

THE
ULTIMATE
INSURANCE
HANDBOOK
FOR
HIGH-NET-WORTH
INVESTORS

Bauman Scott
BESPOKE PORTFOLIOS



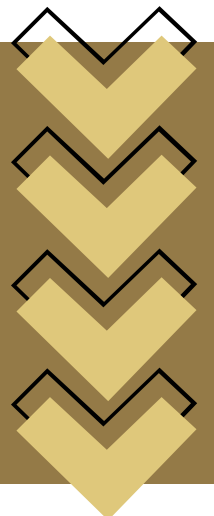
INTRODUCTION

We get that insurance might not be the most exciting topic when it comes to financial planning, but its importance is undeniable – especially for high-net-worth individuals. Take a look at these statistics to understand why crafting a customized insurance plan is worth your time:

- In the USA alone, the mortality coverage gap is an estimated US **\$25 trillion** (Deloitte)
- **43% of working-age adults** were inadequately insured in 2022 (Commonwealth Fund)
- **Four in ten adults (43%)** say they are not confident that they will have the financial resources to pay for the care they might need as they age (KFF)
- The current retirement savings gap is around US **\$70 trillion** (Deloitte)
- 100% of businesses have at least one key person, but remarkably, **only 18% have insurance to cover them** (Armac Insurance Services)

If you want optimize your insurance strategy and get the coverage your family needs, use this actionable ebook to make smart and strategic decisions! Here is what you'll learn:

- Life Insurance
- Annuities: The Pros & Cons
- Long-Term Care
- Health Insurance
- The Costs
- Putting it all together





LIFE INSURANCE

Even for those with significant savings, life insurance serves as a financial safety net, offering stability for your loved ones. Additionally, it safeguards the legacy of high-net-worth individuals and their families against some of the many risks that they need to consider, including the following:

Income Loss: Purchasing life insurance may give you peace of mind that your family or dependents may be financially protected from the loss of your income.

Estate taxes: Another reason high-net-worth individuals might consider life insurance may be to help pay for estate taxes. The estate tax rate can reach up to 40 percent on the federal level for assets over \$12.92 million, while state tax percentages and exemptions vary.

Business protection: If you are a business owner, life insurance may also protect your assets through a buy-sell agreement. A buyout agreement is a contract often funded by life insurance that can help minimize the financial impact caused by the death of a business owner or partner.

Households with \$100,000 income or more were most likely to be underinsured. About a quarter of these households (26%) had, on average, a life insurance coverage gap of nearly \$400,000. — LIMRA CEO, David Levenson



Now, depending on your needs and goals, let's explore the types of policies to consider:

TERM LIFE

Term life offers coverage for a designated period, typically ranging from 10 to 30 years. In the event that you pass away during the term, your beneficiaries receive the death benefit, subject to policy conditions.

Generally, term life insurance policies are used to **protect your assets and your family**. Here are a few scenarios where this policy could make sense:



If you use a high amount of leverage to fund your investments, or find yourself in an illiquid position, this policy would make sense to help repay your debts without negatively impacting your family.



If you have children and want to provide financial assistance to your spouse until they reach adulthood (such as funding education, everyday needs, or investing on their behalf).



If you have a significant investment in a business partnership and need supplemental finances to facilitate a smooth transition of ownership in the event of a partner's death. (keyman policies).



If you require financial protection for a specific period of time, such as covering the period until retirement or until your business and/or income stabilizes.

Now, depending on your needs and goals, let's explore the types of policies to consider:

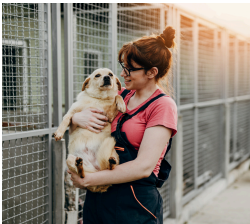
WHOLE LIFE

Otherwise known as a permanent policy, these are generally much pricier than term insurance. However, they do offer unique advantages, like a cash value component.

High-net-worth individuals with ample savings may opt for whole life insurance, viewing its **estate protection and permanence of coverage as valuable benefits**. This policy may be beneficial to you if...



If you want to provide liquidity to cover estate taxes and help work towards a seamless wealth transfer.



If you have charitable intentions and want to leave a significant benefit to your chosen causes.



If you see the value in accumulating cash value, lifelong coverage, and potential dividend earnings.

KEYMAN POLICIES

Key person life insurance (sometimes called "key man" insurance) is a business life insurance policy taken out by a company to help protect against financial loss if an owner, partner, top executive, or essential employee passes away.

Key man insurance can be structured as either term or permanent life insurance policies, with the latter offering additional cash value benefits. Speaking with a financial professional can help you determine if this policy makes sense for your business!



ANNUITIES: THE PROS & CONS

If you're looking for a steady source of retirement income with lower risk, an annuity may sound like a tempting option. After all, it is the only investment that you get a guaranteed pay out!

That being said, annuities have gotten a bad rap in the world of financial planning – and sometimes for good reason. They are often complex, and stereotypically pushed by the salesman just looking to “make the sale.”

Let's take a pragmatic approach by looking at the pros and cons of this financial product.

✓ Pros

- Guaranteed Income
- Tax Deferral Benefits
- Protection From Market Volatility
- Inflation Protection
- Potential for High Returns

✗ Cons

- High fees and costs
- Limited Liquidity
- Complexity and Transparency Issues
- Possible Lower Returns
- Tax Disadvantages



LONG-TERM CARE

In conversation with my clients on the topic of long-term care insurance, the number one concern is always around costs. Yes, long-term care (LTC) insurance is expensive, but take a moment to think about this question: How much will your long-term care cost?

The answer, of course, is that you have no idea. Often, paying for this insurance is **cheaper in the long run**, compared to stomaching the out-of-pocket costs down the road. In fact, The Federal Long Term Care Insurance Program (FLTCIP) estimates inflation will continue to increase the costs of this care by 4% a year.

In 2023, the median cost of long-term care was just over \$70,000. Using the conservative 4% inflation rate, this puts the cost of long-term care at just under **\$100,000** annually. Even if you are wealthy, hemorrhaging six figures a year in out of pocket costs quickly erode your wealth.

So, how can you protect yourself? Take a look at these strategies:

Traditional LTC Insurance: Often this policy covers in-home, in-facility, or family-provided care.

Hybrid Policies: This policy combines long-term care insurance with life insurance. This allows the policyholder to use long-term care benefits as they age, while also providing a death benefit for beneficiaries.

Now, it's important to remember that whichever insurance policy you choose, **long-term care is not a "use it or lose it" deal**. Many think of this insurance like fire insurance, but actually you can pass on your policy benefits with the right tools – like irrevocable trusts, Family Limited Partnerships, or other gifting strategies.

To understand which option is best for you, talk with our team about creating a comprehensive long-term care strategy.



HEALTH INSURANCE

We won't spend a whole lot of time on the topic of health insurance, since most people know about its importance, and having a policy is more common than not. What we will cover is how it's **different for wealthy investors**, and why working with a financial advisor can help you optimize your policies.

Finding the right coverage: Your policies will be fueled by personal and business factors like health status, lifestyle, travel habits, and the financial impact of specific policies. Here, a professional opinion can help you detangle the complexities, and better align your policy with your overall financial plan.

Personalization: Often for well-off investors, a higher degree of personalization is needed in your coverage. For instance, international coverage or access to top medical specialists goes beyond what a typical policy covers. Working with a financial professional can help you understand, personalize, and craft your policies to match your financial needs.

Additionally, Medicare is a topic of conversation for wealthy investors. Let's break down the differences in Medicare coverage and costs if you have a higher income.



MEDICARE

PART A

This is hospital insurance that covers inpatient hospital stays, hospice care, and some skilled nursing care. Most people are automatically enrolled in Part A when they apply for Medicare.

PART B

Medical insurance that covers outpatient care, certain doctor visits, medical equipment, and preventive services. You'll pay a monthly premium for Part B, and late enrollment penalties apply.

PART C

Medicare Advantage, which is an alternate way to receive Medicare benefits. Private companies run Part C, costs and coverage types vary by provider.

PART D

Prescription drug coverage, which is also managed by private companies. Costs and coverage types vary by provider.



THE COSTS

After reviewing this guide, you might be feeling overwhelmed with all of the options, costs, and things to think about. Is insurance even worth it?

The answer is yes. Insurance is still worth it, even if you have the cash reserves to cover the costs of medical expenses or long-term care. In general, insurance is a net good because it is a way of reducing risk, not of maximizing returns.

There is also a time cost involved. While a financial planner can't call the insurance company on your behalf to solve a problem, you gain time back in your busy schedule by not having to worry about selecting, optimizing, and worrying

PUTTING IT ALL TOGETHER

If you're ready to optimize your insurance strategy and stop wasting money on policies that don't work for you, consider consulting Bauman Scott Financial Services. We are well-versed in high-net-worth insurance strategies, and can help you create a bespoke plan that works to serve you.

Sources:

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