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How To Protect The Money You Are Saving For Your Future With Effective Insurance Planning Today

Michael Senoff Interviews Insurance Planning Expert

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Dear Student,

I'm Michael Senoff, founder and CEO of HardToFindSeminars.com.

For the last five years, I've interviewed the world's best business and marketing minds.

And along the way, I've created a successful home-based publishing business all from my two-car garage.

When my first child was born, he was very sick, and it was then that I knew I had to have a business that I could operate from home.

Now, my challenge is to build the world's largest free resource for online, downloadable audio business interviews.

I knew that I needed a site that contained strategies, solutions, and inside information to help you operate more efficiently

I've learned a lot in the last five years, and today I'm going to show you the skills that you need to survive.

It is my mission, to assist those that are very busy with their careers

And to really make my site different from every other audio content site on the web, I have decided to give you access to this information in a downloadable format.

Now, let's get going.

Michael Senoff

Michael Senoff

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How To Protect The Money You Are Saving For Your Future With Effective Insurance Planning Today

You may think the purpose of insurance is to protect the things you already have, but insurance really protects all the things you may want for your future. If you don't have insurance when something terrible happens, you'll have to dip into your own pocket to cover the costs – and that could significantly affect your savings, your retirement, and your life. Effective insurance planning is essential.

So in this audio, you'll hear how to make sure the benefits of your insurance outweigh the costs of your premiums so that, before you know it, you'll have a substantial savings built up for retirement.

Key Concepts You'll Hear In The Audio

- The types of insurance you'll want to make sure you have
- The 5 rules you need to know when picking insurance policies – and the questions you'll want to ask an insurance agent
- How large you'll want your deductibles to be and why
- What is an umbrella policy and why you may want to get one
- What you'll want to ask your medical insurance provider about your coverage before it's too late
- What you need to know about life insurance – what kind and how much
- How much long-term disability to get and how to make sure you're getting the long-term disability coverage you're paying for
- Why it might be cheaper in the long run if you take out medical insurance for your kids and grandkids

You may think you won't need as much income once you retire, but you're actually going to need more. According to JD, your current salary has to double every 24 years in order to keep up with inflation. That means, if you make $50,000 a year now and you're around 40, you'll have to plan on making $100,000 a year when you retire just to maintain the lifestyle you currently enjoy. You must have a plan to double your income in retirement every 24 years after you retire just to protect your income from inflation, so you can continue to enjoy doing all the things you want to do during your retirement.

And JD is going to help you do more than that by showing you how to estimate your retirement needs, set minimum savings goals, and get the most for your money on insurance. If you like what you hear and would like a no cost consultation about your personal or business financial situation, call toll free in the US only 1-866-505-7272. This audio is 45 minutes.

Most people think that you buy insurance to protect what you already have. For example, you buy automobile insurance to protect the car. You buy house insurance to protect your home. But if you stand back and take a look at it, if you've ever had to file a claim, ask yourself "How much protection did that policy actually give you. Did it protect anything?" Not really. What it did was allow you to repair or replace that particular vehicle, less some sort of deductible. So it didn't protect it at all.

So, the important thing about insurance is that you want to have adequate insurance because any time you have a claim, who's got to pay the deductible or any loss that perhaps you should have had insurance on but you didn't have. You do, right?

Michael: Correct.

JD: So what happens here is, if you go through your insurance coverage, you should be sure that it allows you to take the least amount off of your pile to cover any claims. Because insurance doesn't protect what you've got. Insurance allows you to reduce the amount that you would have to take off the pile. And your strategy here, your focus needs to be, what do I have to do today, tomorrow and the rest of my life to make sure that pile keeps growing the way it needs to so that I can get from that pile what I said I wanted.

Just to remind you, what we want is a lifestyle sustaining income. And that means that you have to be able to pull off of that pile the amount of income that you said you wanted when you choose to quit work or retire, as some people describe it, and that amount has to increase every year by 3% or more to protect you against inflation. So insurance protects that.

Michael: From your experience over the years working with people, do you find most people are under-insured?

JD: Yes, but I've also found that the measure of the under-insurance is a function of how people buy their insurance. So many people buy insurance only because they absolutely have to because a lender requires it as a condition of getting a loan. So they won't have any more insurance than they're absolutely required to have. Well, if you have insurance on your home, the lender for your mortgage only wants to be sure you have enough to pay off the loan. So most people, the most that they can borrow against their home is 80% of what it's actually worth at the time that the loan is placed. Well, what are you doing if all you've got is an 80% mortgage covered loan? You're protecting the bank. Then, if you want to replace your house, what do you have to do? You have to dig into the pile and pull another 20% off the pile to buy the same house, one with the same value. That's why I go through and I review the insurance coverages that my clients have.

Michael: What kind of insurance should people have?

JD: Everybody should have the following insurance as a minimum, Michael. They should have auto insurance. They should have home insurance. They should also have medical insurance. Those are pretty much automatic. People get it. They may not have enough, but they get some.

The next one that they should have is called a personal umbrella. I'll explain more about what that is and what it does in a few minutes. Then life insurance is an essential element. Long term disability insurance is essential and the last one is long term care insurance.

The interest in the long term care insurance has grown dramatically over I'd say the last 10 years, if for no other reason, because people in my age bracket are getting older. I'm the leading edge of the baby boomers.

Michael: Are there insurances that people should have to protect their assets that they have already?

JD: Again, let's go back to the beginning. The insurance that they have is going to protect the pile that they're building. In essence, it doesn't protect the assets they've got. What we want to do is do everything we can to make sure that you don't have to touch that pile unless you choose to do it, because the more that you take off the pile, the smaller it's going to be when you want to retire, the less income that you're going to have. So if you focus on what you want, you always go out there and say, "Is this enough insurance to make sure that I have to take no more off my pile if I have a claim, no more off my pile than I want to if I have a claim."

For example, I always recommend that my clients take the highest deductible, because what they're after is protection from the major loss. We can plan where you're going to get the amount of the deductible.

The higher your deductible, the lower your premium. The lower your premium, the more money you can put on your pile.

So for example, if you've got an auto policy, many people that I work with, when they first come to me, they may have a deductible as low as $100. Well, the only time you have to pay that $100 is if you got a claim. By the way, the majority of my clients have never filed a claim for an auto incident of any kind.

Michael: JD, are there any other insurances that people may want?

JD: The answer to that is unequivocally yes, but they're unique to their own situation.

For example, if they are a health care provider of some sort, or if they're a professional like I am or a CPA, they would want to make sure that they have adequate malpractice insurance. Malpractice insurance is something that, in the event that they do something wrong, or are accused of having done something wrong, that they will have coverage so they don't have to write a big check in some sort of settlement.

Errors and Omission is something similar to that. That's usually something that I've seen in insurance situations where an insurance person should have recommended a certain coverage, failed to do that, and so a claim comes back. And they usually have Errors and Omission insurance to cover those gaps. That's unique to somebody that's in the insurance field. Somebody you would go to buy your auto insurance, your home insurance should have an Errors and Omission coverage.

Business liability, anybody who owns their own business should have business liability insurance.

There's a whole slew of other types of insurances out there. There's business interruption insurance in case there's reasons where the business has to be closed down because of a flood or a fire or a theft or something like that, that it helps the business to recover.

Again, the objective of all this insurance, like the insurance that everybody should have, is to reduce the likelihood that they're going to have to write a big check and the money will come to cover that check off of their pile. We do everything we can to keep that pile growing for the rest of our client's lives so that they can enjoy spending it the way that they want to.

Michael: JD, is there a preferred sequence that one should buy insurance?

JD: Yes, there is. And the sequence is pretty much the way I outlined it. Auto insurance, home insurance, those are a given. People automatically buy those things.

Personal umbrella and medical insurance. Medical insurance is something that most people already have. They're either buying it themselves or they get it through their employer.

Personal umbrella coverage, then life insurance, long term disability insurance and finally long term care. The earlier that most people buy things like life insurance, long term disability insurance or long term care insurance, the lower the premiums will be for them. It's something that they need to be reviewing early.

They may choose not to buy one or more of those insurance coverages now, but it's one of those things we talk about. One of the steps in this whole process is on April 15th of every single year, they sit down and go through their strategy, their plan and once again they will remind themselves, "Okay, I don't have life insurance yet. Is now the time to buy life insurance", for example. That's the sequence.

Michael: Now, JD, you told me you have some recommendations or JD's rules when choosing insurance coverage. Can we talk about those recommendations?

JD: Certainly. First rule is that you need to be working with an insurance advisor, an insurance agent who can take care of all of your business and personal insurance needs.

That's extremely important, because the risk of not having coverage that you should have is dramatically increased if you choose to be your own insurance agent. And by that, I mean, you buy an auto policy from one company. You buy a home policy from another. You buy an umbrella policy from somebody else. The only place where you might choose to have another advisor involved would be in the area of life insurance or long term disability insurance or long term care insurance. Those are usually entirely different specialists.

But ideally, for anything else, you should have one advisor because when you go to that one person, two things work in your favor. First of all, because they've got all your business, they're much more likely to want to take good care of you. They could make more money. It's a very selfish thing. The second thing is, it reduces the risk that there's not going to be insurance coverage someplace where you need it. Because, professionally, they're required to be aware of gaps in your insurance. So that's rule number one.

Rule number two is, any insurance you have, the insurance company should be highly rated. You want to be sure that the company's going to be there to write the check when you have a claim. You can find out whether they're highly rated or not often by just asking the insurance advisor. But the important thing is, you want them to be rated at least A+ or better by a company called AM Best. AM Best is one of the rating companies. There are a number of other rating companies. This just happens to be the one that is most widely known. But again, you want to have the company rated at the highest level.

That rating, simply, all it means is, based on history and the way that they run their business, and these rating companies look very closely at how they run their business and pay their claims (that's important because that's why you got the insurance), they're much more likely to be there to write the check to pay off claims. So that's what A+ rating essentially means.

The third important thing is, what does your insurance cover? Rule number one under this is, no policy is going to cover everything. The insurance company doesn't want to provide an incentive for people to file a claim and collect all their money back that they actually lost. You have to be involved in it in some way. That's where the deductible comes in and there also may be certain other reductions in the amount that they're going to pay. All that's covered in the policy.

What you want to do, though, is be aware of what the policy does not cover. Because what it doesn't cover, you cover. That means you've have to go to your pile and take money off to pay that. So, if you can buy additional insurance to reduce that amount that you need to take off the pile to cover a loss, you need to at least be aware of that. After you're made aware of it and you take a look at the terms, you may decide "That's okay. I think the coverage I have is adequate enough. I'm willing to take the risk that I'm going to have to write that larger check." Again, that's where the larger deductible comes in.

I encourage all my clients to be informed about the potential losses that they might have if they're not covered by insurance. Because, again, what we're focusing on is the pile. What do we have to do to make sure that pile keeps growing. It will grow less rapidly if we have to take money off the pile.

There are standard coverage forms throughout the insurance industry and your insurance agent can help you to understand what those standard forms mean. But, most importantly, you must know how big a check you're going to have to write if there happens to be a claim.

One of those things that I've become aware of, at least in California, is a term called replacement cost. And replacement cost is a way of being able to, when you actually file a claim, they go out and find out how much would it cost you to actually replace that. And then the coverage actually goes out and pays that amount with minor adjustments to it. That's compared to what used to be the traditional coverage, where they go out and say, "Okay, you bought this when? 27,000,000 years ago? (I'm exaggerating!) What did you pay for it? We're going to depreciate it and pay you whatever the depreciated value was."

It doesn't take a rocket scientist to see that most things, like a television, you buy a television today and say you pay $1,200 for one of the newest ones, and two years from now you have a claim, that television's not worth an awful lot compared to what you paid for it. But what you want to do is replace the utility you had, and maybe that same similar-type TV today you could get for $750. So they would cover you to replace it at $750. The old policy would have paid you maybe $100 because you've already used it for a couple of years and that's how much that television is worth out there in the market.

Michael: Are some companies doing replacement cost where some insurance companies are doing it the old way?

JD: All of them do it both ways. Be aware what your policy coverage happens to be. I try to get my clients to focus on what it is they want. The agent can become very technical. All you have to do is stop him and say, "You know, I want you to quote me premiums on a policy that when I have a claim, I don't have to write a large check. So let's start right there." And every time that they explain a policy, "Okay, great. How much of a check will I have to write on that policy if I were to have a claim today?"

So it becomes relatively easy for my clients to buy insurance coverage because they're focusing on the only thing I believe they should be focusing on. Because all the other terms in the policy should then flow because the agent is again one that should have Errors and Omission insurance. If the agent doesn't cover the way the client wants, the agent's going to pay for it through his or her Errors and Omission insurance.

We're trying to define the measure of any risks that we might have taking money off the pile.

Michael: Now I notice you keep talking about the pile and I now see your point. You're better to have this insurance and pay that deductible, whatever it is, because if you have to take it off your pile, you're losing all that compounded interest. You end up writing even a much larger check when you take it off the pile.

JD: Definitely. When you think in terms of when you wanted to spend that money, which is some time in the future, for many of my clients, it could be 20 or 30 years in the future, if you've got a smaller pile, obviously you're going to get less money. So what we want to do is make sure that we take as little off that pile as we possibly can for any reason, but specifically when it comes to losses that you might incur that could have been covered by insurance.

To reiterate, the question that I like my clients to ask and get answered by their insurance agent is, "If I were to suffer a loss, would this policy take care of everything except my deductible?" If the answer is no, then that's when they have to start asking more questions.

"Okay, how big is that? How much am I going to have to take off my pile? Can I buy additional insurance so that number is much smaller or zero?"

Again, they're focusing on what they need to, which is, get enough insurance to protect that pile.

That leads us to the next thing, which is what does it cost. In other words, how much is the premium that I'm going to have to pay? Unfortunately, this is exactly where most people focus their attention is on the premium. If you have any doubt about that, all you have to do is take a look at the advertisements out there. What do they say? Call us, we'll give you a quote. We can probably reduce the amount that you're paying on your auto insurance by 40%. They're focusing on the premium. Sure, if you can get a lower premium, still get the coverage, and still have a company that's more likely than not going to be there to write the check, sure take the lower premium.

But you'll notice we've gone through four rules before we get to cost. Those other things are far more important, even if you have to pay a higher premium. And the advantage here, it doesn't matter how big or small the premium happens to be, we can plan to have the money to pay that premium. We can't plan to have money there on your pile to cover big losses that you could have taken care of had you had the right amount of insurance.

Than brings me to deductibles. So, how big should your deductible be? It should be as big as you possibly can get it because the larger your deductible, the lower your premium's going to be. Again, the insurance is to cover the large loss.

When we talk about deductibles, it's usually not going to be like $200,000. No company would write a policy that you would need that large a deductible for, say, like a home policy. So auto insurance policy, if you can get a $5,000 deductible, take it because, if you ever have a claim, $5,000 can be pulled off the pile and that's going to have very little effect on your long term objective. But what happens in the case of a $5,000 deductible to your premium? It gives you more money every single year that you can either spend to maintain the life style that you want, or put on the pile.

Michael: I want to ask you this. What about people you're working with who are just starting to work with you to build their pile? So they don't have a pile built yet. What would you recommend deductible-wise, the same?

JD: Yes. Again, because it frees up money that they can put on the pile so it will build more rapidly.

The philosophy that they have to be following is the reason they got insurance is to protect the pile. It is not because they think they're going to have a loss. And when you take a look at it, again, my experience has been, virtually none of my clients have had an auto claim in all their lives. And I've got some clients that are in their 60's and 70's right now. They've never had a claim. So the risk to somebody starting right now, unless they happen to be a lousy driver, in which case that's totally a different issue we have to deal with, they're not likely to have a claim.

Michael: I see, so instead of paying an extra $70 a month on your policy, you would free that $70 a month to put towards your pile.

JD: That's it.

Now that brings us to an umbrella policy. An umbrella policy is another term for an excess liability coverage. But what it does for personal liability is to provide an additional level of protection.

Most commonly, it provides additional coverage for home and auto claims. Generally the premiums on these things are very low and that's because the insurance company doesn't have to pay a lot of claims out against it. What it does is it covers any loss that might be incurred that exceeds the maximum limits of your auto and home coverage. This would cover you from any claim that would normally come against you that is covered by your auto or your home insurance policy.

And what we want to do is have a policy that covers you for at least $1,000,000. Again, what we're looking for is a million dollars worth of maximum coverage for any claims that you might have to take money off your pile for your auto or your home. This is liability. This is not like to replace your car or house damage or things like that. This is where people get injured for some reason. It could be a frivolous thing where somebody trips on the sidewalk and breaks their leg and they go to court because they've lost a million dollar contract or something. It could be something that's very realistic. But either way, what you want to do is be sure that, in the event that there's a claim filed against you that exceeds what your home or your auto insurance policy would cover, that you have that additional protection.

The umbrella insurance rider requires that you have or that you maintain a certain maximum coverage. To protect yourself, the insurance company will require that you have at least a half million dollars worth of liability coverage in California for any liability claims as a result of an auto policy claim. The umbrella insurance carrier will write a check to cover every claim beginning with a $500,001. So it will cover and write a check for as much as another half a million dollars if that's how much the claim is actually for. The underlying policy is required to have the first half a million dollars. Now, if you don't have that maximum $500,000 coverage for your underlying auto policy, let's say for example that you have a lower level like $300,000, you're going to take $200,000 off the pile before that umbrella insurance company is going to write $1 check. They're not going to pay anything at all until the losses reach $500,000 plus $1. So, it's important there again, that question that I teach my clients to ask, "If I were to suffer a loss, would this policy take care of everything except my deductible?"

When they're talking to an agent about an umbrella policy, the agent's response there would be, "Well, we have to look at your underlying auto and home policies because, if in this case, your auto policy doesn't have a maximum liability coverage of at least half a million dollars, you're to pay the difference between whatever the limit is and that half a million dollars before the insurance company is going to pay anything under this umbrella policy. Did you want to take $200,000 off the pile?" The answer should be no.

That's why it takes a competent insurance agent involved. I walk my clients through this so they can understand, but there's lots of things that they should be aware of.

I know that there are things they should be aware of that I'm not aware of because I'm not an insurance specialist. That's why I do what I recommend my clients do, which is, that I have a relationship with an insurance broker. I've had that relationship for 30 some-odd years. He and I sit down once a year and go through my insurance coverage. He knows me well enough to know that there are certain areas where I might have a risk and we'll talk about that. And then he'll explain to me that there might be insurance coverage for that if I'm concerned about that particular risk without me having to take money off my pile to cover a claim there. Then I ask him to go and shop it and we talk about that. And then I find out, based on the premium and the coverage that comes back, I decide whether I want to insure myself, in other words risk taking the money off the pile, or I want to buy the coverage. And that's what I encourage all my clients to look for.

I do have some clients that just can't bring themselves to move their auto policy and their home policy to one agent that's going to write the umbrella policy and so I say, "OK, as long as you're aware that the risk is now yours. You've become your own agent."

So they have to be informed about the risk that they're putting in their lives and that's all I can do. I don't take it on myself.

And I recommend that all my clients have a minimum $1,000,000 policy for their umbrella. That means if the company, in the example I gave about the auto with the half million dollar minimum requirement, they would write a check of as much as a half million dollars to make up the total one million dollars.

Michael: Can we talk now about medical insurance coverage?

JD: Sure.

Medical insurance is something that everybody wants and I find that once they get it, they stop paying attention to what they have until they actually need care under it. What I try to do is get my clients informed about what kind of coverage they actually have. I ask them to get a written description of their policy coverage. After they've gotten that, then they need to ask questions. The best way for them to ask these questions is to sit down with whoever is their medical insurance provide.

Now in the area that I happen to live right now, Kaiser's a big provider. So, when I have questions, I just go and sit down with their people here in the local Kaiser office and say, "OK, let me ask you a question."

These are the kinds of questions that you want to ask and get answered.

First of all, "What are you covered for?"

Once you understand what you're covered for, then the next questions are, "How much you're paying for it now? How much can you expect to pay for that same type of coverage in the future?"

As you get older, these premium rates tend to go up. As claims increase, these premiums tend to go up.

You have to focus on how much those premiums might be because that is going to affect how much money we're going to need off the pile and in our daily lives until we start collecting on the pile.

Again, I teach my clients to ask the question because the person you're asking the question of will probably have certain caveats like, "Gee, I can't really tell you. I can't predict the future. We just know that rates are going up."

But you need some sort of a measurement. I encourage my clients to ask the question kind of like, "Suppose I was 20 years older today. Right now I'm 63, so suppose I'm 83. What would my premiums be for the same coverage I've got right now?" That at least gives me a relationship between what my premiums are today and what my premiums might be 20 years from now.

Michael: Do you think they'll be able to give you some kind of answer when you ask that?

JD: Well, they can answer that because medical insurance premiums are also age related. So the older you are, the more likely that you're going to have a certain type of claim. And in addition to knowing what it might cost you in the future, you need to know also what does it cover, what does it not cover.

You start out with what does it cover. But what doesn't it cover? Because you need to be aware of that.

Anything it doesn't cover you take off the pile to pay for. So what we want to do is find out if it doesn't cover something, is there an additional policy or a rider that I can buy that will give me that particular coverage. The reason you want that is because it may be something that you're really concerned about and you don't want to have to take money off the pile to pay for any medical care or services that you might need because of that kind of a claim.

Also as you get older, the terms of the policy will change, too. For example, with Kaiser once I turn 65, my coverage goes into what they call Senior Advantage and it changes the coverage that I have. So I'm aware of that. I need to be aware of that. My clients need to aware of it. When they reach a certain age, there are certain types of coverage that they're not going to have.

Michael: JD, how much life insurance should you have?

JD: The answer to that question is unique to each person.

It depends on how old they happen to be and how much money that they want to have on the pile. Keep in mind, the reason why they should be interested in life insurance at all is because they want to make sure that money's on the pile in the event that they're not there. And that would be to pay for certain things that are very important to them in their lives.

For example, it could be income to take care of their wife if they're married. It could be to insure that there's money there to help pay for the college education for their kids. It could be any number of things that are important to them in their lives.

But let's just start with maintaining a life style sustaining income. Let's suppose that my clients wanted to be able to spend $100,000 a year when they retire and they want that $100,000 to increase every single year during their retirement to protect themselves from inflation. To do that, they would need at least a $2,000,000 policy because the pile should be at least $2,000,000 to generate that type of coverage. Now that's assuming that they're going to retire today.

Suppose they're not going to retire for another 24 years. The reason I chose 24 years is because we had a postage stamp conversation earlier and we discovered there that, approximately every 24 years, at a 3% average inflation rate, that pile has to double to protect us from inflation at 3% a year. So if they're going to retire in 24 years, that $100,000 to maintain their lifestyle today is going to have to be $200,000. It's going to double in 24 years.

Well, if the income that they want to spend is going to double, then what happens to the size of the pile? It has to double, too, doesn't it? So from $2,000,000 to $4,000,000.

Now here we're assuming they're starting with zero. They don't have anything at all. Anyway, they can start out with $4,000,000. Now that's a good place to start.

If they want a more exact level of insurance estimate, then that's where my worksheet comes in. I can walk through that with you right now just using the $100,000 example I just gave you.
So why don't you pull out that worksheet and just go through it as we talk about it. I'm going to assume, Michael, that you're the client and you want to retire when you're 65.

Michael: That sounds fine.

JD: And today I'm going to make you 41.

Michael: I am 41. That is exactly right.

JD: Then it just worked out.

So if we subtract the 41 from the 65, your age today and the age that you will be at when you want to retire, there are 24 years between then and now.

We decided how much money you want to spend and the sake of this example, we're going to put $100,000 down there. If you were doing this for yourself, what I would ask you to do is take a look at your adjusted gross income line, first page of your tax return, and put that number in there. That would replace the income that you're used to spending today.

Go down to line five, how many years before you plan to retire is the number up on line three. And so much money would you need to retire at that point in time 24 years from now?

The inflation rate is 3%. We've already found out that we'll have to double, so $200,000. So you enter $200,000 on line six.

How much should the life insurance coverage be? Life insurance coverage should be the $200,000 divided by 5% or $4,000,000. So whatever life income that you find, we'll get down to line six, you divide that by 5% and that tells you the total size that the pile should be when you're 65.

Now, line nine, they allow you to adjust down the amount of life insurance that you should or could buy at this point in time. You reduce it by the size of the pile today. So line eight is how big is your pile today. Put half a million dollars there. So we subtract a half million dollars from the $4,000,000 and that's how much the pile should be when you retire at age 65 to give you the income you said you wanted to spend. That means that the life insurance coverage should be at least three and a half million dollars.

So when you go out and you're shopping you say, this is what I need.

Now, how do you buy it?

First of all, let's talk about whether or not you would buy one policy for three and a half million dollars or if you would buy multiple policies. You'd buy multiple policies. Each one would be half a million dollars or a million dollars, depending on what the company would write for you. The reason you want to do that is because your pile is going to be growing as you get older. If you buy multiple policies, you can choose to stop paying the premium on the policies that you no longer find you need because the pile is now grown.

So, for example, let's say that you bought seven half a million dollar policies to give you your three and a half million dollars. With me so far?

Michael: Yes.

JD: Okay, and your pile grows from half a million dollars to a million dollars. If we go back to this worksheet right now and fill it out again, we get down to line seven, we still need $4,000,000, that's how big the pile needs to be. But line eight is now a million dollars. We subtract a million dollars from the four and it says our life insurance, all we need is $3,000,000 at this point in time. So then you stop paying the premiums on one of those half a million dollar policies leaving you only six. It allows you to reduce the amount that you're paying on those policies when the time is appropriate.

Michael: Is this used commonly, multiple policies in smaller amounts?

JD: Yes, and particularly with term policies, because you have to decide whether you want a term policy or a cash value policy.

The difference is the premiums are generally lower for term policy and they do just what they say. They're only covering you for a certain period of time.

There are a number of different types of term policies, but that's something that you would walk through with your insurance advisor to decide what the appropriate type of term policy is.

The difference between a term policy and a cash value policy is, for the same coverage, you pay more for a cash value policy than you would for a term policy.

The term policy, all you're paying for is life insurance coverage. With a cash value policy, you're paying an extra amount that they've put into a separate savings account within the policy. What happens in this case is it allows you to have a premium that is fixed for the term of the cash value policy. That fixed term will be higher than the term rate that you'd be paying if you got just straight term life insurance. That's because you're giving the insurance company that additional amount of money that they set aside and it grows until the life insurance charges in the policy exceed what you're paying in the premium and then they start drawing from the cash value within the policy so that they can keep the policy in force.

With the term policy, you pay them every single year and the policy stays in force as long as you pay the premium. Now the reason why this is important is because, like the other insurance conversation we had when we were looking at deductibles and things like that, if you pay the insurance company a higher premium because you want a lower deductible, you're giving them money that you could have put on the pile. The same way here with the term policy compared to a cash value policy.

If you choose the cash value policy, you're paying the insurance company money that you could have put on the pile. We want to do everything we can to protect the pile, but we also want to do everything we can to put the most money we can on the pile.

The more money we put on the pile, the bigger it gets, the quicker we can get it to the size it needs to be for us to retire, choose not to work, choose to work part time, choose to change professions, do whatever it is that we want to do.

So, with life insurance, there's something that's really important that I try to impress on my clients. Life insurance is not an investment. It has certain tax benefits and if we go back to our conversation about the tax spheres, just as you recall we had spheres number one, two, three, four and five, and our strategy is to maximize the amount of money that we put into sphere one before we put it any place else. Sphere one is all your tax deferred vehicles. That 401(k), pension plan, that type of thing.

When we look for life insurance policies, if you go back and review that, we'll find life insurance policies are in sphere three. That we don't want to be doing anything in sphere three until we've maximized spheres one and then also any benefits we can get from work, which will be relatively few, but they're still there.

So we get to sphere three and then of all the things that we're looking at in sphere three, we want to maximize the investments there, places that we can put money that is going to grow the pile. When we go through that process, we're going to find out that even though we find life insurance there because it's got significant tax benefits, that's all it's got is tax benefits. It doesn't have much in the realm of investment value at all to us. So we have life insurance there for one reason and one reason only, and that's to protect your pile in the event that you die before you reach your wealth independence date.

Michael: How much long term disability insurance coverage do I want?

JD: You want as much long term disability insurance as you can qualify for.

Again to protect the pile. The only time that long term disability pays off is when you become disabled under the terms of the disability policy.

Essentially, disability means that you're unable to go to work the way that you're used to going to work. If you happen to be an executive in a company and you get into an auto accident and you become disabled, that you can't go to work as an executive and so therefore that's when your disability policy will step in.

Most states have a state disability program, but that just covers you for a very limited period of time. It is not intended to be long term disability. It also has no relationship to the amount of income that you were bringing home.

Generally, a private long term disability policy will pay you 60% of what you were earning before you became disabled. For example, if you're making $5,000 a month, $60,000 a year, then the policy will pay you $3,000 a month, $36,000 a year.

What it does is it replaces income and when it replaces income, it reduces your need to take money off of your pile. It may not help you put more money on the pile, but at least it protects the pile that you've created at that point.

So again, when you're looking at these policies the most critical element in this policy is, is the company going to be there to write the check? That is important right there. That is critically important.

Second is, what is the definition of disability? The reason why this is important is, most policies out there will cover a disabled person, will pay the amount up to the time where they're able to go back to work. And some of the definitions of disability are so loose that, if you were an executive but you can now have a paper route, they will stop paying you because you could go to work and deliver papers

You need to be very much aware of what the definition of disability is. Otherwise, you risk paying premiums for something that will not pay you much at all.

Michael: You're going to have to read all that small print in your policy.

JD: Well, that's why you learn to ask those questions and put the risk on the insurance agent.

Sure, read it as you can, but if you're like most people when you read those policies, even though they've become more readable today than they were 20 years ago, you still need to ask the question, "Suppose I had a claim here. What will it not cover?"

That's when the agent needs to tell you, the thing that you need to understand is, after a certain number of days, the insurance company's going to review the disability (and all policies will, all the companies do). They're going to review your disability and if you're still disabled according to their definition, they will continue to pay. However, if you're not disabled according to their definition, then they will stop paying or they will reduce the amount. Usually it's all or nothing at all.

Once you get to that point say, "Tell me about this definition of disability, what does it mean? If I'm not able to work at my job, I'm an executive right now and I can't go in to work anymore, can't do that job."

If the definition is right, the insurance agent is going to say, "Sure, the definition covers you in that case."

If it's like the more general one out there, they'll say "Well no, they'll work with you. They'll retrain you." In essence, if you can deliver papers, they're going to stop paying.

My clients need to be aware of that. Everybody needs to be aware of when the company will pay under the policy and when it will stop paying. Because once they stop paying, where's the money come from? It comes off the pile.

What are we trying to do? We're trying to protect the pile.

Let's go back to deductibles.

With long term disability, like all insurance coverage, what we want to do is protect you against the big loss. We can plan to cover deductibles. In the case of long term disability policies, they don't have a deductible. They have the number of days that you would have to wait before the policy starts paying.

You'd have to be disabled for a certain number of days before they would start paying off. The most common policies that I've seen have a 90 day waiting period. I encourage my clients to go out to 180. If they can, get 360.

When you take the longer waiting period right there, your premium comes down and sometimes it comes down dramatically.

What we're after is not protecting you from the first day of disability, because you're not likely to get disabled. But you do have a risk of getting disabled. And so, if you are, we can plan to pay for the certain number of days.

Now you may not be able to get 360 day, a one year waiting period on that, but you should be able to get at least 180 days and that's what you want. That means that you would be required to take money off the pile for half a year and then the policy would kick in.

The other thing that people need to know about disability policies is they don't cover you for the rest of your life unless you die before you're 65 years old. Then they cover you for the rest of your life. Most disability policies stop paying when you're 65. So it's important to keep that in mind because that becomes something we have to pay attention to in the planning in the event you become disabled.

Michael: How about medical insurance for my children and grandchildren and great grandchildren?

JD: It's great you brought that issue up, Michael.

For quite a few years, I was totally oblivious to this issue here until a colleague brought this up to me. He said "I encourage all my clients to be sure that their kids and their grandkids have medical insurance coverage."

I looked at him and I said, "Why would they want to do that?"

He said, "JD, think about it. Who are they going to come to when they need to pay the medical bill?"

I said, "You're right!"

Again, it goes back to, we can plan to pay the premium because it's a known commodity. We can put that into how we're spending money now and making sure that amount is paid.

If there's a medical claim, we can't plan for that. We don't know how big it's going to be. So where's the money going to come from? It's going to come off the pile.

As luck would have it, I had this conversation about six weeks before my oldest step-daughter went off of our medical policy. She was a full time college student and she still is. She'll graduate next June as a doctor. She was going to not have any coverage at all and I turned to my wife and said, "She can't do that. Tell her she's going to get coverage and we're paying the premium."

And she asked the logical question, "Why would we want to do that? She's healthy."

And I said "Because she might have a claim." Well, as it turns out, she got married, was going to go on her husband's policy. She cancelled, she dropped the coverage and then she got pregnant. She couldn't get covered on her husband's policy. And so here we were facing the need to write big checks to pay for her pregnancy care.

Michael: You had her covered, right?

JD: No, because she had dropped the coverage.

Michael: And you didn't pick it up.

JD: No, it was dropped.

Michael: And so what happened? Did she have her baby yet?

JD: Well, no. Unfortunately, she had a miscarriage. We would have written the check.

Still, it was a real life experience that brought how important it is to me, and to my clients, too. That there are good things and bad things that could come up. I had one client that didn't follow this advice and her daughter went off of her policy and turned out, she broke her arm, and the care was very expensive for my client. She had to write checks out in excess of $5,000 to pay for the medical care. All she had to pay, if she had followed my advice, was maybe $150 in medical insurance.

Michael: Right, we're so focused on the long term care and we're going to talk about that shortly, that we forget about the children and the grandchildren as they get older.

JD: It could be your parents.

Your parents may not have adequate medical insurance and so we want to be sure that's the case, too. In many cases, we have extended families where people care a lot about certain people. You need to ask yourself, is there anybody else in my life, that if they had a major medical emergency, that they needed money for care, would I feel compelled to write a check to either pay for it or to help out. If the answer to that is yes, then it makes sense to me that you find out if they have coverage. If they don't have coverage, pay for it. Get them coverage because you can plan to pay the premium. You can't plan how great that medical claim might be.

We're going to talk about one more thing in a moment, Michael, and that one more thing happens to be the long term care. But before we get to that, I just want to review the reason why I recommend clients have these kinds of insurance coverage.

The reason is because we're protecting the pile. To go back and reiterate what I said at the beginning of this conversation, insurance doesn't protect anything that you already have. It protects what you could have and that's the pile.

That's why you want to have adequate auto insurance, home insurance. You want to have the umbrella that gives you the extra liability coverage. You want to have medical insurance protection that you feel is appropriate for you and your own situation, your family situation. And the last thing we reviewed is, don't forget the extended members of your family. Kids that are no longer living with you, are away at school, the grand kids, those special people in your life that you would actually help out. Make sure that they have medical insurance coverage.

Life insurance, you want a large enough life insurance policy to make sure that pile is there to do the things that are important to you in your life in the event that you aren't there. If you happen to die before that pile is big enough, you want to make sure the pile is there. So that's the reason why you would buy life insurance. Again, protecting the pile that you want to have.

Then, you have long term disability insurance. We just talked about that. The reason that you want that is, if you suffer a long term disability, it means your income stream has dried up or been significantly reduced. The long term disability policy, when it pays off, what it does is it replaces a significant part of the income that you became used to living to maintain the lifestyle that you want today. If you don't have that, you have to go to the pile and take it off. And so that defeats the purpose of what you're trying to do, which is create a pile that's big enough to give you a lifestyle sustaining income for the rest of your life.

It also should be big enough to where you can tap into it when you choose to help kids or grand kids and also if you choose to create a legacy either while you're alive or after your death.