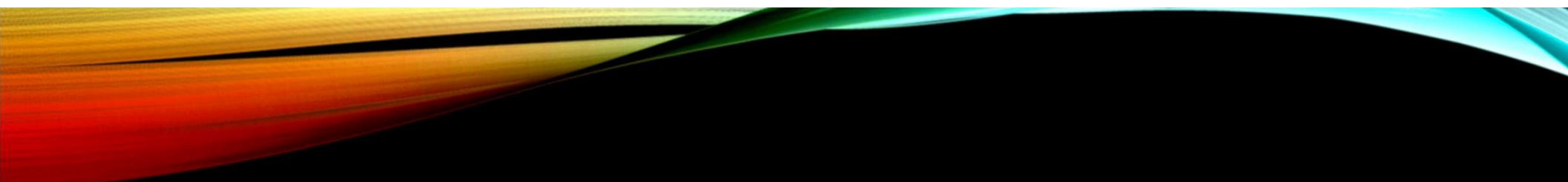


# FINANCIAL PEACE

A biblical step-by-step approach to success with money & personal finances.

Lesson #4

- 
- If you have questions:
    - Please do not interrupt class time.
    - Write them down on paper and give them to me.
    - Ask me personally after the AM service.
    - Send them to me via e-mail: [omaramike@juno.com](mailto:omaramike@juno.com)
  - 5 PM every Sunday night (1 hour before PM service)

# REVIEW FROM LAST 3 WEEKS

- ▶ The biblical step-by-step approach to Financial Peace:
- Step 1 – Save \$1,000 for a starter Emergency Fund & Create Budget
- Step 2 – Pay off your debt (except mortgage) using Debt Snowball
- Step 3 - Finish saving in Emergency Fund (3 – 6 months expenses)
- Step 4 – Invest 15% of income for retirement (in 401 (k), IRA's)
- Step 5 – Save for college (ESA's, 529 Plans) - optional
- Step 6 – Pay off your mortgage early
- Step 7 – Build wealth & Give generously – As the Lord leads

# INSURANCE

- The purpose of any insurance is to protect you (and/or your loved ones) against the risk of a financial event that you cannot afford.
  - Insurance is how you manage the risk of loosing your assets by transferring the risk to an Insurance Co.
  - Insurance is a critical component of your financial life.
- What insurance you need depends on your NET WORTH because that determines how much risk you can handle and how much you need to transfer to Ins. Co.



# INSURANCE

- Once you build enough wealth you no longer need some types of insurance. (Because you can easily handle financial losses of a certain value.)
- It is imperative that you understand why you need each type of insurance policy and what coverages you need in them (based on your financial picture).
- Trying to save money by skimping on important insurance coverage is a foolish financial decision & terrible risk management.



# INSURANCE

- There are 8 kinds of insurance most people need during their lifetime:
  - **Health** (to cover the high expense of necessary medical care)
  - **Auto** (if you drive a vehicle in the USA; risk of loss, damage & liability)
  - **Renter's** (if you rent your home it protects you against loss of your stuff)
  - **Home-owner's** (if you own a home it protects against loss, damage & liability on your property)
  - **Life** (to protect those that depend on your income if you die)
  - **Disability** (to protect your income in case of injury / illness )
  - **Umbrella** (To protect assets above and beyond auto & home policies)
  - **Long Term Care** (to cover the expense of nursing home & in-home care)



# HEALTH INSURANCE



- I believe most of you understand this one.
- Most people's health insurance in USA is provided thru employers (to full time employees as a benefit). Some employers pay the entire bill. Others pay only part, and the employee pays part.
- Citizens 65 or older (and some younger people with disability) qualify for Medicare. Government paid health insurance (paid thru payroll taxes) which covers ~1/2 of average medical expenses. (Parts A, B, C & D)
- Every health insurance plan has limitations and things that are not covered by the plan. You have to read your own policy to know what's covered.
- Health care is very expensive. I recommend you get a health insurance plan that best meets your needs. (No longer required by law, but get it.)
- Unexpected illnesses and/or accidents can easily cost you very large amounts of money.
- Your Emergency Fund will only protect you to a point.

# AUTO INSURANCE



- Most think they understand this - are you making mistakes?
- You are required by law to have **liability** insurance on a vehicle.
  - Do you know what your coverage limits are? Is it enough?
  - Most people need 10x what is required in NYS:
    - \$250K bodily injury (each person)
    - \$500K bodily injury (each occurrence)
    - \$100K property damage (each occurrence)
    - With lower coverage amounts you are taking big risks, if you don't have the ability to pay high medical bills (yours and others) & property damage (others) caused by an accident with your car.



# AUTO INSURANCE



- You are not required by NYS law to have **collision**.
  - Should you have it?
  - YES - if you cannot afford to repair or replace your car from your emergency fund. (ex. \$10K car, \$3K damage, \$1K starter emergency fund)
- You are not required by NYS law to carry **comprehensive**.
  - Should you have it?
  - YES – If you cannot afford to repair or replace your car (with one of equal value) out of your emergency fund (or savings for your next vehicle when it gets stolen or lost/damaged in a non-collision accident (fire, flood, hail storm, vandalism, falling tree, etc)?)

# AUTO INSURANCE

- I do not carry collision or comprehensive coverage on my cars once they are worth only \$4,000 - \$5,000. That's because I can pay to fix or replace my cars from my emergency fund in the event of an accident. (I also budget/save to replace my cars and only buy with cash.)

If I have a more expensive car, I carry both collision and comprehensive coverage. That should be considered part of the cost of ownership of more expensive vehicles, and must fit in my budget.



I N S U R A N C E

# AUTO INSURANCE

- Remember, the value of all your vehicles should not exceed 50% of your annual income. If that's a high number & you have nice cars, or if you don't yet have a full emergency fund - insure them properly.
- Don't skimp on auto insurance. One accident, one stolen car, one fire, one flood, one lawsuit against you can devastate you financially.



I N S U R A N C E

# RENTER'S INSURANCE



- Many people renting their home incorrectly assume the property owner's insurance covers their belongings & furnishings in the event of a fire, a flood, theft, etc.
- The truth is YOU are responsible for insuring your belongings in a rented home, not your landlord.
- Get Renter's Insurance to cover the replacement value of your belongings & furnishings, unless it won't set you back financially to replace it all.
- You can also get liability coverage.
- It usually costs \$5 - \$20 per month.

# HOME-OWNER'S INSURANCE

- Covering your home (and it's contents) in the event of fire, theft, natural disaster is imperative (unless you can afford to replace your home out of your own pocket).
  - Dwelling coverage – At least value to replace house
  - Other structures coverage – value to replace structure
  - Personal Property coverage – Value of contents
  - Living expenses – 12 months (while house rebuilt)
  - Family Liability - \$300,000 each occurrence
  - Guest Protection - \$1,000 each person
  - Water Back-up – If water comes in
- Insurance like this on my \$200K home, garage and shed + contents costs ~~\$560/year~~ \$622/year



# LIFE INSURANCE

- Many get small policies to cover their own burial expenses (\$8 -10K)
  - That's OK, but your full Emergency Fund will cover expenses when you die.
- More importantly, the purpose of life insurance is to assure the financial well-being of those that depend on your income.
- Different types of policies: (Whole Life, Universal Life, Term Life)
  - Cash-value (life insurance + some savings/investment component)
    - These are a terrible investment. Don't invest through Life Insurance Co.
    - When you die, the Ins. Co. pays the death benefit / keeps cash value
  - Term Life (just life insurance)
    - This is what you want. It costs ~1/20<sup>th</sup> of Cash-value policies.
    - Get a level term life policy for 15 – 20 years.



# LIFE INSURANCE

- How much life insurance do you need?
  - Experts will say you need 10 -12 times your annual income.
  - But before you decide, you need to consider these questions:
    - What are you trying to accomplish? (Who are you protecting?)
      - If you died, who would be in trouble without your income? (ex. have a Mortgage that your spouse couldn't pay?)
      - Do you still have children at home; did you intend to help put them through college?
      - I don't recommend life insurance as a way to leave money for an inheritance.



# LIFE INSURANCE

- How much life insurance do you need?
  - What is your financial status? (Do you have debt that needs to be paid off?)
    - Once I have, say \$1 Million dollars invested, I have no debt & I own my house outright:
      - If I die at age 60, will my wife (same age as me) struggle financially because my income goes away?
      - Will my children (then ages 36, 34, 31, and 24) struggle financially? (Not if I have taught them God's ways.)
      - There is a point when life insurance isn't needed anymore.





# DISABILITY INSURANCE

- 1 in 5 people in USA experience a long term disability (longer than 2 weeks) in their lifetime.
- What would happen to you if you couldn't work due to an illness or accident for more than a couple weeks?
- Well, you should have 3 – 6 months expenses sitting in your Emergency Fund. But what if it lasts longer than that?
- Disability insurance can cover this situation at a very low cost
- Some employers provide it as a free benefit. Others offer it as a very inexpensive option.
- If you don't have it, look into it. A long term disability would be financially devastating for most people without this insurance.



# UMBRELLA INSURANCE

- Protects your assets should you be deemed liable for property damage or injuries above the limits of your auto and home-owner's policies.
- This matters as you get older, accumulate assets in real estate, retirement accounts, etc. You need to protect your hard-earned assets if they are worth more than the liability limits of your auto & home-owners policies.
  - Excess bodily injury / property damage - \$1,000,000 each occurrence  
\$2,000,000 annual limit
  - Excess liability – personal injury \$ 500,000 each occurrence  
\$1,000,000 annual limit
  - Dove-tails with auto & home policies (limits cover deductible).
  - For me, cost is \$280/year.



# LONG TERM CARE INSURANCE

- Before age 60 you are highly unlikely to need long term care in a nursing home, rehab facility or in-home care.
- Once you turn 60, however, the chances sky-rocket.
- The average cost of long term care in WNY is \$11,000/month.
- The average length of stay in a nursing home is 2.44 years.
  - 29 months x \$11,000/month = \$319,000 (average cost of care)
- This makes a huge dent in a surviving spouses ability to afford to live the rest of his/her life.
- Cost is usually \$2,500 - \$3,500 per year, covers up to 3.5 years

LONG-TERM CARE  
INSURANCE



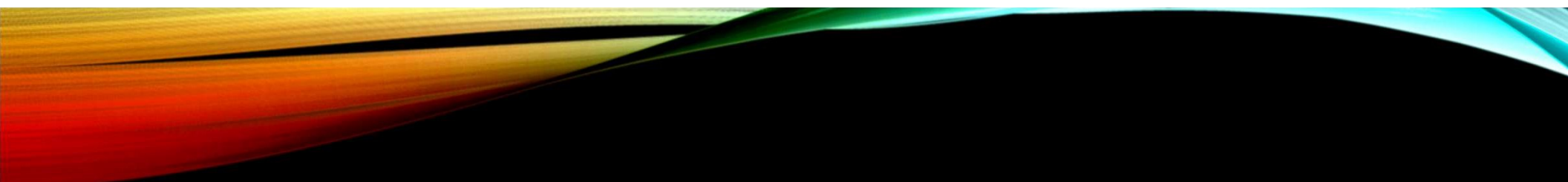
# NEXT WEEK

- We'll talk about accountability with your finances:
  - You are accountable to God
  - Are you a “nerd” or a “free spirit”?
  - Advice for singles
  - Help for married couples



**See You**  
*next week*

And Have A Blessed Day

- 
- If you have questions:
    - Please do not interrupt class time.
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    - Ask me personally after the AM service.
    - Send them to me via e-mail: [omaramike@juno.com](mailto:omaramike@juno.com)
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