The New Year Is a Great Time to Review Your Insurance Coverage

How Protected Are You?

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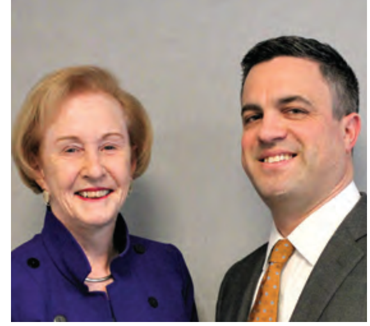

For most, risk management means proper asset allocation, balanced investment strategies and competent financial planning. But while these steps help to protect against market volatility, overspending and individual investment risk, they are only a piece of the puzzle when it comes to true risk management.

While it may not seem as dynamic or intellectually stimulating as investing, property and casualty insurance planning is critical to protect your assets and livelihood. When we sit down with new clients for an initial review, it is all too common to see a set of insurance policies that are out of date, not coordinated and insufficient to do the job they're paid to do. It is all too easy to set up homeowners and automobile insurance and then fall into the habit of paying the premiums and assuming the coverage is offering adequate protection.

But is it? What happens if an accidental kitchen fire or wire shortage causes a major or total loss to your home and contents? What if a slick road causes you to temporarily lose control of your vehicle, resulting in an accident involving severe injury to a third party? And what if that lovely diamond bracelet falls off your wrist unnoticed while you're enjoying an evening out? Unfortunately, we have seen each of these scenarios with our clients over the past year. It is all too easy to take for granted that coverage is there to protect us. Maybe it's time for a closer look.

Homeowners

The pandemic and subsequent supply chain issues have had a significant impact on the housing industry. Home values have risen sharply, as have the costs for materials and labor. As a result, the cost to rebuild in the event of a fire or other covered loss has also increased. If you haven't taken a fresh look at your homeowners coverage, now is the time to add it your list of New Year's resolutions.

This brings us to two key aspects of homeowners insurance: insurance to value (ITV) and guaranteed replacement cost (GRC). Insurance to value means applying appropriate cost measures to establish an accurate dwelling-coverage amount.

Avoid relying on a direct correlation between market value and replacement cost; instead ask your agent to establish a per-square-foot cost based on factors such as size, year built, construction type, ZIP code and level of customization.

Most insurers have matrices to which they can apply such factors to determine approximate replacement cost. But even that may not be enough. The plain truth is that you never know what it costs to rebuild until, heaven forbid, it must be done.

This brings us to the second key element, GRC. Although many policies provide a cushion above the dwelling amount listed on the policy, this still may be insufficient. For medium to highly valued homes, it's important to secure a policy that provides GRC, meaning you're covered in full even if the amount to rebuild far exceeds the amount stated on the policy.

To provide such coverage, insurers will likely complete a comprehensive on-site inspection to better approximate the cost to rebuild. In so doing, they'll also offer advice on loss control and mitigation techniques (alarms, water-flow control systems and so on) and comment on reasonable levels of contents coverage to make certain your personal property is fully insured as well.

A brief sidebar for those who enjoy condo living: It's important to understand what your association's master policy covers versus what your responsibility as a unit owner is. In some cases the master policy will cover your unit in full, in some cases it will cover only as it was conveyed to the original owner and in some cases it will cover only the bare bones of the building, meaning you're responsible from the "drywall in." Ask your association for a copy of the master policy and have your agent review it to determine whether you're covered adequately.

Autos

Whether you're operating a high-performance luxury auto, a fuel-efficient hybrid or something in between, proper auto coverage is key. Several elements of your auto coverage are worth considering.

The first is maintaining proper physical damage coverage for your vehicles at reasonable deductibles. In the past, many policyholders viewed their auto insurance contract as a means of recovering the premiums paid. That is, they maintained low deductibles ($50 to $250) and filed claims for every little dent or scratch under the sun. But carriers caught on and the policyholders were penalized for filing frequent claims with higher renewal premiums or even nonrenewal.

As with any other line of coverage, your auto policy should be there to protect against significant or catastrophic loss. Depending on your situation, modifying your deductible to $500 or even $1,000 or more for highly valued vehicles, will save premium charges and deter you from filing a minimal claim that can be paid for out-of-pocket.

Additionally, you might consider "agreed value" coverage for your vehicles. Agreed value locks in the value of your vehicle for the full policy period, guaranteeing you a specified amount in the event of a total loss from a covered peril. Most personal auto policies provide only the depreciated value of the vehicle at the time of loss.

Today, with values rising for used vehicles due to continued supply issues, agreed value can mean a difference of thousands of dollars come claims time, particularly if you own a classic or modified vehicle. Some carriers who provide agreed value also waive your deductible in the event of a total loss, another cash flow positive.

Even more critical than physical damage coverage to your vehicle is proper liability coverage for personal injury and property damage to others. For all the years and effort placed in building your assets, one inadvertent turn or lane change can put that wealth at risk unless sufficient liability coverage is in place.

This is implemented on two levels: primary auto liability and umbrella liability that we'll cover below. Although states regulate the minimum liability limits required by law, such limits are inadequate to cover a significant claim. Even modestly higher limits can be insufficient. With typical bodily injury limits of $100,000 per person and property damage limits of $50,000, you are still exposed if held liable for more significant injury or damage. With an increasing number of highly valued vehicles on the road today, $50,000 simply may not be enough to cover a total loss.

Equally as important on the liability front is uninsured/underinsured motorist (UM/UIM) liability coverage. Despite state laws, many motorists operate without insurance or with very minimal limits. If you're struck by such a driver with insufficient insurance, you become reliant on the UM/UIM coverage on your own policy. Unfortunately, too many of us don't bother to review the UM/UIM limits we carry and in many cases they're far lower than the primary liability limits discussed above. So check your policy and make certain your UM/UIM limits match your primary liability limits. Additionally, as we'll discuss in a moment, consider excess UM/UIM coverage as part of an umbrella liability policy.

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Valuable Articles

Let's turn our attention back to personal property for a moment. In particular, consider those highly valued items such as jewelry, fine art, silverware and other collectibles that carry not only intrinsic but also real market value. You can certainly look to rely on the contents coverage on your homeowners policy, but more than likely there are special sub-limits for certain categories of valuables, including but not limited to those mentioned above.

A separate valuable articles rider can adequately protect these items, either with an identified limit for specific items or under blanket coverage that provides an aggregate amount for a particular category with a per item limit. Either way, you have broader coverage with fewer exclusions and "first dollar coverage," meaning no deductible applies.

In many instances, if your valuables make up a significant portion of your contents, you may be able to offset some of the premium by reducing the contents limit on your homeowners policy. Not all carriers allow such flexibility, so it's important to ask your agent whether this makes sense and whether it's feasible. Now that we've protected your heirlooms and other collections, let's turn to protecting your asset base from the potential catastrophe of personal injury liability.

Umbrella Liability

We've already talked a bit about having appropriate liability limits in place on your homeowners and automobile policies. But even these limits may not be adequate to protect you from a major liability claim. The most cost-effective means of protecting you from third party personal injury claims is by securing a personal umbrella liability policy. Liability coverage of $1 million can typically be purchased for an annual premium of about $150 to $300.

Thus, for a modest premium, often reallocated from the savings reaped from a higher deductible on your homeowners policy, you can protect yourself against claims from a severe auto accident, injury to a house guest, or other issue. Furthermore, your insurer has a duty to defend you even if the claim is baseless, with legal defense costs picked up by your insurance carrier.

An important element of an umbrella liability policy is the definition of personal injury. Liability claims aren't limited to bodily injury and property damage. A broad definition of personal injury that includes libel, slander, defamation of character and so on is important to maintain, especially in this era of social media in which someone's disparaging words, written or spoken, can lead to legal action very quickly.

Review your policy language with your agent and make sure the

Continued on Page 17

The other consumer discretionary stock, **Stitch Fix (SFIX)** is utilizing eCommerce and data to personalize clothing and accessories. The stock is risky as the business has yet to produce a profit, violating a key Betterinvesting principle and should be replaced.

Atmos Energy, Johnson & Johnson, Phillips 66, The Procter & Gamble Company, W. P. Carey, Newmont

The remaining six stocks in the portfolio represent six different sectors that amount to only 14% of the club's portfolio. Five stocks are expected to grow earnings in the single-digits: **Atmos Energy (ATO)**, **Johnson & Johnson (JNJ)**, **Phillips 66 (PSX)**, **The Procter & Gamble Company (PG)** and **W.P. Carey (WPC)**. Because these stocks aren't growing fast enough for my taste, I'd replace them except for Johnson & Johnson. The company recently announced it was spinning off its consumer-products division, leaving the firm to focus on marketing drugs and medical devices. I think this move will unlock value as the consumer-products division is a low-growth, commodity business. After the spinoff the club can decide if it wants to retain the position. If not, I'd study **Vertex Pharmaceuticals (VRTX)** as a challenger.

"I would recommend the club ask each member to define environmental, social and governance in her own terms."

As for the sixth stock, **Newmont (NEM)**, I'm not a huge fan of metal firms, in this case gold, as I find the stock price tends to match that of the underlying metal.

Given the bout of inflation in the global economy, the price of gold might do a bit better in the short run but in the longer-term gold hasn't returned much more than inflation. The club should study **Air Lease (AL)**, **Concentrix (CNXC)** and **D.R. Horton, (DHI)** as upgrades.

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The author and/or clients of his firm may have positions in some of the stocks mentioned in this article.

FINANCIAL PLANNER

Continued from Page 11

contract either includes this broad definition by default or can be added by endorsement.

There's no set answer to how much coverage to secure. An open dialogue with your agent and your financial planner should include issues such as price, risk tolerance and exposure to potential loss.

One rule of thumb often used is to obtain coverage equal to your net worth, but other factors often also need to be considered. Whether it be $2 million, $5 million or more, we think the premium associated with such coverage is arguably the best-allocated money in your entire risk management portfolio.

Lastly, it is important that your umbrella policy is coordinated with your other policy limits to insure there are no gaps in coverage.

Sound Program, Sound Sleep

While we've covered a lot here, each situation is unique. Additional issues to consider may include watercraft, rental properties, young drivers, assets owned in a trust/limited liability company, domestic staff, collectibles and any number of other items.

In managing risk, it's critical to have a sound property and casualty insurance program in place to help you sleep at night.

In many cases, maintaining continuity with a single agent and carrier not only solidifies a program and simplifies its administration, but also can often lead to premium savings as well.

Ask your agent the questions that matter in determining whether your existing program is right for you and how it can be enhanced to better protect you, your family and the assets you've worked so hard to obtain.

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