

# DO-IT-YOURSELF FINANCE V: INSURANCE

By now you know how much I love insurance companies. Yet we need them. Let's rock!

by Douglas Carlsen, DDS

## Life Insurance

The purchase of life insurance is to replace lost income that the family is dependent upon after one's death. Period.

Charles Farrell indicates that one needs life insurance equal to 12 times one's income minus current retirement savings. As one accumulates savings, the insurance need decreases.<sup>1</sup> For Dr. Bill's \$250,000 income, he will need \$3,000,000 in insurance. Jennifer's income of \$50,000 necessitates \$600,000.

Bill's family has no savings, so the above amounts are currently appropriate.

The smart life insurance solution is term life. It's pure insurance with no investment add-on. Sheryl Garrett, CFP, notes: "Insurance agents make a lot more money selling universal life, variable universal life and whole life insurance than they do selling term insurance. This inherent conflict of interest is something that you need to always keep in mind when considering the recommendations of an insurance agent."<sup>2</sup>

1. Charles Farrell, *Your Money Ratios*, Penguin Group, New York, NY, 2010, page 178.

2. Sheryl Garrett, *Personal Finance Workbook for Dummies*, Wiley Publishing, Hoboken, NJ, 2008, page 216.

Term insurance has several options. The most popular choices are 10- or 20-year level terms, and premiums stay the same during that interval. Prices normally increase upon renewal.

Be wary of anything beyond term life insurance. With permanent insurance – whole life, universal life, variable universal life and other cool monikers – you might be promised a “guaranteed” return and impressive investment potential. Realize that the commission and fees are much higher than found with traditional investments and often dilute the “guaranteed return” well below a short-term U.S. Treasuries. Also the investment has much less liquidity than stocks or bonds. Permanent insurance on rare occasion has a place in a tax-efficient portfolio, yet purchase only through one of these named companies or a discount broker. Recommendations: ADA/Great West, USAA and TIAA-CREF term life policies offer good value. Other companies might offer similar value.

With ADA/Great West, Dr. Bill can obtain \$3M of 10-year level term insurance for \$900 per year. Jennifer can get \$600K of the same for \$300 per year. Note that 20-year level term will cost more and medical conditions may alter one’s premiums.

## Disability Insurance

Farrell points out that disability is *the most important insurance a dentist can have* as one’s statistical probability of dying in a given year is 1/106 and of becoming disabled is 1/8!<sup>3</sup>

Disability insurance is one area where dentists often scrimp. Don’t. It provides a monthly cash benefit to replace one’s income if incapacitated. Benefits are normally paid to age 65 with the maximum payment usually 60 percent of one’s net taxable income. The good news is any payments are tax-free.

Make sure you will receive full benefits for not being able to work in *dentistry*. This is critical.

How much coverage is needed? Because long-term disability is a major cause of bankruptcy for dentists, I recommend buying the maximum amount available.

Options:

**Future Increase:** You may increase your coverage as income increases in the future without a medical exam.

**Residual Plus:** Many plans necessitate full disability for benefits. With this option, you do not first have to be totally disabled to receive benefits.

**Cost of Living Increase:** One may be disabled for many years.

**Waiting Period:** 90 days is normal.

**Recommendations:** I have no recommendations, as honest appraisals are impossible to find. Check Guardian, MetLife and Great West/ADA.

Dr. Bill has found a quote for the ADA/Great West Life plan for \$15,000 income per month with the above options for \$6,000 per year. Note medical condition and other variations will modify this amount.<sup>4</sup>

## Office Overhead Insurance

How long could your practice survive if you weren’t there? Disability insurance replaces income but not ongoing office expenses.

Office overhead insurance will normally pay up to a maximum of \$25,000 a month for up to two years for: lease or mortgage, payroll, employee benefits (life and medical insurance premiums), utilities, accountant fees, janitorial service, laundry service, insurance premiums (property/casualty, business overhead, business interruption), student and practice loan payments, membership dues and advertising.<sup>5</sup>

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Dr. Bill, netting \$250,000 per year, has an overhead of \$500,000 or \$42,000 per month. Even with a skeleton crew, he feels he may need \$25,000/month overhead protection. Bill has a 24-month plan through Great West Life/ADA for \$1,400 per year.

Overhead policies are normally purchased with disability insurance.

## Homeowner’s Insurance

Poor insurance payouts for homes lost in the myriad of fires in the West peppered national news last summer.

*Consumer Reports Online* September 2012:

*... When disaster strikes, your insurer might not live up to your expectations, especially if you have a large claim,*

3. Farrell, page 170-171.

4. Go to <https://www.insurance.ada.org/coverage-calculator.aspx> for Great West calculator.

5. Downloaded and paraphrased from Great West Life website at [https://www.insurance.ada.org/business\\_expense.htm](https://www.insurance.ada.org/business_expense.htm) on September 12, 2012.

according to our survey of 11,250 subscribers who filed claims in the last few years.

*The greater the damages, the greater the likelihood that home insurers paid less than expected, our survey found. Overall, almost 10 percent of respondents reported disagreements with their insurer over the amount of a claim payment. But when damage was \$25,000 or more, 19 percent disagreed with their insurer's assessment of what was due.*<sup>6</sup>

Your homework: Snatch that pocket digital camera. Press the red "video" button on the back. Yes, all brands are the same. Take 15-30 minutes to film everything in your house, yard and garage. Get close – up to a foot is OK – for expensive jewelry and antiques. Please note: your video will usually stop automatically after 10 minutes. Just start up again for multiple videos. You will need a 2-4GB SD card.

Important insurance features to remember:

Coverage such as "full replacement cost" and "guaranteed replacement cost" may not cover the full cost of rebuilding your home and replacing its contents. Make sure you have the maximum possible replacement coverage.

Customized estimate of your home's replacement cost may be available and lists any unique features, additions and special construction.

Sewer backup coverage is normally not included in a standard policy, yet is important in older homes.

An extended coverage rider is to protect against the surge in material and labor prices that often follow a natural disaster.

Hurricane, hail, flood and earthquake insurance as additional coverage in certain geographical areas is appropriate.

A floater policy is for expensive furs, jewelry, silverware or artwork. A standard policy has a very low limit. Many dentists need higher cost coverage.

Jennifer's dad was a career naval officer; therefore she and Bill are eligible for USAA insurance. They spend \$2,000 per year for their home and contents coverage.

Ratings from *Consumer Reports*:<sup>7</sup>

Top Rated: USAA, Amica, Auto-Owners.

Highly Rated: Farm Bureau, Erie, State Farm, American Family, Tower Hill and Nationwide.

## Personal Umbrella Liability Insurance

This is probably second in importance to disability insurance, yet many dentists don't even know it exists. And it's cheap! If you are involved in an auto accident or someone is injured on your home property, the moment the plaintiff obtains knowledge that you are a dentist the legal numbers can skyrocket.

Umbrella coverage applies above a certain homeowner's and auto liability limit. This is normally \$300,000/\$500,000 for single liability/combined liability for auto and \$500,000 liability for home. The umbrella coverage can be \$1,000,000 or more.

Umbrella insurance is purchased along with homeowner's and auto insurance. Dr. Bill pays \$400 per year for \$2,000,000 umbrella liability coverage.

## Auto Insurance

Dentists normally have adequate coverage. Make sure you have proper bodily injury and property coverage to correspond to the increased amount you need to obtain in the last section with an umbrella liability policy.

Do not overlook uninsured motorist coverage. Nationally 14 percent of motorists have no liability coverage and many more have only minimal coverage.

Health and long-term care insurance are currently undergoing political and structural changes and will be covered next year. ■

6. Downloaded from <http://www.consumerreports.org/cro/homeowners-insurance/buying-guide.htm> on September 12, 2012.

7. Downloaded from <http://www.consumerreports.org/cro/money/insurance/homeowners-insurance/homeowners-insurance-ratings/ratings-overview.htm> September 12, 2012.

## Author's Bio

**Dr. Douglas Carlsen** has delivered independent financial education to dentists since retiring from his practice in 2004 at age 53. For Dentists' Financial Newsletter, visit [www.golichcarlsen.com](http://www.golichcarlsen.com) and find the "newsletter" button at the bottom of the home page.

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