 65 are covered by an employer-sourced group insurance plan.[1] However, not everyone is employed by an employer who provides health insurance coverage benefits; this might be particularly true for the adult children and grandchildren of business owners who are not employed by the family business. In addition to employer-provided medical insurance, an individual may purchase medical insurance directly from an insurance company, through an insurance broker or through state and federal marketplaces.

Medical insurance plans come in a variety of forms and with differing coverages, requirements, costs and benefits. The most common characteristics of medical insurance plans are: amount of premium, amount of deductible, specialist referral requirements, fixed copays and out-of-pocket maximums. Each plan combines these characteristics to provide a certain level of coverage at a certain price. Individual circumstances will dictate which of these characteristics are the most important to consider when choosing a medical insurance plan. Any medical insurance strategy selected should protect financial assets by limiting exposure to major medical costs.

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DISABILITY INSURANCE

Disability insurance protects income if a policyholder becomes unable to work due to a significant injury or sickness. Protecting cash flow, particularly for high-income earners, is a critical asset protection strategy because current cash flow prevents asset erosion. In addition, many families rely on the high-income earner's cash flow to fund and sustain their current standard of living and provide for future generations.

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It is always advisable to review disability insurance options offered by an employer and take advantage of any favorable employer-provided options. However, as with medical insurance, many Oxford clients are not employed in positions where employer-provided disability insurance is available and will need to purchase disability insurance directly from an insurance company or through an insurance broker.

There are two primary categories of disability insurance – short term and long term; these types of insurance work in tandem to provide complete coverage. Short-term disability insurance covers the policyholder for a short period of time following an injury or illness that prevents the policyholder from working, with payments generally starting between 7-21 days (the elimination period) after the onset of the injury or illness. The amount of these benefit payments varies but generally equals 40 – 80% of the policyholder's base pay and last for up to 52 weeks.

Long-term disability insurance is designed to replace income when a policyholder is unable to work for a more extended period of time. When structured properly, the elimination period for long-term coverage will mirror the benefit period for short-term coverage (i.e., when the short-term disability payment period ends, the long-term disability insurance begins). The amount of the benefit payments varies, but long-term policies are generally designed to replace approximately 60% of a policyholder's base pay and can last for two years to lifetime depending on the policy. The amount of coverage selected, including the amount of benefit payments and the lengths of the elimination and benefit periods, should take into consideration overall plan cost and one's current and future spending needs to maintain current lifestyle and to provide for future generations.

HOMEOWNERS INSURANCE

Homeowners insurance combines several different types of protection into one policy. A typical homeowners insurance policy contains the following coverages:

I. Dwelling / Structure Coverage – This covers the home's physical structure and pays to repair or replace the home, including detached structures, if damaged or destroyed by fire, storm or other disasters listed in the policy.
II. Personal Belongings – This covers personal property located inside the home, including furniture, clothes, electronics and other personal property if damaged or destroyed by fire, storm, or other disasters listed in the policy or if the property is stolen or vandalized.
III. Insurance Rider – A rider is an optional add-on to an insurance policy that expands coverage to additional specific items, such as jewelry, collectibles or artwork that may not otherwise be fully covered under the standard homeowners insurance policy.
IV. Liability Protection – This covers the policyholder against lawsuits for bodily injury or property damage caused by the policyholder to another person or another person's property. This coverage applies to damages and injuries caused in the home and elsewhere.
V. Living Expenses – This covers additional costs that the policyholder incurs if living away from home due to the home being damaged from an insured disaster. Expenses related to temporary lodging, transportation and restaurant meals are generally covered.

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AUTOMOBILE INSURANCE

Automobile insurance also combines several types of protection into one policy. A typical automobile insurance policy contains the following coverages:

I. Liability Coverage (Bodily and Property) – This covers the policyholder up to the stated liability limit for damages the policyholder causes to another person or another person's property. Most states require a driver to carry liability coverage at a stated minimum amount.
II. Collision Coverage – This covers damage to the policyholder's vehicle if involved in a collision with another vehicle, building or other physical property.
III. Comprehensive Coverage – This covers damage to the policyholder's vehicle if damaged in ways that do not involve a collision, such as damage from hail, fire, theft and vandalism.
IV. Uninsured/Underinsured Coverage – This covers medical and other expenses if a policyholder is involved in a collision with an at-fault driver who lacks adequate automobile insurance to compensate the policyholder for property damage or medical expenses.
V. Medical Payments Coverage – This coverage pays for the treatment and injuries that the policyholder or passengers in the policyholder's car sustain as a result of an auto accident, including medical costs and lost wages, regardless of who is at fault for the accident.

UMBRELLA INSURANCE

Umbrella insurance can be thought of as excess liability insurance that provides additional coverage and protection beyond the policy limits of a standard homeowners or automobile insurance policy once those policy limits have been exceeded. In addition to covering an increased amount, umbrella insurance also covers a wider range of potential risks than the liability coverage in a standard homeowners or automobile policy, including claims against the policyholder for defamation, libel, slander, invasion of privacy and false imprisonment. Wealthy individuals and families particularly benefit from the enhanced protection provided by umbrella insurance because it reduces overall asset exposure to potential risks, accidents and lawsuits.

LIFE INSURANCE

Life insurance has multiple uses that combine both asset protection and wealth enhancing strategies. Part four of this series details how life insurance can be utilized to mitigate tax exposure and increase wealth for future generations. As an asset protection strategy, life insurance is commonly utilized to replace income for dependents, provide resources for maintaining current lifestyle, leave inheritance for heirs and create a source of funds for future generations. Life insurance is also commonly used to pay estate tax liability that arises after the insured's death.

The two primary categories of life insurance are term life insurance and whole life insurance. Term insurance provides a

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death benefit to designated beneficiaries if the insured dies during the term of the policy (terms are usually between 1- 30 years); no benefit is provided if the insured outlives the term. A whole life insurance policy provides permanent coverage and pays a death benefit whenever the insured dies if the policy is in effect at the time of death. Whole life insurance policies also typically incorporate a savings component known as the “cash surrender value” that increases in value as premium payments are made by the policyholder. The cash surrender value is available upon cancellation or exchange of the whole life policy and to fund premium payments if the balance is sufficient.

At a minimum, one should consider purchasing enough life insurance to provide for dependents’ living, health and educational expenses that will continue after the insured’s death.

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.

[1]https://www.kff.org/other/stateindicator/nonelderly064/?currentTimeframe=0&sort

Model=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D

WEALTH COUNCIL
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ABOUT THE SERIES

In the Wealth Council Insights Education Series, we endeavor to deconstruct some of the complexities that exist around many commonly utilized estate and financial planning concepts in order to provide you and your family with the basic knowledge needed to better understand and create a blueprint for your overall wealth enhancement needs.