Risk Management
Are you getting what you paid for?
PRESENTED BY: BRANDON DIRKSCHEIDER CFP®

Objectives

- Increase your awareness of the financial implications of various risks and mitigating those risks
- Discuss key characteristics of different types of insurance and insurance policies
- Help formulate questions to ask insurance professionals
- Help identify your current insurance strengths and weaknesses
- Determine what impact insurance could play in your business succession/estate plan
Keeping farm in family requires strategy, Larry Copeland, USA TODAY, July, 9 2012.


About 97% of U.S. farms are operated by families¹

Only 11% of family farms have transition plans in place¹

70% of U.S. farm land will transfer to the next generation over the next 20 years¹

Only 15% of family businesses pass to the next generation

And even fewer to the third*

¹ Keeping farm in family requires strategy, Larry Copeland, USA TODAY, July, 9 2012.

* Odds are your family business will not pass to the next generation, Atlanta Journal-Constitution, July 27, 2013
5 key phases of Land As Your Legacy

1. Succession planning – Creating the path to successfully pass the business to the next generation
2. Business planning – Ensuring profitability now and in the future
3. Risk management – Identifying and preparing for risks to the operation
4. Financial independence – Creating financial independence from the farm so that the next generation can start taking income from the operation, while the senior operator keeps serving as a mentor
5. Estate planning – Getting the documents in place to create an orderly distribution of assets upon death and settle any liabilities due at that time in a manner consistent with the wishes of the deceased

Life is Full of Risks...

Many of them have financial consequences:
- Death of a wage earner/key personnel
- Death or disability of a business partner
- Loss of a homemaker’s services
- Loss of income due to disability
- Large medical bills for disease or injury
- Long-term care costs
People Manage Risks in Five Ways

- Risk avoidance
- Risk reduction
- Risk acceptance (unknowingly accepting risk with no plan is called do nothing and hope for the best)
- Risk transfer (insurance)
- Self-Insure

Life Insurance

- Term Life
  - Level term
  - Decreasing term
  - Annual renewable term
  - Guaranteed Renewable

- Permanent Life (cash value)
  - Whole life
  - Universal life
  - Indexed Universal life
  - Variable Universal life
Term Life

- Designed to cover specified liability for a specified period of time.
- Types:
  - Annually renewable term
  - Decreasing term
  - Level term
- Optional Provisions:
  - Convertible
  - Accidental death
  - Waiver of premium
  - Accelerated death benefits
  - Return of premium

Whole Life

- Permanent Coverage in nature
- Premiums are not flexible but usually guaranteed to remain level for the duration of the policy or period of time.
- Cash Values grow based on the insurance company’s general account performance; i.e. declared dividend.
- Dividend Options:
  - Reduce current premium payments
  - Purchase additional paid up additions
  - Purchase one year term insurance
  - Add to the policy’s cash value
  - “Pay up” the policy earlier than originally scheduled
  - Take in kind
Universal Life

- Permanent Coverage in nature
- Premiums are flexible
- Cash Values grow based on the declared interest rate for the policy year which is declared by the insurance company based on the performance of their general account.
- Monthly charge for mortality and administration come out of the premium payment with the remainder added to the cash value of the policy.
  - If no premium payment is made the monthly charge is withdrawn from the cash value of the policy.

Indexed Universal Life

- Permanent Coverage in nature
- Premiums are flexible
- Cash value grows based on the index the policy is benchmarked against
  - Cap Rates - Current vs. Guaranteed
  - Participation Rates -
    - Index formulas
      - Annually
      - Monthly
      - Daily
Variable Life

- Permanent Coverage in nature
- Premiums are dependent on the type of contract
- Cash value grows based on the allocations in the contract.
  - Allocations are determined by the mutual funds (sub accounts) that are investment alternatives within the contract.
  - Sub accounts have an underlying various expense associated with each mutual fund.
- Products can only be sold by a licensed registered representative.

Policy Provisions

- Level (A) or Increasing (B) Death Benefit
- Modified Endowment Contract
- Surrender Schedule
- Accelerated Death Benefit
  - Terminal Illness
  - Chronic Illness
  - Long Term Care
- Distributions
  - Withdrawal to Basis
  - Loans
- Waiver of Premium vs. Waiver of Cost of Insurance
- No Lapse Guarantee rider
General Life Insurance Tips

- Income Replacement - Avoid simplistic formulas
- Never cancel existing policy until you have new one in hand
- Review owner and beneficiary designations
- Buy credit life coverage only if you cannot get life insurance elsewhere
- Compare policies: interest-adjusted net cost and no lapse guarantee features
- Know the Conversion Date
- Policy Audit (minimum every two years)

Life and Viatical Settlements

- Viatical Settlement is where a life insurance policy is sold in the event of an insured being diagnosed terminally ill and is in need of the proceeds prior to their death.
- Life Settlement is where a life insurance policy is sold where the insured no longer needs or desires the policy and instead of surrendering the policy is sold.
- Both settlement options is where a life insurance policy is sold in the secondary market to individual investors.
Disability Insurance

- Covers income loss from inability to work
- Maximum coverage: 60% - 70% gross pay
- Particularly important for self-employed
- Sources of disability benefits:
  - Workers Compensation
  - Social Security Disability Insurance (SSDI)
  - Employer provided group disability
- Key factors:
  - Definition of disability
    - Own Occupation
    - Any Occupation
  - Waiting period

Disability Insurance Tips

- Elimination period
  - The longer the elimination period the lower the premium
  - Adequacy of emergency savings
  - Accrual (if any) of employer sick leave
- Buy a non-cancellable policy to age 65 (age 67)
- Request that an ex-spouse buy coverage to protect support payments
- Try to get benefit of 100% of net income
  - Employer provided coverage, benefits may be taxable to the employee
More Disability Insurance Tips

- Look for a policy with residual benefits
- Consider a cost-of-living rider
- Avoid gender-based policies (women pay more)
- Purchase a waiver of premium rider
- Look for a “recurrent disability” clause
- Non-Cancellable vs. Guaranteed Renewable

Other Types of Disability Insurance

- Business Overhead Expense
  - Covers normal business operating expenses such as employee salaries, equipment leases, utilities, rent, advertising, maintenance and etc.
- Disability Buy Out
  - Should a business partner suffer a permanent disability the policy funds the buyout of the disabled partner.
- Key Person Replacement
  - Policy covers the business owner decrease in revenue and expense of finding and recruiting a replacement.
Long-Term Care Insurance (LTC)

- “LTC” means wide range of services:
  - Home health care
  - Adult day care
  - Nursing home care
  - Assisted living

- Three ways to handle risks of LTC cost:
  - Retain it (self-insure)
  - Avoid it (no guarantees)
  - Transfer it (LTC insurance)

2017 Cost of Care in Nebraska
Genworth 2017 Cost of Care Survey, conducted by CareScout®, June 2017

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Additional LTC Insurance Tips

- Understand how to trigger benefits Activities of Daily Living (ADLs)
  - Bathing, Dressing, Transferring, Eating, Toileting and Continence
  - Cognitive Impairment
- Buy a “compound” inflation rider
- Consider key policy features:
  - Elimination period
  - Length of time benefits will be paid
  - Benefit amount ($ per day)

Who Should Buy LTC Insurance

- If premiums are not greater than 10% of annual income
- If you’re able to handle 20%-30% increase
- If greater than $100,000 of assets per person (excluding house)
- If greater than $30,000 annual income per person
- Around age 60 (50-70)
- Couples concerned about spousal impoverishment
- Tax Deductibility
- Partnership Program
Nebraska Partnership Program

- Long Term Care Policies “linked” to Medicaid
- Allows an insured to retain an amount equal to the benefits paid by the LTC policy.
- “Asset disregard” will allow the insured to be Medicaid eligible while retaining the assets
- Insured must be a resident of the state
- Policy must be issued after July 1st, 2006
- Must have an inflation factor if 75 or younger

LTC Tax Issues

- Qualified LTC contracts are excluded from taxable income. The exclusion from income is limited to the greater of $360 per day in 2018.

- Deductibility:
  - An individual whose LTC premiums plus any additional medical expenses, are deductible as an itemized deduction to the extent they exceed 10% of AGI.
  - C Corporation LTC premiums are 100% deductible
  - S Corporation/LLC/Partnership are LTC Premiums are deductible as an adjustment to gross income rather than an itemized deduction.

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<td>Over 70</td>
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Health Insurance

- PPO vs. High Deductible Health Plans
  - Health Savings Account 2018 Maximum Contributions
    - Individual - $3,450
    - Family - $6,900
- Medicare Part A – Inpatient hospital stays
- Medicare Part B - Outpatient care and physician services
- Medicare Part D - Prescription drug coverage
- Medicare Supplements

- Nationwide has a health care assessment available to help project your future health care related expenses.

Questions? Comments? Experiences?
Leave a Legacy

- A family owned or closely held business will endure or die depending upon how effectively they plan for the future. Those who survive will have managed to re-create the energy and wonder that fueled the original entrepreneurial spirit.

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