

The Importance of Insurance



Earning capacity is an asset that should be protected through insurance; insurance as a consideration in an overall financial plan; critical-care insurance

As Kate and Jack develop their financial plans, they are reaching a full understanding that each investment decision has a corresponding set of consequences and limitations. To achieve a specific investment goal, such as buying a house, care must be taken to use an appropriate investment tool.

Similarly, it is clear that investors who take the time to study the concept of risk - and understand its different forms - will profit from the effort. Now let's take a look at another consideration that is often overlooked as investors set about building a portfolio and preparing secure futures: insurance.



Jack sat across the table from his financial advisor and listened intently. The topic was life insurance; Jack had to admit that he had none.

You see, he told his new confidante, I have always been healthy, and I have figured that with all of my expenses contributing toward two households, I couldn't really afford monthly insurance premiums. I've always considered insurance a luxury.

The advisor then asked Jack a simple question: what is your most valuable asset? Jack responded quickly: why, it's my home, of course.

The truth is, Jack was told, your most important asset is your ability to earn money. Even at mid-life, with only 15 years or so remaining before retirement, that earning capacity represents a tremendous resource - but only if he stays healthy.

That health factor is a big if, Jack was told. One recent study showed that the chances of a 55-year-old male suffering a critical illness over his next 20 years is one in 3.5; for a female, it is one in 5.3. The main reason for those surprising numbers is the improvement in health care - in the past, people used to die from strokes and heart attacks, but now many recover and have to find a way to support themselves and their families. The increasing appeal of a relatively new type of insurance, critical-illness insurance, is a direct result of the ability of medical science to keep people alive longer.

Too many people tend to think of retirement planning on one hand and purchasing insurance - whether it's life, critical-illness or long-term-care insurance - on the other. But the two sets of purchases come from the same scarce source of funding and many of their purposes overlap.

In essence, there are three income streams to plan for:

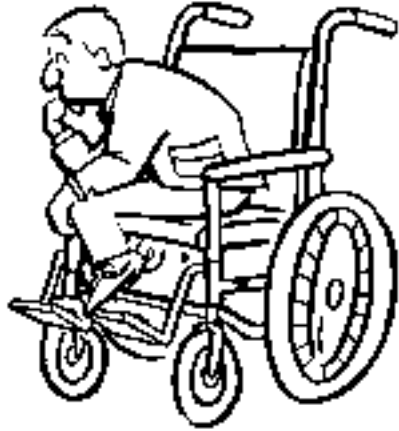


one is to provide for dependents if you die, two is income in case of disability or illness, and three is funds for retirement.

Often an investor walks into an investment office with his insurance already purchased. He should be prepared to have those contracts put on the table and considered as part of the retirement portfolio, because they should be considered an important component of the overall plan to work toward financial security. An essential part of financial planning is preparing for contingencies. Insurance arrangements if already in existence should be fine-tuned or adjusted as part of the overall plan, and not ignored.

What is critical-illness insurance? It is designed to pay out a lump sum upon the initial diagnosis of any of the covered illnesses while the insured is still living. On the other hand, life insurance generally pays out only when the insured dies, while disability insurance provides for loss of employment income while the insured is unable to work.

But, Jack asks, don't I have disability insurance as part of my company compensation plan? He might well have disability provisions, he is told, but often they are minimal and may require the policy holder to go back to work - any type of work - within a year or two. It won't hurt



to fully examine his company benefits plan and consider other ways to supplement these through additional life or critical-illness insurance as part of a full analysis of his current and future needs, he is told.

Clive and Ida, later on in the life cycle, already have both life and critical-illness insurance but they too could benefit from a thorough re-evaluation of those policies as they embark on the next phase of retirement planning.

Kate, on the other hand, with no dependents or debt, has no immediate need for life insurance, but certainly disability or critical care coverage should be examined.