Date: September 9, 2017
Category: Protection

Protecting Your Family

"It's not all about insurance"

By: Doug Horn, CFP®

Ask anybody and certain products come to mind when talking about protecting the family. If this were *Family Feud*, what would your top answers be? Try asking your family and see what they say.

The top answers might be *Life Insurance* followed by *Health* and *Auto Insurance*. But, what if you lived somewhere like Houston, Kansas, or Florida? Clearly there may be other responses among the top answers like *Flood Insurance* or a *Storm Cellar*. Protecting the family can be done in a variety of ways.

The insurance industry is all about protection against risk, regardless of the type. Whether those risks are accidents, health, damage, or loss, the industry most likely has a policy. There is the actress insuring her 'legs', or the pianist insuring their 'hands', but what about Proctor & Gamble insuring football player Troy Polamalu's hair, who appears in their shampoo ads.

We know the importance of having life insurance on the income producers of the family. While every family's needs are different, it generally requires $125,000 of benefit to replace $10,000 of income lasting twenty years. Thus, someone earning $60,000 might consider $750,000 of coverage. If twenty years of replacement income is not the right duration, change the amount. I also think it's important to have life insurance coverage on the spouse in the role of homemaker. In the event of their untimely passing, the benefit could permit the surviving spouse to reduce their work schedule to care for children or take an extended leave of absence.

Insurance is often taken on large purchases to protect against accidental damage or liability resulting from an accident. This coverage is generally *auto* or *home* and will include liability. Purchases involving a loan require coverage. In my opinion, the coverage should be in place regardless of the existence of a loan if the financial loss exceeds several months of income or more cash than is available. Two more types of insurance exist which are often underutilized, *disability* coverage to protect someone's earnings and *long term care* coverage to protect against the outflow of cash for the cost of care.

Creating an *emergency fund* is another level of protection for your family. I recommend two types of emergency funds, a '*put and take*' account and the 'second tier'. The first should be large enough to cover most of the expenses life throws at a family during a year. Whether it is a new set of tires, the deductible on the auto policy or a sudden required trip, this should be $3,000 to $5,000 for most and held where it can be easily transferred to the checking account. Once any portion is used, the focus should be to replenish the account as soon as possible. The *second tier* fund should be

Insights Continued:

large enough to create a sense of comfort or security knowing it is available. These funds might be accessed once every five to ten years, thus they should be invested but with a conservative objective. Depending upon the income of the family, the balance in this account could range from $10,000 to $50,000.

Another protection for your family is the existence of a properly drafted estate plan. For most, this includes a Will and perhaps a Trust, Financial Power of Attorney, Healthcare Power of Attorney, Living Will, and a Letter of Instruction. Without these documents, your family could be facing uncertainty, legal issues, and unintended consequences instead of dealing with the tragedy at hand. Even if these documents are completed, they should be reviewed bi-annually to be certain they are still pertinent.

Retirement can be decades in the future or just around the corner, but contributions to the account need to start now no matter your age. If you are under the age of 40, then you will be the benefactor of *time value of money*. This will allow time and growth to be a tremendous contributor to the value of your retirement accounts.

Living in the digital age creates new types of risks. Computers, tablets, and smart phones are part of our daily lives and need to be protected from computer viruses. Additionally, the computer hard drive has become our filing cabinet and stores our entire life from pictures to cherished communications, not to mention financial records. But, electronics and hard drives can malfunction or crash. For $200 or less per year, every system within your family can be backed up and securely stored offsite and protected against loss. Carbonite and IDrive are two of many services available.

Lastly, the recent hack into the business records of Equifax, a credit bureau, emphasizes the risks facing everyone's financial and credit life. No one can afford to go without a credit monitoring service offered by numerous companies and levels of service. Today, with the Internet and the ability to spend money and obtain credit at a blistering pace, a person's credit or ID can be destroyed in hours versus what used to take days or weeks.

There may be unique needs which have not been discussed above but can be met by setting aside funds or purchasing specialized insurance. Regardless of the risk, it is up to you to be proactive and take steps to protect your family.

September 2017 © By J.D. Horn Maryville, TN