

Financial Planning: Properly Insuring Assets

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As advisors who look at the full scope of a client's financial affairs, we look at what risks an individual or family might be exposed to and propose ways to either transfer or cover that exposure.

Insurance was created many years ago to allow for the transfer of risk to a third party. Insurers can aggregate pools of risk and spread it out, mitigating it far better than one person or family can.

Insurance coverage is not a particularly hot topic in casual conversations. The typical reactions are usually eyes glazing over, hands reaching for phones or feet moving to find someone else to converse with! While it may not be an exciting topic to most, insurance coverage is necessary for risk mitigation. Experienced advisors know that the right package of insurance and, potentially, right entity structures can help secure what individuals and families have worked so hard to build and maintain.

One item that should be on a client's yearly financial affairs checklist is a review of property and casualty insurance with a trusted broker. In a good review, the broker combs through existing coverage — looking at coverage limits, deductibles, premiums and personal needs — and provides a recommendation for additions, revisions or dropping coverage.

At Westwood, we work closely with the broker to note an individual's or family's needs and lifestyles. For example, if a family owns a few all-terrain vehicles on a ranch, that's something we should talk about covering properly for. Similarly, watersports that happen at a beach house may mean a different type or level of coverage, in addition to coverage that might be needed for potential environmental damage to the house.

People usually have a basic level of coverage on their homes and cars. However, they often are not properly or sufficiently covered under an umbrella liability policy. We see this happen as people accumulate more wealth over time. Your umbrella policy should increase as your net worth increases.

There is some fear that this would attract lawsuits. Unfortunately, people with assets are more likely to be subject to a lawsuit than people with less means. Not having a sufficient umbrella policy that is sized suitably for your asset base means that you've exposed your assets more than you need to. (And, the amounts of policies may not be known until well into a lawsuit.)

This also frequently comes up in the context of what people do at work. Certain professions or lines of business have more inherent liability than others. (Doctors are more likely than accountants to get sued.) Your personal liability coverage does not cover you in case of liability due to your work or business.

For those who are in more litigation-prone lines of business, we like to help them think through whether there are legal structures to put assets into that will protect members of the family, including spouses, and ensure those assets are less available in the unfortunate event there is a lawsuit. We work closely with families and counsel, and at times insurance specialists, to analyze what would work best at the personal level or at the business level. Adequate insurance coverage through a business or workplace is another way to protect your personal assets, such as a malpractice policy or directors/employees and officer's insurance.

Insurance companies are now offering to protect clients in the case of cybersecurity. It's a scary area and one where it can be tempting to take any coverage to feel more protected. While these policies are improving, it's worth taking a hard look to understand what they actually cover you for and what help the insurance company can give you if you are subject to something like a ransom attack of your personal computer.

If you haven't looked at your house, car and umbrella liability policies in a while, speak to your Westwood wealth advisor about whether it's time for a review. We can help identify what might have changed and work with a trusted broker to ensure you are covered for risks you might face.



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