

Personal Risk Management

Top Four Financial Mistakes

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Many people neglect to perform a proper capital needs analysis for personal financial risk. Risk management is the practice of transferring risks to an insurance company due to the uncertainties of the future. What uncertainties are there? Major health, disability, death, and long-term care are the major personal risk issues.

Many people think about insurance and say, “Oh, I’ve got medical insurance and I’ve got life insurance.” Actually, they may not need as much, or they may need a whole lot more. In all cases, it is important to have an objective risk management assessment that looks at the capital needs of your heirs and your capital needs in the event of disability. This way you know you’re covered in the event of some terrible emergency or unexpected accident.

Planners often find their clients are technically underinsured – that means to say they have not insured their earnings replacement value for their heirs or dependents. How will you know? If you are developing a comprehensive financial blueprint, the capital needs analysis will be part of the plan. If you haven’t done that yet, ask your insurance agent to carry out a capital needs analysis and explain the assumptions to you. For most single individuals, the biggest exposure is a lack of adequate health insurance, closely followed by disability coverage.

While health care is something that affects everyone, your death is not a financial issue requiring insurance unless you have dependents. If you’re single, life insurance may actually be an unwise use of your money. If you’re married with no children and your spouse is not working, then the need for life insurance for your spouse has to do with the ability of the spouse to work and the desired lifestyle. If you have dependents, then having insurance is important, because there’s some chance your family will be left without income.

Those over fifty-five may possibly need living assistance in later years. For them, long-term care (“LTC”) insurance to provide financial support for care with the activities of daily living could be very important. The needs analysis for LTC insurance should be developed as part of your comprehensive blueprint. Usually, this insurance is not necessary to even consider until you have reached age fifty-five or older.