



Personal Finance: Another Perspective

Insurance 1: Basics of Protecting Yourself

Updated 2020/02/12



Objectives

- A. Understand the importance of insurance
- B. Understand what our leaders have said regarding insurance and the key principles of insurance
- C. Understand and create your Insurance Plan



Your Personal Financial Plan

- **Section X: Insurance** (use [Insurance template](#) LT01-09)
 - What is your vision for your insurance?
 - What are your goals? For each of the 5 types of insurance (a. Life, b. Health, c. Disability, d. Auto, and e. Home Owners/Renters) answer:
 - Do you need it (answer for each section A-E)? Do you have it? How much should you have? What type is it? Costs and coverage? Discounts?
 - Include a copy of your CLUE report (if available), your insurance summary sheet and [Calculating Life Insurance](#) (LT29)
 - What are your plans and strategies for each type?
 - What are your constraints and accountability?



Case Study

- Email from my nephew

Uncle Bryan,

- I have a finance question for you. What is your thought on Universal Life versus term life insurance? I know there are pros and cons to each but what are your thoughts? I have talked with my dad and he just gave me the pros and cons and wants me to make my own decision. Misti has a Variable life that she had before we were married and I have a 30 year term. Just wondering if it would be wise to cash her variable out, pay off some student loans, get her a term and save on the monthly payment of the variable.
- Thanks.



A. Understand the Importance of Insurance

- What is insurance?
 - Insurance is a tool help you achieve your personal and family goals.
 - It is a legal contract between you and an insurance firm whereby the firm agrees for a premium (fee) to pay you compensation for certain kinds of losses or events, i.e., death, sickness, compensation for accidents, loss of ability to work, legal expenses, etc.



Insurance (continued)

- What is the purpose of insurance?
 - To transfer the risk of certain types of losses or events from yourself to another institution.
 - By transferring risk, it can help you and those you love achieve your specific goals if you die, get sick or become unable to work
 - Specific goals may include:
 - To take care of your spouse and children
 - To have your spouse raise children without working outside the home
 - For your children to be able to go to college and on missions



Insurance (continued)

- What happens without Insurance?
 - If you live:
 - Nothing changes
 - If you die, get sick, or get sued without insurance:
 - Your spouse may have to work
 - Your children may not achieve important goals
 - You may not be able to take care of your family
 - You may be unable to work and lose your earning capacity
 - You may lose everything you have ever saved



Insurance (continued)

- How do you eliminate risk?
 - Avoid it. You can take care of yourself, avoid high risk occupations, eat well, and exercise.
 - Reduce it. You can reduce some risks by adding fire extinguishers and burglar alarms, adding airbags, or getting regular medical checkups
 - Assume it. You can retain the risk through self-insurance. If the costs are not too high, you can assume some risks yourself
 - Transfer it. You can transfer the risk to others by purchasing insurance. You are paying premiums to transfer the risk to an insurance company.



Insurance (continued)

- Should you insure against all losses?
 - No. Some losses are not as critical as others.
Insure against the critical or serious losses
- Can you classify your risks?
 - Yes. I like two thoughts:
 - Frequency of loss
 - How often does the loss happen?
 - Severity of loss
 - How severe are the results if the loss happens?



Insurance (continued)

Frequency of Loss

High

Low

Severity
of Loss

High

Avoid
Transfer
“Accidents”

Transfer
“Death or
illness”

Low

Reduce
Assume
“Cold or flu”

Reduce
Assume
“Paper cuts”

Risk Options: Avoid, Reduce, Assume, or Transfer

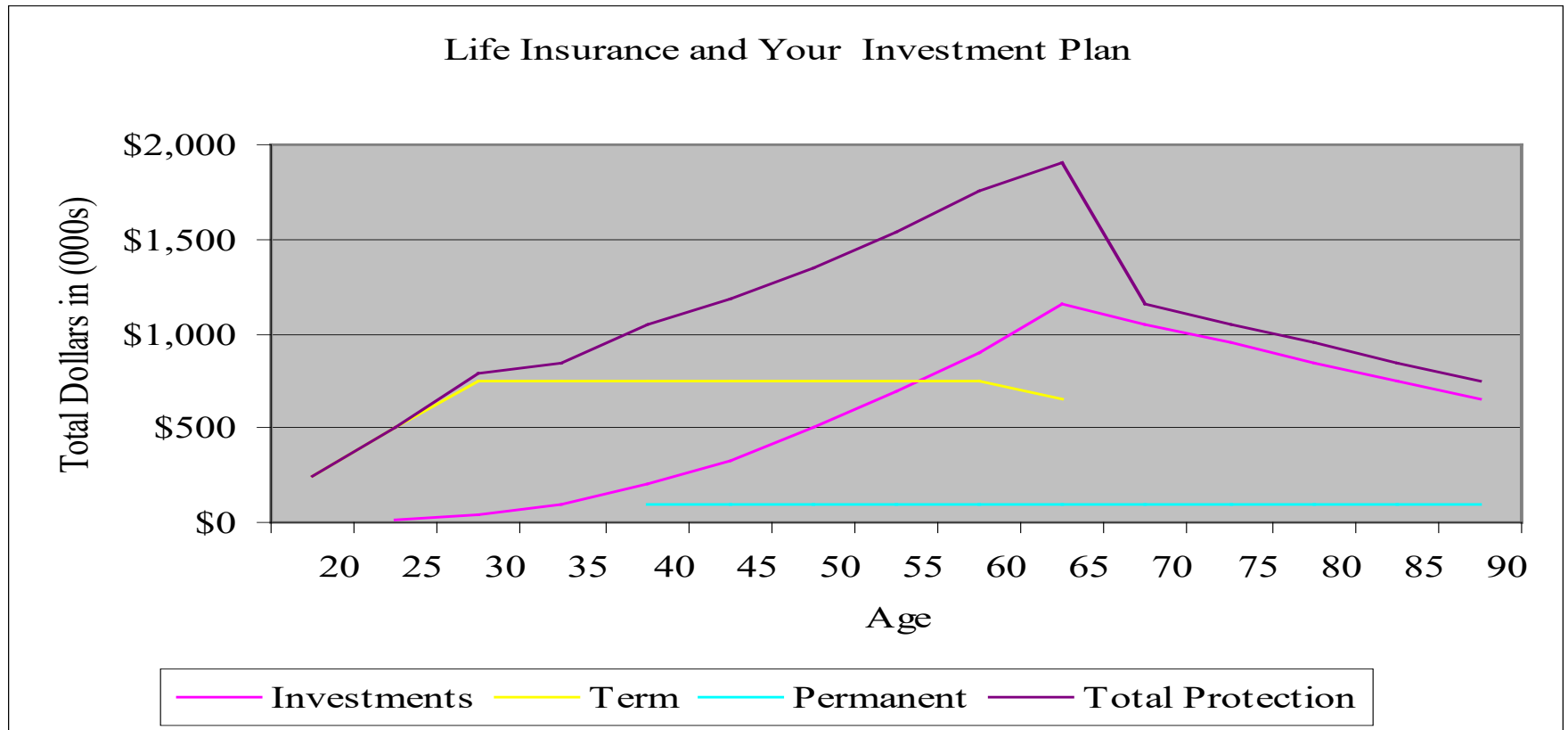


What is the key to evaluating insurance?

- Balance the cost of reducing risk with the severity of the potential loss
 - Insure against high severity losses that rarely occur—those that could have a major impact on your financial situation, i.e., life, health, etc.
 - Reduce and avoid those other risks that you can
 - Self-insure against the smaller risks
- Use insurance for what insurance does best!
 - Be careful in mixing insurance and investing products (e.g., term vs. whole life insurance)



Life Insurance + Investments = Total Protection



Cash value: with guaranteed insurability option paid up till age 65. Term: Five-year guaranteed renewable term in \$50,000 and \$100,000 increments; can add and drop as necessary. Investment: Includes individual and employer sponsored retirement plans



Life Insurance and Your Investment Plan

- Positives:
 - For most, life insurance is a need, as well as auto, home and health
 - Can be tailored to meet individual needs and goals
- Challenges:
 - Many products, particularly cash value, are very complex and have very high fees and commissions
 - Cash value products are based on assumptions that the company can change even after you sign the contract
 - It remains very hard to monitor performance of cash value products to compare against benchmarks



Questions

- Any questions on the importance of insurance?



B. Understand What our Leaders Have Said About Insurance and Key Principles

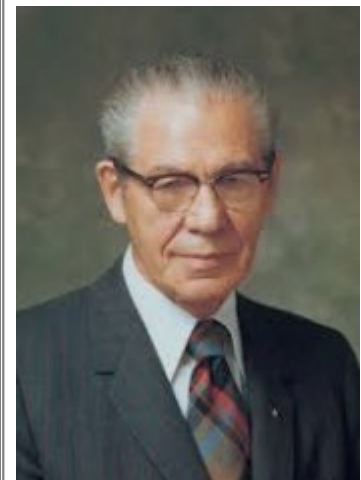
- Is insurance important?
 - Marvin J. Ashton said:
 - Appropriately involve yourself in an insurance program. It is most important to have sufficient medical, automobile, and homeowner's insurance and an adequate life insurance program. Costs associated with illness, accident, and death may be so large that uninsured families can be financially burdened for many years (Marvin J. Ashton, "Guide to Family Finance," *Liahona*, Apr. 2000, 42).





Insurance (continued)

- N. Eldon Tanner further commented:
 - With rising medical costs, health insurance is the only way most families can meet serious accident, illness, or maternity costs, particularly those for premature births. Life insurance provides income continuation when the provider prematurely dies. *Every family should make provision for proper health and life insurance* (N. Eldon Tanner, "Constancy Amid Change," *Ensign*, Nov. 1979, 80).





Principles of Insurance

- What are the key principles of Insurance?
 - 1. Know yourself, your vision, goals, and budget
 - 2. Seek, receive and act on the Spirit's guidance
 - 3. Understand the key areas of insurance, including the limitations and the costs and benefits of each specific product
 - 4. Insure only against high-cost high-severity losses
 - 5. Work only with high-quality individuals and institutions
 - 6. Review your insurance needs annually
 - Be careful to not mix investments and insurance



Principles of Insurance (continued)

- Finding balance
- Guiding Principles

Doctrines

Know yourself: vision, goals, budget

Identity

Seek, receive and act on guidance

Obedience

Understand the key areas of insurance

Stewardship

Insure against high severity events

Agency

Work with good people and institutions

Accountability

Review your insurance needs annually

Stewardship



Principles of Insurance (continued)

From obedience to consecration

I am a child of a King (identity), seeking the Spirit's guidance (obedience), making wise choices in my use of insurance products (agency), to maximize my protection and minimize my costs (stewardship). I understand insurance basics so I can get the protection I need (agency) at a cost that I can afford (stewardship), so that I can accomplish my personal mission and my individual and family vision and goals.



Questions

- Any questions on our leader's counsel and the key principles of insurance?



C. Understand and Create Your Insurance Plan

- As you work on your insurance, you can see the importance of following the principles
 - Being a knowledgeable and wise consumer of insurance products will allow you to get the coverage you need at the lowest possible costs
 - Following are a few ideas about different strategies as we discuss each type of insurance



Your Insurance Plan (continued)

- Vision
 - From your Plan for Life
- Goals
 - We will always have adequate auto, homeowners/renters, and health insurances
 - We will always have an Emergency Fund large enough to hold us over until government disability is available.
 - We will not mix insurance and investments as they each do separate things



Your Insurance Plan (continued)

- Plans and Strategies

Life Insurance

- Students and young marrieds
 - Buy a \$250-500k 20 year annual convertible renewable term. Once children come, ladder on additional term products outside of work
- Married with families
 - If term insurance rates decrease, purchase a new product then cancel the old
- Empty nesters
 - As assets increase and children leave, allow some of the term policies to terminate without renewing as the need for income is diminished



Your Insurance Plan (continued)

- Plans and Strategies

Health Insurance

- Students and young marrieds
 - Stay on parents health care until age 26
 - If without kids, compare group plans to a HSA
 - Use a flexible spending plan if offered (all ages)
- Married with families
 - Once children come, switch to a traditional group plan to meet your growing family needs
- Empty nesters
 - As children leave home, make adjustments to your health insurance to be more cost effective



Your Insurance Plan (continued)

- Plans and Strategies

 - Disability Insurance*

 - I will keep my Emergency Fund at 4 months so if I am disabled, I will have sufficient to live on until Social Security disability will kick in
 - Get disability insurance through work if offered, and accept a long waiting period
 - I will live healthy and keep running!



Your Insurance Plan (continued)

- Plans and Strategies

Asset Protection

- Students and young marrieds
 - Have adequate home and renters insurance
 - Have adequate auto insurance, with a minimum 100/300/100 split coverage initially
- Married with families
 - Raise coverage to 250/500/100 to offer more protection when you have teenage drivers
 - Teenage drivers to take “safe-drivers courses”
- Empty nesters
 - Consider an umbrella policy as assets increase



Your Insurance Plan (continued)

- **Constraints**
 - Not living on a budget will make it difficult to save and to have adequate insurance
 - Getting caught up in the things of the world will make it difficult to save
- **Accountability**
 - From your Plan for Life



Review of Objectives

- A. Do you understand the importance of insurance?
- B. Do you understand what our leaders have said regarding insurance and the key principles of insurance?
- C. Do you understand and can you create your investment plan?



Case Study #1

- Data
 - Bill is 25, married with one child, and does not have any life or health insurance. He has a friend that sells insurance. His friend wants to talk to him about his insurance needs.
- Application
 - a. What questions should Bill ask as he considers whether to choose this friend for his insurance needs?



Case Study #1 Answers

- The basis for these questions are from Arthur J. Keown, Personal Finance, *Turning Money into Wealth* Student Workbook, Prentice Hall, New Jersey, 2007, p. W47.
- 1. Are you a full time insurance agent?
 - Work with agents who work full-time at their business. This gives greater assurance that your agent is knowledgeable in the products you need and the products he or she represents.



Answers (continued)

- 2. How long have you been a full-time insurance agent?
 - Work with someone who is experienced and established for a number of years. While a new agent may be competent, an experienced agent will more likely be competent and have experience.



Answers (continued)

- 3. What life insurance companies do you represent?
 - Generally, it is better to work with someone that represents at least one company with a top rating from A.M. Best for 10 consecutive years. If they work with multiple companies, they may be able to offer more competitive products than captive agents, agents who only work for a single insurance company.



Answers (continued)

- 4. Are you a CLU (a Chartered Life Underwriter)?
 - A CLU is preferred, especially if you are seeking advice or considering insurance other than term. Realize that an insurance agent is only able to sell things they are licensed to sell.



Answers (continued)

- 5. Will I be allowed to keep the insurance proposal that you prepare for me?
 - You should not consider an agent that doesn't allow you to keep the insurance proposal. You should be able to take the proposal home and review it on your time.



Answers (continued)

- 6. Will you tell me any commissions you'll receive on policies you recommend, regardless of source?
 - Make sure that the agent is working on your behalf. By knowing the agent's commission on various policies, you may be able to avoid policies that are more of a benefit to the agent than to you.
 - Some say "don't worry because the company pays me, not you." Have them tell you the commission they receive from the company from your product!
 - If the agent is not willing to share their commission on each product with you, go with another agent who will!



Answers (continued)

- 7. Do you have any clients who are willing to recommend you?
 - Your agent should either supply you with names of satisfied clients or share testimonial letters from others.
 - You should not consider an agent without recommendations.