Everything You Need to Know About Insurance
Insurance is one of the most common, versatile, and misunderstood constellations of products out there in the greater financial planning universe.

A good, reputable policy—whether life, disability, long-term care, critical illness, or payment protection insurance—can help you mitigate many different types of risk for you and your loved ones.

But the benefits don’t end there. Here is (pretty much) everything you need to know about insurance.
Life Insurance

Life insurance can serve as a powerful financial and estate planning tool and is often a key component of many estate plans. Life insurance provides a financial cushion for your surviving spouse, children, and other beneficiaries in the event of your death.

Though there are many life insurance benefits, here are a few of the best:

- Allows your family time to grieve without having to immediately worry about how to meet ongoing monthly expenses or putting other financial goals at risk.
- Generally, is income tax and estate tax-free for a benefit receiving spouse. This is especially critical for those with an estate in excess of the estate tax exemption, though this will apply to fewer tax payers as a result of the Tax Reform Act of 2017.
- Can designate its proceeds via the use of a beneficiary designation and as such, are generally not included in any probate process that can delay the distribution of other assets upon death.
- Can be used by the policyholder’s estate to pay off debts and as a vehicle to replace some or all of the policy holder’s income in the event of their death.
- Are often used as a funding vehicle to execute a buy-sell arrangement for a small business in the event of the death of one of the owners. The death benefit provides liquidity to the deceased shareholder’s family from their interest in the business while facilitating a non-shareholder spouse from coming into the business.

Life insurance can take on a few different forms:
WHOLE LIFE INSURANCE

• Fixed payments for life, allowing for policyholders to plan for the cost of this insurance coverage.
• Builds cash value over time, acting as a savings program that can be utilized if needed throughout your life.
• The permanent nature of the coverage can enhance your estate planning.
• The cash value of the policy grows tax-free.

TERM LIFE INSURANCE

• These are lower in cost than whole life or other forms of cash-value life insurance since there is no cash value buildup within the policy.
• Term insurance is for a fixed period of time and can help you plan your insurance needs around events like ensuring there is protection in place while your kids are in college or until a mortgage is paid off.
• The death benefit of term insurance is set, so there will be no surprises for your beneficiaries.

Term insurance is often a great solution for those who are younger and in good health. You can secure a relatively large death benefit with a lower premium. You will want to be sure your policy offers the ability to convert to some form of permanent insurance even if your health deteriorates, you may still have a need for life insurance after the end of the term insurance period.

The need for life insurance often extends longer into our lives than we might initially realize. You will want to ensure you can obtain the coverage needed down the road.
VARIABLE LIFE INSURANCE

- Allows you to change your payment amounts and invest in market-based investment sub-accounts that could potentially increase returns and benefits.
- Builds cash value, which acts like a forced savings account. This cash can be withdrawn during your lifetime if needed, but be sure to understand that any withdrawals can impact your death benefit.
- Allows any gains on the policy’s cash value grow on a tax-deferred basis.

UNIVERSAL LIFE POLICY

- Allows for flexible premium payments and death benefits, offering a level of flexibility as your situation changes over the years.
- Includes two components: the cost of insurance and the savings or cash value component. The minimum premium amount will fund the insurance component, premium payments above this level add to the cash value of the policy and can increase the death benefit in some cases.
- Offers flexibility in the amount of the premium, but the combination of the premiums and any excess cash value must be enough to fund the policy’s death benefit.

Both types of policies offer more flexibility than a standard whole life policy. Additionally, variable universal life insurance can offer the flexibility of a universal life policy with the investment component of a variable life policy.
DISABILITY INSURANCE

Most of us presume we’ll work until we retire. But we can never be sure that we’ll reach retirement age without the unexpected forcing us out of the workforce early.

Disability insurance is often referred to as “lifestyle insurance.” It pays out if you are injured or otherwise unable to work due to injury, illness or other conditions as specified in the policy, protecting your family from the emotional and financial stress they’d otherwise endure.

**Short-term disability** policies typically cover periods of three to six months, while **long-term disability** usually covers you for six months or longer.

Disability insurance is often available as a benefit during your company’s open enrollment period. Many employers may offer some level of disability coverage at no cost, charging varying rates for additional coverage above a base level.

Group rates for coverage are often less expensive than purchasing coverage privately, but may not meet the needs of all employees—particularly those at a higher income level or who earn a significant portion of their income from bonuses or other variable types of compensation.

Group policies vary in scope and coverage. In many cases, only regular income received every pay period is covered—of potential concern to those in sales positions or executives who receive a significant portion of their compensation on a variable basis.

Another issue is portability. Once you leave your employer, your group disability coverage generally ceases along with other company benefits. If you are moving to another employer, you may have access to similar group coverage. However, if striking out on your own, you may need to purchase coverage privately. If you are not in good health or have a long-term medical condition, coverage may be limited, expensive, or otherwise difficult to obtain.
The cost of disability insurance is dependent on several factors, including:

- The definition of disability. This means that the more specific the definition, such as saying if you can't work in your chosen field versus you can't work at any type of job, the more expensive the policy.

- The elimination period is the time between when the claim is filed and when the payment of benefits commences. Common elimination periods are 90 or 180 days. Typically, the longer the elimination period, the lower the premiums.

- The benefit period (the amount of time for which benefits will be paid). The longer this period, the higher the cost.

- The benefit amount (usually expressed as a percentage of your salary). The higher the percentage, the more expensive the coverage.
LONG-TERM CARE INSURANCE

The rising cost of health care and increased longevity are two major expenses that must be factored into any successful retirement savings strategy.

Long-term care—e.g. nursing home care and in-home care for certain conditions—is a separate area of retiree health care costs covered on a very narrow basis by Medicare and in general, not covered by medical insurance policies.

This coverage can be critical for both the person with the long-term care needs as well as for their family and any caregivers. However, it’s usually expensive.

Long-term care generally falls into three categories: Skilled care (a serious injury or illness which requires daily care ordered by a physician); intermediate care (similar to skilled care, but may not need daily care), and custodial care (needing help with daily activities like bathing and eating).

Some companies offer LTC coverage as a group benefit. The advantage is a generally lower group premium and no or limited underwriting based upon your health. In many cases these policies are portable—you can take the policy with you when you leave the employer.

Factors that influence the cost of long-term care insurance policies include:

• **Your age.** The younger you are when you purchase the policy, the lower the premiums will be (generally).

• **Your health.** If you suffer from any number of conditions, your ability to obtain coverage may be limited and the cost of coverage may be higher than you’d like. Insurers will typically examine several years of your health history. Pre-existing conditions such as a stroke, heart attack or long-term tobacco usage might disqualify you from coverage completely with some insurers.

• **Benefit limits.** Most LTC policies will have a set benefit limit. For example, a policy with a $150 per day limit for five years would equate to a lifetime maximum benefit of $273,750. If your per-day cost is more, this is the maximum benefit that will be paid. If your per day cost is lower, your coverage will last longer.
• The shorter the benefit limit is, the lower the cost. A policy with a three-year limit will be less expensive with no lifetime limits or maximum benefit period.

• The lower the per-day cost, the lower the premium.

• Policy benefit limits might differ for in-home care vs. care in a nursing home or assisted living facility.

• Many policies offer options or riders for an extra cost. A common rider protects against inflation. Even here, however, there are differences: a policy with a 3% inflation protection rider will be less costly than one with a 5% inflation rider.

Long-term care insurance can help on several fronts—even for those with significant assets.

Here’s how:

• Long-term care insurance can help preserve assets for a spouse-caregiver or for the next generation of your family if passing on a legacy is of importance to you.

• It can also be used in combination with your own assets. For example, you might purchase a policy to cover a part of the potential costs and cover the rest out of your personal assets.
CRITICAL ILLNESS INSURANCE

Critical illness insurance policies are offered by employers as an optional benefit that employers can purchase or via insurance companies for purchase on an individual basis and cover conditions such as:

- Cancer
- Heart attack
- Stroke
- Organ transplants
- Coronary bypass

In today's environment—in which many opt for high deductible health plans to minimize their premium cost—critical care insurance can fill in some of the coverage gaps in the event of a major illness.

Benefits can also be used for costs arising from an illness such as transportation, child care while one or both parents are at treatment appointments, treatments not covered by health insurance, or other non-medical costs. Payments will typically be disbursed as a lump-sum to the insured.

When considering a critical illness policy be sure to ask:

- Which conditions are covered and which are not covered? (For example, some forms of cancer might be covered while others are not.)
- Are there age limits on the coverage?
- Will a recurrence of the same condition be covered?
- At what stage of an illness or disease will payment be triggered? Does a simple diagnosis of cancer trigger payment? Or must the disease have spread to the point where it is life threatening?
In short, do your due diligence before purchasing a policy.

While premiums are usually inexpensive, you will want to be sure that the potential benefits are worth the money—and that you won’t have to jump through excessive hoops to receive the benefit.

In some cases, you may be covered by your disability insurance for the inability to work and an HSA account associated with a high deductible insurance plan might cover the expenses not covered by your health insurance—including the deductible.

**PAYMENT PROTECTION INSURANCE**

Payment protection insurance is a policy typically associated with a loan or major financed purchase. The premise is that the insurance policy will take over payments for the item purchased in the event that the borrower—whether due to a disability or period of unemployment—cannot continue to make them.

Typically, these policies are short-term in the range of 12-24 months. The proceeds can be used to pay off an auto loan, credit card balances, personal loans and similar balances, helping you maintain your credit score or avoid an automobile repossession.

As with any type of insurance, be sure that you thoroughly investigate the policy and the terms including:

- The cost
- The length of coverage
- Any exclusions from coverage
- What it takes to qualify to submit a claim

Remember, you may not need this type of coverage if you have sufficient reserves to cover the unexpected or if you have a cosigner on any of the items covered.
Summary

When approached from a place of research and understanding, insurance is no one thing—it is defined by its ability to adapt and transform its spectrum of iterations to the specific needs, goals, and resources of yourself, your family, your business, and beyond.

If you’re ready to explore the ways a slate of insurance policies tailored to your unique needs and goals could potentially help protect your family, loved ones, and estate, reach out to a Fifth Third advisor for more information and guidance.