

Cover your Risk!

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When I teach Insurance Planning, we talk about four different types of losses. There are high and low frequency, and high and low cost. Insurance is used to cover the low frequency-high cost events, for example the tornado that hit Hugo. For most people your mortgage holder would not allow you to close on a home without homeowner's insurance. If you are a renter, you should have renters insurance to cover the loss of your personal property. It is too cheap to pass up; even college dorm rooms can have several thousand dollars worth of electronics.

Life insurance is highly touted by professional sales people, so most of us have heard from them. Most of us need to have some resources to cover those who are dependent on us for support. If your investment portfolio is not large enough to support them you need to consider life insurance. The unfortunate reality of life is that the person least able to afford insurance is the one who needs it most, for example a young couple with children.

In this case you are looking at a 20 year commitment. This is when you should have life insurance that will take care of your family until your little ones are through school and college is funded. You might say "This is a lot of money". You are right, but term life insurance is the cheapest form of insurance, and you can purchase a 30 year policy to cover you through your child rearing years.

Most people are under insured, because we are sold a "Whole Life" policy that includes forced savings. From my perspective you should buy your life insurance for protection, and invest through your tax advantaged plans.

Generally you will not have a sales person call on you to sell you term insurance, but there are many on-line sites to get quotes, or contact a fee only financial planner for a referral to a provider.

Not to leave out the single, married or non traditional couples without children; your life insurance needs are usually greatly diminished. You should have enough to cover those who are depending on you for support to cover a grieving period and cover costs that they might not be able to handle with only one salary.

Don't overlook Disability Insurance. Most of you may have some through your employer, if so that is good. Make sure that you have at least 60-70% of your gross income. There is a greater chance that you will be disabled prior to age 65 than death.

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Why do I need a Will?

Know it or not everyone has a will! If you haven't written one, the State of Minnesota has taken care of it for you. The only problem, you may not agree with how they would divide up your assets, or whom they would select to care for your minor children.

A properly drafted will allows you to determine who will raise your children and how your assets will be distributed. Also make sure that you have your life insurance policies and investment accounts titled so they will not be in conflict with your will. Beneficiary designations will take precedence over the will.

While you are at the attorney's, have him draft a Power of Attorney to designate someone the authority to manage your finances if you are not able to do so. This may be rare, but is more likely than premature death.

Finally, fill out a Medical Directive. This allows you to let others know how you wish to be taken care of if you can not make those decisions.

All three of these documents can be prepared by an attorney for \$500 - \$1,000.