TO INSURE OR NOT – THAT IS THE QUESTION

Tom Sedoric & Casey Snyder

February 2017

A key aspect of our job is to expose financial risks that may be overlooked. When we save and invest for retirement or buy insurance to protect our family or assets, we are often and perhaps wisely hedging our bets against an uncertain future. We have learned that insurance – how much at what cost – often baffles the public and even our clients. And full disclosure; we do not sell insurance of any sort.

We understand the need for certain types of insurance as they can theoretically provide a certain level of protection against loss. What is less discussed is that the insurance industry is a financial intermediary and is not geared to act in their customer’s best interests. This may sound controversial but it’s not. Insurance agents may be well-meaning and honorable but they are not fiduciaries nor required to do what is in the client’s best interest. Sometimes not buying a policy is in a consumer’s best interest.

It’s is one thing to insure assets that we can’t afford to replace. We insure our homes and cars for that reason - replacing a partially or totally damaged dwelling or vehicle is no small matter. We pay dearly, with increasing premiums, for health insurance to help us cope with either catastrophic or ever rising health care costs.

There is life insurance to help protect one’s family in case the primary breadwinner dies prematurely – before the mortgage is paid or before education has been satisfied. Some even purchase long term care insurance even though their longevity and future expenses are a vast unknown. Since insurance companies are abandoning long term care coverage at an accelerating pace, one can’t help but question the viability of coverage for unknown future expenses even though the policies are sold to provide “peace of mind” for the family and consumer.

It is worth remembering that most insurance is not sought out by consumers, but sold to them in a commission based transaction that may lack full transparency and disclosure. The insurance industry is also dealing with its own set of financial realities brought on, not so ironically, by a lengthy period of low interest rates. Why does this matter? Insurance firms are financial intermediaries (taking in money and paying it out) and manage risks and price future
liabilities and premiums to make money. They make more money when they pay fewer claims and can raise prices or premiums from their policyholders. This is leading to questionable practices that include sizable premium increases for some policyholders or canceling policies when, for example, you file a homeowner damage claim. This was particularly noteworthy in New England after the winter storms during the 2014-15 season. The reality is that insurance companies are in the business of taking your premium payments, investing it, and hoping to pay out as little as possible. When the returns are less than robust, the math simply doesn’t work and low interest rates only exacerbate this conundrum.

For example, according to a 2015 report by CNBC more than 100 insurance companies offered long term care policies in the 1990s but that number has dropped to around a dozen at the time of this writing. This is for a simple reason: it’s not a sound business model and a growing number of people are living long enough to use their benefits in an ever escalating cost environment. Two of our clients, independently, and both retired insurance executives, say of long term care insurance: “if you can afford long-term care insurance you probably don’t need it, and if you need it, you probably can’t afford it”. Meaning that too few members of the public explore the option of self-insuring the risk and expense that may, or may not, occur.

The life insurance sector is also under greater scrutiny for its practices. An April 2016 report on 60 Minutes chronicled an eye-opening practice in the life insurance industry. “In a little-known series of settlements, 25 of the nation’s biggest life insurance companies have agreed to pay more than $7.5 billion in back-death benefits,” the report said. “However, about 35 insurance companies have not settled and remain under investigation for not paying when the beneficiary is unaware there was a policy, something that is not at all uncommon.” Though a valid death benefit policy may be in place, there is no obligation on the part of the insurance company to make certain the claim is paid. An interesting business model, don’t you think? After all, if the insured is dead, who is to know a claim is to be paid?

Our point is not to disparage an industry full of many honorable professionals but to help the public navigate through an often challenging and opaque maze of protection enticements and penalties that may or may not be beneficial.

Here are a few points to consider:

- Do you need to insure the risk? Title insurance comes to mind, and though your lender may require it, claims are notoriously difficult to get paid. What typically triggers a title dispute and how common are they?

- Make sure you understand the myriad ways insurance companies attempt to deny you the proper coverage that has been paid for. This occurs in health, prescription, long-
term care and homeowner’s policies regularly. Read the fine print and understand the terms of your contract.

- Make sure your family members, financial advisors and legal representatives know who the beneficiaries are in all insurance policies. Too many insurers are counting on you not to do this.

- Be prepared to get legal help when filing any claim, particularly if it is sizable. Insurance carriers employ armies of attorneys and you may need to as well. Don’t walk into a gunfight with a water pistol.

Insurance coverage at all levels should be an important way a consumer looks at one’s balance sheet and cash flow as they seek financial independence. The more a consumer knows about what, and most importantly how, risks can be mitigated only helps reduce costs and improve financial outcomes in the long term.
Does anything you’ve read trigger a question? Send us an email.

If you wish to share this with someone else please click here.