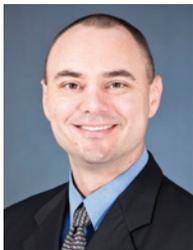


Dollars & Sense

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Types of Insurance You Might Need Life Insurance

“More money is wasted on life insurance than probably any other insurance product ... It cannot be overemphasized that cash-value life insurance is probably one of the biggest scams around.”

— Paul Sutherland in the AMA Physician’s Guide to Financial Planning (2008)

If you died this year, would anyone suffer financially? If the answer is “no,” then you don’t need life insurance. If the answer is “yes,” then you need life insurance, and probably a lot of it.

There are two types of life insurance. First, there are products that combine insurance with an investment account, often referred to as “cash-value” or “permanent” life insurance. Many insurance agents and companies will try to sell you this, but it is probably not the kind of insurance you need. It does have some tax advantages, but the downside of these policies is that the insurance agents who sell them collect high fees — from you. In addition, early premiums go mainly toward sales commissions and other expenses and not into your investment account.

The second type of life insurance is “term” insurance. It provides only a death benefit and does not build any cash value or serve as an investment. This is likely the only kind of life insurance that you need. To quote again from the AMA’s financial planning guide, “I cannot emphasize enough the importance of sticking to simple, unencumbered term life insurance — it fits 99% of insurance needs.” It is less expensive than cash-value/permanent policies and you can take the difference and invest it in a retirement account or other low-cost investment vehicle. You don’t need an insurance agent to purchase this and should simply try term4sale.com, selectquote.com, accuterm.com, insure.com, or other similar websites.

When you buy term insurance, make sure that it is renewable without a medical examination. You might also consider decreasing term insurance, which is cheaper even than standard term insurance. With this type of term insurance, the death benefit progressively decreases over time. Your need for life insurance should decline with age, as children grow up and become independent and your investment portfolio grows. Eventually you should need no life insurance at all, which is one reason arguments for “permanent” life insurance should fall on deaf ears.

Long-Term Care Insurance

Sometimes called “nursing home insurance,” this is usually purchased by people over the age of 50 to pay for nursing or at-home care. If you are under 50, you should probably purchase disability insurance instead of long-term care insurance.

The rates and terms of these policies are highly variable, and whether you get one is an individual decision. The earlier you purchase it the cheaper it is, but obviously the total money you’ll pay out over the life of the policy is higher. As a physician, if you are a disciplined and successful investor you will probably have enough assets to self-insure against the need for prolonged care, so I would suggest that most emergency physicians will not need this type of insurance. But circumstances and goals obviously vary, so it is something to consider. If it is important to you that your nest egg is passed to your heirs, you may want to consider this insurance so it is not passed to a nursing home instead.

Flood Insurance

Homeowner’s and renter’s insurance do not cover flood damage. To find out if your home is at risk of a flood, go to floodsmart.gov. There you can also find information about the government’s low-cost flood insurance programs.

Earthquake Insurance

If you live in an area at risk for earthquakes, you’ll need earthquake insurance in addition to your homeowner’s insurance. Like floods, homeowner’s and renter’s insurance do not cover earthquakes. California’s earthquake website, earthquakeauthority.com, is a good place to start. Volcanic eruptions are often not covered either, so you may want to purchase an additional policy or a rider to your homeowner’s policy if you live on the big island of Hawaii or at the foot of Mount St. Helens.

Types of Insurance You Probably Don’t Need

Life Insurance for Children

While you will be grief-stricken if one of your children dies, you do not rely on his or her income; therefore you are unlikely to need life insurance for children. The same is true of a spouse/partner who does not have a job, unless you would need money to replace the childcare and other in-home services he or she provides.

Rental Car Collision Insurance (Loss Damage Waiver)

They always ask if you want collision insurance or a “loss damage waiver” when you rent a car, but a lot of auto insurance policies automatically cover your rental cars. In addition, some credit cards provide this if you use their card to pay for the rental car. Make sure you find out if your policy or credit cards have this before you step up to the rental car counter and are put on the spot.

Flight Accident Insurance

If you need life insurance, buy it. Don’t buy insurance on a whim when purchasing tickets, on the off chance your plane will go down.

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Travel Insurance

This is a common credit card benefit when you use one to pay for a trip, so check with your credit card company. Even if you don't have it, travel insurance is unlikely to be worth your money for domestic flights. You can consider travel medical insurance for international travel, as some health plans won't cover you if you get sick internationally. Some credit cards offer this as well, so check with your card or health insurer to see if you need this.

Credit Protection Insurance

This is designed to protect your credit by insuring your credit card or mortgage payments in the event you become unemployed, disabled, or dead. If you have life and disability insurance, this is unnecessary.

Extended Warranties

Most products that come with an offer for an extended warranty are not costly enough to justify such protection. If the new TV happens to break shortly after the warranty expires, you'll probably be able to afford a new one. Most of these offers are a waste of your money.

General Insurance Advice

Insurance companies occasionally go under, so make sure you buy insurance only from quality companies with strong financials, and that you diversify extremely large policies. For example, if you need \$2 million in life insurance, you should strongly consider diversifying and getting two or three different policies from various companies. You can find information on the finances of insurance companies at AMBest.com, FitchRatings.com, Moodys.com, and StandardandPoors.com (Note that most sites require you to register to access their ratings).

If you have ideas for future columns or have other resources you'd like to share, email me at jschofer@gmail.com.

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