

# Commercial Insurance Update

## Topics Affecting Buyers of Commercial Insurance

MSP C 08/98 – “Life Insurance — How Much Should I Have?”

August, 1998

*Although life insurance is not an item Cavnac & Associates handles, it is nevertheless a “Topic Affecting Buyers of Commercial Insurance,” and one we have never commented on.*

*Having recently evaluated my own life insurance needs, I found the following article, authored by Safeco Insurance Company, to be informative and straightforward.*  
— Jeff Cavnac, CPCU

## Life Insurance

### How much should I have?

When it comes to life insurance, two questions stand out: “how much do I need?” and “what kind?”

Planning for your family’s basic financial security need not be difficult. A simple plan is actually better because it’s easier to update.

To decide how much life insurance you should have, you need to determine how much money you would need to pay your debts, provide a roof for your family, educate your children and replace your income.

### What’s a good figure?

Whatever is realistic. If you inflate your needs you will end up with a number you won’t believe and probably can’t afford to cover with insurance.

To be realistic, go for the bottom line — the very least with which you can be comfortable. Decide on the following for each of your family’s four basic needs:

1. Calculate how much you want to leave.
2. Ask if you can do it for less.

The result will be a realistic bottom line you can act on without feeling you are overdoing it.

### What will it take to pay my debts?

How much do you need to clear up short-term obligations such as credit cards and consumer loans? Don’t forget to include funeral expenses and final medical expenses.

Then ask: “Could I do it for less?”

Bottom line: \$ \_\_\_\_\_

### What will it take to house my family?

What will it take to pay off the mortgage? This is the usual bottom line for most homeowners — it’s pretty cut and dried. If you’re renting, figure out how many years of rent you would want to leave or what it would take to buy an adequate home.

Then ask: “Could I do it for less?”

Bottom line: \$ \_\_\_\_\_

### What will it take for education?

What kind of school should your children attend? Does it need to be a private college, or would a state school do? How about junior college for two years? Should they plan on working to pay part of the cost?

Then ask: “Could I do it for less?”

Bottom line: \$ \_\_\_\_\_

*(continued from page 1)*

*(Continued on page 2)*

Published by

**Cavnac & Associates**

INSURANCE BROKERS

501 West Broadway, Suite 1340

San Diego, CA 92101-3505

Phone: 619-234-6848 <◆> Facsimile: 619-234-8601

Website: [www.cavnac.com](http://www.cavnac.com)

License No. OA99520

## What will it take to replace my income?

How many years of transition time do you want to give your family before your paycheck stops? With you out of the picture, would your family need your entire income? Remember, you've paid your debts, cleared your mortgage and provided for your children's education. Would 50% do? For how long?

Then ask: "Could I do it for less?"

Debts	
Housing	
Education	
Income	
Total	

Bottom line: \$ \_\_\_\_\_

Compute the total of the "bottom lines" for each of the sections above:

This is the real bottom line — the amount of coverage you need to adequately meet your family's needs.

## What kind of life should I buy?

Now that you know how much life insurance you should have, what should you buy? What is the best deal? Like everything else, it depends on your circumstances. Here are a few questions to ask yourself:

- What can I afford? First, figure out how much premium you are willing to pay. Then and only then, look at types of policies.
- How should I select a policy? Start with the face amount you need to buy, then look for an affordable policy that will give you that much coverage.
- What's the best deal? Whatever gives you the coverage you need at a price you can afford is the best deal for your family. Remember, they are the reason for buying the insurance.
- What if I can't afford it? If you've done your planning properly, the net amount you need is the least that is safe for your family. It's a necessity. Do some hard budgeting. Look at your life insurance premium like you would additional taxes. If you have to pay them, you'll find a way.
- What about group insurance at work? Get all you can. It's cheap, but don't count on it for the long term. Jobs and benefits can change.
- Should I buy term or a cash-value policy?

Term is cheaper up front, but the premiums rise as you age. A cash-value policy (such as whole life or universal life) requires more premium up front, but offers the benefits of a level premium and cash-value accumulation that is accessible. Let your pocketbook be your answer. Get the coverage you need first, then worry about the kind of policy.

## Some facts about permanent life

Permanent life insurance provides a lifetime death benefit plus cash value. It comes in various forms and has many names — the best known of which are "whole life" and "universal life."

As long as you pay the necessary premiums, the death benefit will always be there. These policies are designed and priced to be kept over a long period of time. If you only need protection for a limited time, or don't intend to keep the policy for the long term, this may be the wrong type of life insurance for you.

Most permanent policies have a feature known as "cash value" or "cash surrender value." This feature is not found in most term insurance policies, and gives you several options:

- You can cancel or surrender the policy in total or in part and receive the cash value as a lump sum of money. If you surrender your policy in the early years, there may be little or no cash value.
- You can use the cash value if you need to stop paying premiums, to continue your insurance protection for a limited time, or to buy a lesser amount of protection for as long as you live.
- You may borrow money from the insurance company (usually), using the cash value in your life insurance as collateral. Unlike loans from most financial institutions, the loan is not dependent on credit checks or other restrictions. You must ultimately repay any loan with interest, or your beneficiaries will receive a reduced death benefit.

The cash values of many life insurance policies may be affected by the company's future experience, including mortality rates, expenses and interest earnings.

Keep in mind that with all types of permanent policies, the *cash value* of a policy is different from the policy *face amount*. Cash value is the amount available when you surrender a policy before its maturity or your death. The face amount is the money that will be paid at death or policy maturity. ✦

# Life Needs Analysis Worksheet

Here are some questions you can ask to find out how much protection your family needs:

(a) Debt and Final Expenses

How much money do you need to clear up short-term obligations and pay for your final expenses?

(b) Housing

What is the current balance owed on your home?

(c) Education

How much will your children need to complete their formal education?

Annual tuition  
x Number of college years  
x Number of children  
= Total amount for education

\$
\$

(d) Income Replacement

How much income will your family need, and how long will you want to extend the income stream?

Number of years  
x Annual income  
= Total income replacement

\$

= Total Life Insurance Needed

Article courtesy of **Safeco Insurance Company**

**Disclaimer:** This article is written from an insurance perspective and is meant to be used for informational purposes only. It is not the intent of this article to provide legal advice, or advice for any specific fact, situation or circumstance. Contact legal counsel for specific advice.

# Y2K compliant?

## Find help at websites!

Last August, a Michigan grocer sued the supplier of its cash registers when they wouldn't take credit cards with year 2000 expiration dates.

In November, a New York-based computer hardware company filed the first class-action lawsuit against a database software company because the software does not recognize dates after 1999.

Small businesses facing the Year 2000 (Y2K) computer glitch now have access to several sources on the Internet to help them cope and solve this technological dilemma.

The U. S. Small Business Administration has a Y2K site at [www.sbaonline.sba.gov/hotlist/year2000.html](http://www.sbaonline.sba.gov/hotlist/year2000.html), offering background, checklists, solutions and related websites. Other company Y2K sites include:

- Microsoft: [www.microsoft.com/year2000](http://www.microsoft.com/year2000)
- Apple: [www.apple.com/macos/info/2000.html](http://www.apple.com/macos/info/2000.html)
- Digital Equipment Corp: [www.digital.com/year2000](http://www.digital.com/year2000)
- Hewlett-Packard: [www.hp.com/year2000/index.html](http://www.hp.com/year2000/index.html). ✦

## Have you displayed employee posters?

When defending against lawsuits such as sexual harassment or family leave, it's important that you have properly displayed the required employer posters demonstrating that the employee was advised of his or her rights.

Make sure your firm is complying with employer regulations with the California Chamber of Commerce's employer packet containing federal and state rights within the workplace.

The packet includes the two required posters on issues such as safety, harassment and discrimi-

nation, equal employment opportunity, and workers compensation. For a complete set of the required posters, contact your local Chamber of Commerce, the Better Business Bureau, or the Department of Labor. ✦

---

## Filing a Claim: Some helpful do's and don'ts

Insurance companies pay more than \$150 billion each year due to accidents or disasters. Because a loss is hard enough on your wallet, knowing what to do when you have a claim can help you get the best value for your insurance dollar. Tips include:

- Phone US as soon as possible. Ask how to proceed and what forms will be needed to support your claim.
- Prepare a list of lost or damaged articles. Include brand names and model numbers of appliances and electronic equipment. If possible, take photographs of the damage.
- Save receipts from any additional expenses you incur if your business is so severely damaged that you have to find other accommodations while repairs are being made.
- Keep copies of lists and other documents you submit to your insurance company. Also keep copies of any paperwork the insurance company provides to you.
- If your property was destroyed or you no longer have any records, you will have to work from memory. Try to picture the contents of every room and then write a description of what was there. Try also to remember where and when you bought each piece, and how much you paid.
- Make temporary repairs and take other steps to protect your property from further damage. Save receipts for what you spend, and submit them to your insurer for reimbursement.
- Avoid using electrical equipment, including computers, stereos and other appliances that have been exposed to water unless they've been checked by a technician. Most insurance companies pay for such inspections.
- Supply the information your insurer needs. Your insurer will represent you if a claim is brought against you or your business. ✦