THE PRICE OF SELF-INSURANCE

The pros and cons surrounding whether to buy any type of insurance can be boiled down to a single consideration…

"Should you accept that financial risk yourself or does it make more sense to transfer that risk away"?

This basic question should be your guide for decisions around your health insurance, various property and casualty coverages, and can be especially true for disability income and life insurance.

Let's start with a simple example.

Suppose you were involved in a traffic accident where the other driver was seriously injured AND it was your fault. You are sued and the other driver is awarded $500,000.

At that moment, you are exposed to three financial costs. These are:

1. The loss of the $500,000 itself

2. The lost opportunity or interest that you could have potentially earned on that $500,000…which over 20 years could be another $500,000 (@5%)

3. The loss of about $50,000 in annual retirement income as the result of losing the $1 million above

These are considered the potential costs of 'self-insuring', as seen below:

Lawsuit	Investment Return	Years	Potential Wealth Lost
$500,000	5%	20	$1,326,649

By comparison, the 20-year "cost" of transferring this type of risk to an insurance company would be:

1. The loss of $100 each year…which is the annual premium for $500,000 of excess liability protection ($2,000 total)[1]

2. The lost opportunity or interest you couldn't earn because you paid the premium for the liability insurance…which over 20 years would be another $2,000

3. The loss of about $200 in annual retirement income in losing about $4,000 above (@5%)

Lawsuit	Investment Return	Years	Potential Wealth Lost
$100	5%	20	$3,472

In this example, the cost of insuring is less than the cost of self-insuring. This is why maintaining proper levels of protection can be an important element of your financial journey.

So, your primary objective should be to consider acquiring the most coverage, in all areas, for the least amount of out-of-pocket cost.

As a world class saver[2] and someone with sufficient life event funds...you may be able to afford to "self-insure" the small risks and transfer the big, catastrophic risks to an insurance company. This approach can help keep your premiums lower and your protection higher.

Here's how:

1. Consider carrying higher deductibles on health insurance and your property and casualty coverage
2. Consider extending the waiting period on your disability income insurance
3. Consider converting your term life insurance to whole life insurance
4. Make sure in all cases, your insurance is competitively priced and backed up by a strong carrier[3]

In addition, by working with an experienced financial representative, you may be able to uncover other cash flow sources to help pay for insurance without disrupting your current lifestyle.

Here are some examples of how that can be done:

1. **Reduce Debts & Tax Costs –** There are products and tax strategies that can help you to take those tax savings and purchase insurance.[4]
2. **Redeploy a Portion of Your Annual Savings** — Consider building your insurance portfolio today before you begin saving for your tomorrows.
3. **Examine Lifestyle** — Do some budgeting and evaluate your current spending decisions. Once the cost of self-insurance is clearly understood, finding money for protection may be easier.
4. **Your Future Earnings** — As your income goes up, make sure to review your insurance your insurance strategy. The stronger your wealth building habits become the more you may have to protect.

By re-evaluating any of these areas, you'll see how improved protection can be obtained without additional out-of-pocket costs impacting your life. Additionally, you can have clarity and confidence that you have protection in place for all of the unexpected in life.

If insurance had no cost to you, how much would you want to have?

Some people would say, "As much as possible!" The financial protection insurance that can be provided is something many would want to maximize in the absence of cost.

Carefully consider when to self-insure and when to transfer risks away from your balance sheet. Then, explore ways to protect without changing how you live today. In the process, you can establish a permanent layer of insurance that can serve as the foundation of your entire financial strategy.

[1] Source: Kiplinger, 'How Much Umbrella Insurance do I Need?', December 2018.
[2] Guardian considers someone who saves at least 15 to 20% of their income to be a World-Class Saver.
[3] Financial information concerning Guardian as of December 31, 2021, on a statutory basis: Admitted Assets = $72.1 Billion; Liabilities = $63.5 Billion (including $51.8 Billion of Reserves); and Surplus = $8.6 Billion.
[4] Guardian, its subsidiaries, agents and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation. Guardian does not issue nor service Medical or Property & Casualty Insurance. Talk to a Medical or Property & Casualty insurance professional for your specific needs in those insurances.