Risk Management

Are you getting what you paid for?

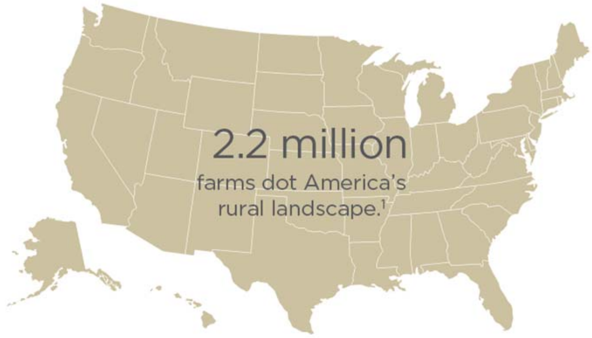
PRESENTED BY: BRANDON DIRKSCHNEIDER CFP®

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

IDM INSURANCE DESIGN MANAGEMENT

Land
As Your
Legacy®



About 97%
of U.S. farms are operated by families[2]

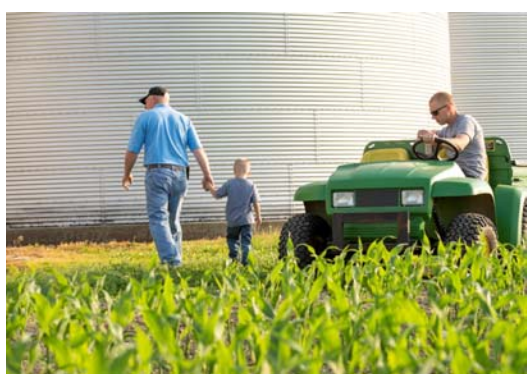
Only 11%
of family farms have transition plans in place[1]

70% of U.S.
farm land will transfer to the next generation over the next 20 years[3]

1 *Keeping farm in family requires strategy*, Larry Copeland, USA TODAY, July, 9 2012.
2 *Fast Facts About Agriculture, The Voice of Agriculture®, American Farm Bureau Federation®, fb.org/index.php/index.php?action=newsroom.fastfact*
3 *2012 Census of Agriculture, Preliminary Report Highlights*, agcensus.usda.gov.Publications/2012/Preliminary_Report/Highlights.pdf

Land
As Your
Legacy®

Only 15% of family businesses pass to the next generation



And even fewer to the third*

* *Odds are your family business will not pass to the next generation*, Atlanta Journal-Constitution, July 27, 2013
http://www.ajc.com/news/business/odds-are-your-family-business-will-not-pass-to-the/nY5zC/

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

Nationwide®

Life is Full of Risks…

Many of them have financial consequences:

- Death of an 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 of injury
- Long-term care costs

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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

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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

	Omaha		Grand Island	
	Daily	Yearly	Daily	Yearly
Home Health Care	$154	$50,336	$160	$58,344
Adult Day Care	$73	$18,850	$80	$20,800
Assisted Living Facilities	$134	$48,750	$105	$38,400
Nursing Homes				
Semi Private	$236	$86,140	$181	$66,065
Private	$248	$90,520	$190	$69,350

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)

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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

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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.

Age Before Close of Tax Year	2017 Limitation	2018 Limitation
40 or less	$410	$420
41 to 50	$770	$780
51 to 60	$1,530	$1,560
61 to 70	$4,090	$4,160
Over 70	$5,110	$5,200

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 on 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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