

# The Advisor

Relevant topics in personal finance from Tone Financial Advisors, LLC

## Tone Financial Advisors

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## Life without Life Insurance



What if you were no longer here to provide for your family and loved ones? What if you couldn't watch your children grow, graduate from college, and begin their own families? What if your spouse couldn't

afford the home, car, college tuition, or unanticipated medical expenses, all because you hadn't planned for the unexpected? Life is full of "what ifs," and we don't always have the answers to every question. That's why it's important to put a plan in place that will protect your family if you're not here. Life insurance can be an essential part of that plan.

### How much do you need?

Life insurance can provide financial resources at your death for your family or business, or for charities and other interests. The amount of life insurance you need depends on a number of factors, including the size of your family, the nature of your financial obligations, your career stage, and your goals. The answers to these questions may help you determine how much life insurance you should consider:

- What immediate financial expenses (e.g., debt repayment, funeral expenses) would your family face upon your death?
- How much of your salary is devoted to current expenses and future needs?
- How long would your dependents need support if you were to die tomorrow?
- How much money would you want to leave for special situations, such as funding your children's education or gifts to charities?
- What other assets, including existing life insurance, do you have?

### What if your spouse dies first?

If you're the primary breadwinner in your marriage, it's easy to overlook the financial and emotional strain your family will face if your spouse should die before you. Your income might be diminished if you have to work less in order to spend more time with your children. Or, you may have to work longer hours to cover unanticipated expenses for daycare, house

cleaning, meals, etc. To your young children, losing one parent may seem like losing both. If your spouse should die before you, insurance on his or her life can offer financial security for your family, allowing you to spend more time providing emotional support for your children.

### Even if you're single

Just because you're single doesn't mean you don't need life insurance. If you died tomorrow, what financial obligations would remain? Do your parents or other relatives depend on you for support? Do you want to leave something to people close to you such as siblings, other relatives, or close friends? How will you provide for your favorite charities? Do you have pets that will need care in your absence? Life insurance is an important part of any financial plan, even if you're not married.

### Don't let hard times be an excuse to cancel your insurance

During tough economic times, you might be tempted to stop paying your life insurance premium. However, a recent study reveals that 4 in 10 households with children under age 18 would have trouble meeting their everyday living expenses if the primary breadwinner died. Yet 30% of U.S. households have no life insurance, and of those that do, over half (58 million) say they need more life insurance (Life Insurance and Market Research Association 2010 *Trends in Life Insurance Ownership*). Cancelling your life insurance to save a few dollars when money is tight may jeopardize your family's financial future.

### Review your plan

Whether you have life insurance through your employer or purchased privately, have you reviewed your coverage recently, especially in relation to your current circumstances? Do you have enough coverage to meet your changing needs and goals? If you change jobs, can you take your insurance with you? Lives change over time and your financial needs may change as well. Review your present coverage with your insurance professional to ensure it's keeping up with your changing financial needs and goals.

## September 2011

Life without Life Insurance

Do You Need Flood or Earthquake Insurance?

Could You Handle a Financial Windfall?

What happens to my online accounts when I die?

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## Do You Need Flood or Earthquake Insurance?



*If you're deciding whether to buy flood or earthquake insurance (or both), consider the following questions:*

1. *Do you live in a high-risk area?*
2. *Have you assessed the potential cost of repairs?*
3. *Do you have sufficient resources to repair, replace, or rebuild?*
4. *Can you minimize potential losses by fortifying your property and securing your personal belongings?*



We'd like to believe that disasters caused by floods or earthquakes are rare. But as we have seen with the recent natural disasters in the United States and abroad, the impact can be financially devastating. If you were to fall victim to a natural disaster, could you pay for the damages out-of-pocket? Will your homeowners insurance provide adequate coverage? Could any of us depend on the government for assistance?

Standard homeowners insurance generally does not cover damage directly caused by either floods or earthquakes. Federal disaster assistance is usually in the form of loans or grants and is only available if the damage is widespread and very serious, and the affected area is declared a disaster area by the Federal Emergency Management Agency (FEMA). So what should you do? First, review your current insurance with your insurance professional to determine what is, and especially what isn't, covered. Assuming you aren't covered for damage caused by flood or earthquake, consider buying flood or earthquake insurance, especially if you live in an area prone to recurrent disasters of this type.

### Flood insurance

You might consider purchasing flood insurance even if you don't live in a high-risk area for floods. Storms, inadequate drainage, melting snow, and hurricanes can all cause serious flooding. According to the National Flood Insurance Program (NFIP), approximately 20% of all flood insurance claims come from areas that are at low to moderate risk for floods ([www.floodsmart.gov](http://www.floodsmart.gov)). And if you're buying a home in a designated flood zone, your mortgage lender will require you to carry flood insurance before granting you a mortgage.

However, you can't simply buy flood insurance as an endorsement to your current homeowners policy. Instead, if you are eligible, you can purchase a separate flood insurance policy through an insurance company that participates in the NFIP. A few insurance companies also offer excess flood insurance policies that can supplement NFIP coverage.

A flood insurance policy provides flood protection for both your home and its contents. You can purchase up to \$250,000 of coverage for the building itself, and up to \$100,000 of coverage for the contents. If you own a home whose value exceeds the amount available through the federal program, you may be able to buy excess flood insurance through a private insurer. Excess flood insurance covers amounts above the \$250,000 federal limit, and unlike NFIP coverage, may cover your home for

its full replacement cost. You may be able to purchase these policies even in high-risk flood zones. Flood insurance offers some degree of protection for flood-related basement damage, but it doesn't cover all types of damage. It also doesn't cover events such as seepage or failure of a sump pump, and damages caused by sewer backups aren't covered unless they are directly related to a flood.

### Earthquake insurance

Most homeowners policies generally have very limited coverage for earthquake damage--excluding direct loss from earth movement but covering loss by a subsequent fire, explosion, breakage of glass, or theft. As a result, if you live in an area prone to earthquakes, you may want to purchase earthquake insurance.

Typically, earthquake insurance covers damage to your home and your possessions. Most policies also cover costs incurred to minimize further damage after the earthquake, and costs for additional living expenses. The cost of earthquake insurance varies, depending on the scope of coverage, type of structure, and your location (e.g., in an earthquake zone).

Coverage can be purchased as an endorsement to your existing homeowners insurance, or as a separate policy.

Whether you should buy earthquake insurance may depend on a number of factors that include:

- The frequency and severity of earthquakes in your area
- The likelihood an earthquake would cause considerable damage to your home
- Whether your home is constructed to withstand an earthquake of moderate strength
- Whether you could absorb the cost of replacing your residential and personal property

If you do buy earthquake insurance, you'll probably want to buy enough to cover the costs of rebuilding your home and replacing damaged personal property. That means that the amount of insurance you buy generally should be based on replacement or reconstruction costs and not the current market value of your home and possessions. Also, you may not notice some damages to your home or possessions immediately after an earthquake, so be sure the policy you buy gives you adequate time to discover damages and file a claim.



## Could You Handle a Financial Windfall?



Receiving a financial windfall is often a life-changing event. It's a relatively common one, too. You might never win the lottery, but the odds are that at some point you'll receive a significant amount of money, perhaps from an inheritance, bonus, insurance settlement, or the sale of a home or business. If so, would you be prepared for the financial decisions you might suddenly face?

### **Proceed with caution**

The first thing you'll want to do after receiving a large sum of money is to take a deep breath. You may feel the urge to spend, invest, move, quit your job, or give to others. But if you want your windfall to last, don't do anything until you've had a chance to come to terms with the personal and financial consequences. Regrettably, some people who suddenly come into money lose it all within a few years because they fail to plan. Taking the time to make well-thought-out financial decisions will help ensure that your money will last.

### ***Put your money somewhere temporarily***

Until you've had time to explore your options, there's nothing wrong with putting a lump sum into a relatively liquid account, such as a savings or money market account. You don't have to leave it there forever--just set it aside until you've had time to formulate a plan.

### ***Assemble a support team***

Because your finances are likely going to be a lot more complex now, one of the first things you should do is to get unbiased advice from a financial professional who can help you put together a financial plan. You may also need to work with an accountant, an attorney, or an insurance professional who can help address any tax, estate planning, or insurance planning concerns. Although receiving a windfall should be a happy event, it's sometimes very stressful, and you may need help from trusted professionals to help you handle the pressure.

### ***Avoid spending and giving impulsively***

Spend or give your money away too quickly and you risk depleting your nest egg. Although it's tempting to go out and buy something you've always wanted but couldn't afford before, watch your spending. A financial windfall can turn even a financially conservative person into an impulsive shopper. If your ultimate goal is to create lasting wealth, take time to consider your future needs, not just what you need (and want) today.

What about giving or loaning money to family and friends, or making a charitable donation? Again, it's best to wait until you've set priorities

and developed a financial plan. Otherwise, your personal relationships could suffer (will your sister be hurt if you give \$10,000 to your brother?), and your generosity might have unintended consequences (will you be approached by dozens of charities once you donate to one?).

### ***Watch out for too-good-to-be-true opportunities***

Unfortunately, more than one person has become the target of unscrupulous individuals looking to profit from the good fortune of others. And even if you're approached by a well-meaning friend, family member, or business associate, you should thoroughly investigate any investment or business opportunities presented, instead of relying on someone else's judgment. If you have trouble saying no, consider referring any requests you receive to a third party, such as an attorney or financial professional you're working with.

### **Look at your financial needs and goals**

An important part of handling a financial windfall is to evaluate your short- and long-term needs and goals. This will serve as a foundation for your financial plan.

- Do you have enough money set aside in an emergency account?
- Do you have outstanding debt that you'd like to pay off?
- Do you plan to pay for your children's education?
- Do you need to bolster your retirement savings?
- Are you planning to buy a first or second home?
- Would you like to quit your job or go into business for yourself?
- Are you considering giving or loaning money to loved ones or donating to a favorite charity?
- What would you like to accomplish with your wealth over time?

### **Have a little fun**

Once you've made some initial decisions and set aside money needed to pay taxes, consider spending a small portion of your windfall on something you'd like. There's no reason to deprive yourself, as long as you've taken care of business first. If you plan well and control the urge to spend lavishly, your windfall may provide you with financial security and comfort for many years to come.



## Ask the Experts

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### What happens to my online accounts when I die?

These days, using a personal computer is just a normal part of life. You may have e-mail or online accounts that require a password, or you may have pictures, videos, or documents stored online or on your hard drive. You may even maintain a blog or website. Like your physical assets, these "digital" or "cyber" assets can have both sentimental and economic value. Chances are, nobody else knows your cyber assets even exist, and if they do, they may not know where those assets are stored or how to access them. It's important that you make plans for the disposition of your cyber assets in the event of your incapacity or death. If you don't, your survivors may have to deal with time-consuming and costly searches, or worse, the assets may be overlooked and lost altogether.

What happens to your cyber assets at your death depends on what type of asset it is, and while the laws regarding cyber assets are not well settled, there are some broad guidelines. Domain names, once registered, become your personal property under property law, and your websites and blog content are yours under

federal copyright law. These types of cyber assets are clearly defined by law and are transferable to your heirs (e.g., through your will). On the other hand, certain online accounts, such as e-mail accounts, Facebook, Twitter, eBay, or PayPal, may not be classified as property in the legal sense; you are merely given a license by the website when you agree to its terms of service. Under these terms of service, transferability of your accounts may be limited or even prohibited altogether. Terms of service vary widely from site to site. Some sites, such as YouTube, will allow persons with legal power of attorney to access your accounts, and they post instructions on how to do so. Other sites, such as Facebook, will put your accounts into a "memorial state." Many sites, however, will terminate and permanently delete your accounts upon notification of your death. You should read and understand all terms of service and make any necessary legal arrangements so your heirs will have access to your accounts.

Note: On the flip side, you may have certain private accounts to which you want to ensure that no one is given access and which will be terminated immediately upon your death.



### How do I include my cyber assets in my estate plan?

Your cyber (or digital) assets may have sentimental and/or economic value, and you should consider including them in your estate plan.

Here's how:

1. Identify your cyber assets. They include (a) domain names, websites, and blogs, (b) photos, videos, and documents stored on sharing sites such as Flickr, YouTube, and Google Docs, (c) e-mail accounts, (d) online bank, credit card, investment, and other such accounts that typically require a password, (e) accounts with online companies such as Facebook, Twitter, and eBay, and (f) documents, spreadsheets, photos, and other such items that are stored on your computers, hard drives, DVDs, smartphones, flash drives, and other offline or online servers or backup servers.
2. Understand which assets are transferable to other persons and which are not. Your domain names, websites, and blogs are transferable under property and copyright laws; however, your online accounts may or may not be transferable, depending on the online site's terms of service (you may merely have a license). Read all terms of service to understand what can be done with the account upon your death. You will find that many accounts will automatically terminate upon notice of your death, and other accounts, such as one on Facebook, may be put into a "memorial state."
3. Inventory your cyber assets. List all your assets indicating (a) where they are located, (b) how they are accessed, including URLs, usernames, and passwords, (c) what you wish to have happen to the asset at your death (e.g., transfer to an heir, terminate, memorialize), and (d) who will be responsible for carrying out those wishes (e.g., spouse, executor). Refer to but do not include this inventory in your will, because wills become public and this is private information. Put it in a safe place and let others know of its existence.
4. Include specific bequests of certain valuable cyber assets (domain names, websites, blogs) in your will, and execute powers of attorney for those accounts that will require it.