

Factors to Consider When Updating Insurance Coverage

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With health care reform implementation getting closer and the memory of super storms still fresh, now is a good time to review insurance policies coverage, insurance needs, and emergency plans.

Insurance coverage tends to be the stepchild of family financial planning. All too often, insurance is obtained and then put on autopilot, only to be found inadequate when a disaster or problem strikes. That's why it makes sense to take time every year to review insurance coverage, consider situations when new coverage may be required, and look at the implication of disaster planning on insurance coverage.

Here are the types of coverage and issues to consider in any review of personal insurance policies:

Health Insurance

Health care reform is changing the landscape of health insurance, removing previous barriers to gaining coverage, extending coverage to children up to the age of 26, and closing the doughnut hole for senior citizen prescription drug spending. With that in mind, here are some points for individual and family health insurance coverage that should be reviewed:

Medical deductibles and limits. For employees and senior citizens, open enrollment season provides an opportunity to review current

policies and potentially change providers. When reviewing coverage or deciding whether to change to a new plan, take a look at deductibles, co-pays, and overall out-of-pocket expenses.

More employers are switching to high-deductible health insurance plans, where deductibles start at \$1,250. Once the deductible is met, there are usually co-pays for doctor's appointments, prescriptions, and other medical treatment. The overall out-of-pocket expense limit reveals the most you'll have to spend in overall out-of-pocket costs. Also consider out-of-network costs in case you or a family member are traveling and require care out of town or a specialist needs to be consulted who is out of network.

What type of policy to choose depends on many factors, such as the overall health of family members, how often doctor's visits and medications are needed, and the family budget.

Prescription coverage. Most plans provide for cheaper options that can save money, such as generic drugs, discounts, or prescription-by-mail availability.

Homeowners' Insurance

Hurricanes and super storms are important reminders that home insurance coverage should be regularly reviewed and coverage increased in certain situations.

Homeowners' inventory. It's all too easy to buy jewelry, home office equipment, collectibles, and even upgrade a home through a renovation project without considering upgrading a homeowners' insurance policy. Make a list of any significant renovations, new jewelry, home office equipment, collectibles, or other assets and review them with your insurance agent. Take up-to-date photographs or videos of all major belongings in the home and keep those pictures or videos in a safe place. Archive those photos or videos remotely via online storage.

Home replacement coverage. With home values down versus mortgages in many parts of the country, obtaining competitively priced "guaranteed replacement" or "replacement" coverage is critical. Call several insurers or insurance agents to obtain estimates on this type of coverage, and incorporate whatever change makes sense into your current or new coverage as soon as possible.

Flood and earthquake insurance options. Review the need for this coverage, because it's not a part of standard homeowners' policies.

Hurricane and windstorm coverage. This coverage varies by state and sometimes by county. Some states offer windstorm coverage pools for people who can't get private insurance. Most states have high-risk pools or participate in federal programs that offer this type of coverage in coastal areas, so check with an insurance agent or state insurance department to make sure you have the latest coverage options and information.

Disaster planning. This isn't a specific insurance issue, but it's vital just the same. Create a document in a binder, folder, or online that includes all the information that loved ones would need in case of your death--keep a physical form of this information close to the items to grab in a crisis. It is vital that in case of a catastrophic event like a sudden death that loved ones have a single go-to guide with insurance, home, and estate information. It also makes sense to make a second copy for relatives.

Umbrella Liability

Because it can be impossible to predict how much risk or liability certain situations may create – a bad car crash that a member of your family was responsible for or a fall on your property – many insurance agents recommend buying an umbrella liability policy.

Supplement to home and auto coverage. This type of policy provides coverage over and above a homeowners' or car insurance policy in the event of a lawsuit. That way, if an unexpected event does occur that results in a lawsuit, legal and any settlement costs will be mostly covered by insurance.

Disability Insurance

Many employers provide disability insurance, but that coverage may not be sufficient to truly cover earnings lost if a disability strikes.

Coverage specifics. Check any employer policy for specific coverage items like when it goes into effect, what kind of disabilities are covered, how much income replacement is offered, and how long it lasts. Many policies only replace 50% to 60% of income; a supplemental individual policy may be the way to increase that. Consider long-term and short-term coverage.

Car Insurance

In a similar fashion to homeowners' insurance, it is easy to set and forget car insurance deductibles and coverage. Reviewing and updating coverage can insure coverage when an accident or disaster occurs or save money if coverage previously required is no longer needed.

Specific issues. Higher deductibles can save money on the premium, but require higher out-of-pocket costs in the event of an accident or disaster, so weigh those variables out. If a disaster strikes, most comprehensive auto coverage will cover wind, flood, or earthquake damage. In the case of an older car that is paid for, skipping on collision insurance can be a real saver in terms of monthly premiums, but will mean no insurance payment if the car is in a collision.

Small Business Insurance

Small businesses face many risks, so if you're a small-business owner, it makes sense to review and update your coverage frequently.

Specific issues. Coverage your business may need could include general and professional liability insurance, commercial property insurance and home-based business insurance. Business interruption insurance is another type of coverage that could help pay the bills if a disaster, disability, or other crisis intrudes on the ability of a business to continue operating for a period of time.

Life Insurance

There are two aspects to life insurance -- the first is coverage of a family member's life and the second is insurance on a third party's life. There are a variety of reasons to have coverage in both of these situations.

Family coverage.

Life insurance coverage should pay enough to ensure the preservation of the lifestyle of a surviving spouse and children, as well as the children's educational goals. That includes money for ongoing expenses, debt payments, and tuition. Working spouses should also consider similar coverage. As painful as it might seem, it is also necessary to consider burial coverage for children.

Insurance on another person's life.

There are some cases when it makes sense to buy insurance on another person's life due to the potential financial loss that could occur if that person died. In order to buy such coverage, the insured and the beneficiary must know one another and have an emotional or financial connection such that the insured wants the beneficiary to receive a benefit in the event of death. Circumstances in which you may want to consider purchasing such a policy include divorce, to protect an inheritance, for a business partner to keep a business going, or to collect on a loan.

In a divorce, the spouse who is making alimony or child support payments should be covered so the spouse receiving those payments still has a source of income support if the former spouse dies. It can also be a good idea for the former spouse who is taking care of the children to be covered by a policy so that if he or she dies, the working spouse can cover childcare expenses.

In the case of protecting an inheritance, insurance coverage can help ensure adequate cash to cover taxes and other post-death costs outside of probate. For the owner of a small business, the death of a partner can throw the whole future of the business into question, so an insurance policy and agreement can provide for the surviving partner to have the cash and agreement in place to buy the deceased partner's share of the business. In the case of a personal loan to a family member or friend, an insurance policy can ensure that the loan is repaid if the borrower dies unexpectedly.

A final word

It's a good idea to regularly set a date to review insurance coverage and check with an insurance agent to make sure you have all the types of coverage you need at the appropriate levels. Because insurance is such an important component of overall risk management and financial planning, be sure to discuss your needs with your advisor during your annual review or at least once during each year.

As Director of Retirement and Life Planning for Horseshmouth, Elaine Floyd helps advisors better serve their clients by understanding the practical and technical aspects of retirement income planning. A former wirehouse broker, she earned her CFP® designation in 1986.

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