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GET TO KNOW OUR TEAM

Drew Denny is one of the founding partners of Shepherd Financial.

In his free time, Drew enjoys boating on the lake and playing in golf tournaments.

Holly Willman is the Director of Creative and Strategic Operations at Shepherd Financial. She's been with our team since 2013.

One of Holly's favorite summer treats is a bowl of strawberries with honey and fresh basil.

INSURANCE 101: ARE YOU COVERED?

June 18, 2020

Shepherd FINANCIAL

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Let's start off with one of the types of insurance that most people are familiar with – homeowners or renters insurance. As you might guess, homeowners insurance is for people who own their home, and renters insurance is purchased by tenants. Both homeowners and renters insurance are trying to accomplish the same thing – to provide financial protection for policyholders against property damage, legal liability costs, and medical payments to others.

The core difference lies in the types of property damage covered. As you can see on the screen, there are five types of coverage here – dwelling, personal property, personal liability, additional living expenses, and medical payments.

They're all included in both homeowners and renters insurance except for dwelling – that's only for homeowners. The dwelling refers to the structure of a home, and the insurance covers physical damage to the home itself – the walls, roof, floors, doors, and other parts of the structure.

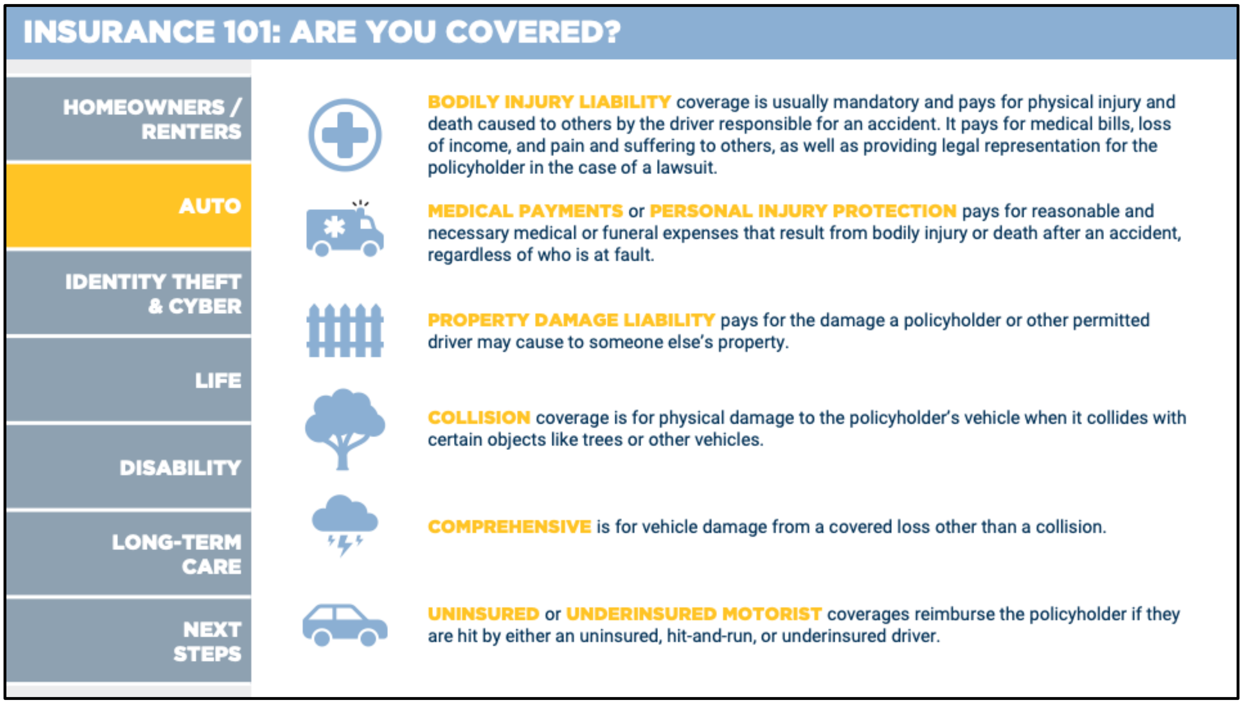
Most homeowners insurance policies cover a standard set of common perils – things like wind and hail are among the most common, while fire and lightning are among the most expensive. Your coverage here will depend on the specific policy. But there are some perils that are almost always excluded from dwelling coverage, like floods and earthquakes. Another one people don’t often think about is damage to underground, exterior utility or service lines.

You can, however, get specific insurance policies to cover these perils. When determining if you’d need these types of coverage, consider the cost of rebuilding or repairing if damage occurred, as well as replacing personal belongings if damaged or destroyed.

Personal property can be anything from your clothes to your furniture to your television. When you buy renters insurance, selecting your personal property coverage is the most important part of the process, as it is the main coverage feature and will be the biggest driver of the price of your policy. Many of those exclusions from dwelling coverage will have the same treatment under this feature.

Personal liability coverage protects you from the legal exposure of bodily injury or property damage caused to others. Additional living expenses, also known as loss of use coverage, protects you from the financial hit of living outside of your own residence. It’ll cover you for abnormal living expenses. Medical payments coverage is different from personal liability coverage, because legal liability doesn’t have to be established.

Condo insurance is slightly different than either homeowners or renters insurance, because the condo association usually covers some of the liability.



The important thing to know is that most states require drivers to have auto liability insurance before they can legally drive a car. A basic auto insurance policy is comprised of six different kinds of coverage, each of which is priced separately.

Bodily injury liability coverage is usually mandatory. It pays for physical injury and death caused to others by the driver responsible for an accident. Most states set minimum levels of bodily injury liability coverage that drivers must have, but you can buy more than that to protect your personal assets. This coverage pays for things like medical bills, loss of income, and pain and suffering, but only to parties to whom the insured is legally liable. It also provides legal representation for the policyholder in the case of a lawsuit.

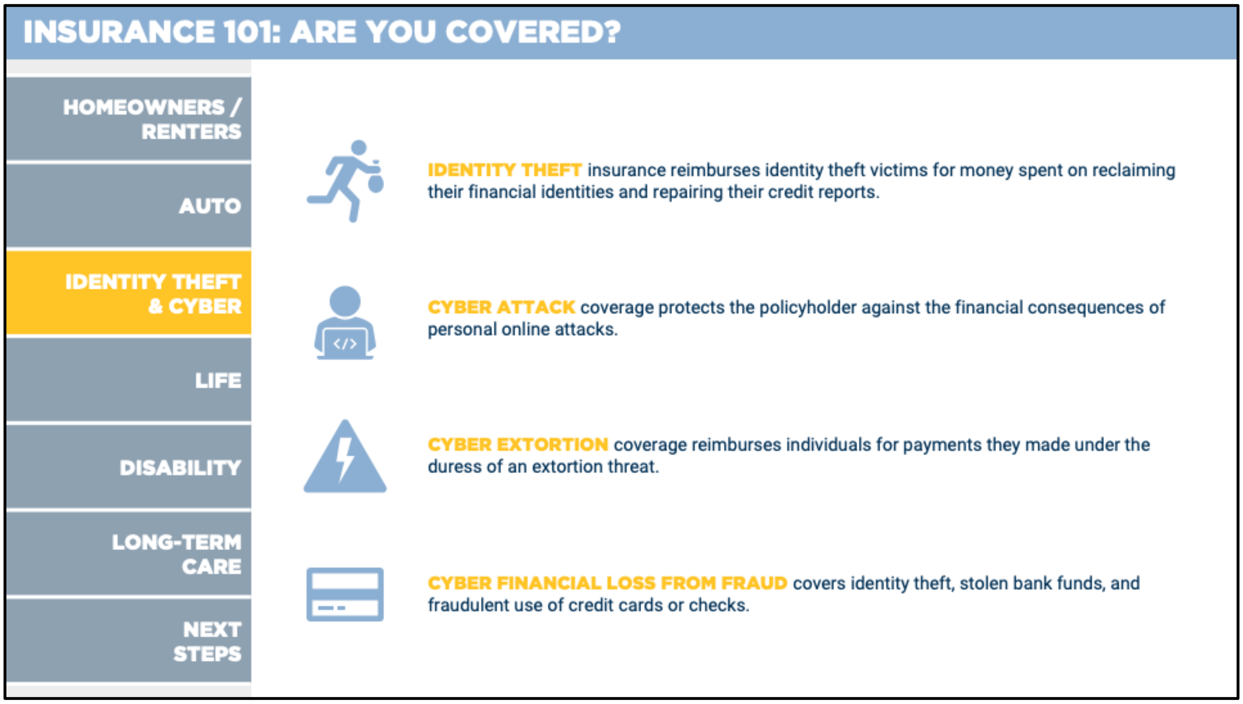
Medical payments coverage is also known as personal injury protection. It pays for reasonable and necessary medical or funeral expenses that result from bodily injury or death after an accident, regardless of who is at fault.

Property damage liability pays for the damage a policyholder – or someone driving the car with their permission – may cause to someone else’s property. This could be another car, but it also includes lamp posts, telephone poles, fences, etc.

Collision coverage is for physical damage to your car when it collides with certain objects, like a tree or another vehicle. Collision coverage is generally sold with a deductible of $250 to $1,000.
The deductible is the amount you have to pay out of pocket in the event of a loss. The higher the deductible, the lower the premium. Be sure to pick an amount you can afford.

Comprehensive coverage is for automobile damage from a covered loss other than a collision, such as fire, theft, severe weather, or contact with either animals or falling objects. Comprehensive coverage may also pay to fix your windshield if something cracks it. Together, collision and comprehensive are often referred to as physical damage coverages.

Uninsured motorist coverage will reimburse the policyholder, a member of the family, or a designated driver if one of them is hit by an uninsured or a hit-and-run driver. Underinsured motorist coverage comes into play when an at-fault driver has insufficient insurance to pay for the other driver's total loss. This coverage will also protect a policyholder who is hit while a pedestrian.



Now we're going to look at two coverages that sound similar but have different purposes – first, identity theft insurance, then cyber insurance. We live in a technology-driven world, so these are important coverages to understand.

Identity theft insurance reimburses identity theft victims for money spent on reclaiming their financial identities and repairing their credit reports. Those costs can range from phone bills to legal help. Policies often provide specialists who can help guide victims through the identity restoration process. Reclaiming your identity can be slow and costly, but a specialist acts as your advocate and can assist you with paperwork, help set up conference calls, give you talking points, and assist with other tasks to help address your situation more quickly.

Keep in mind, identity theft insurance does not cover direct financial losses you may incur as a result of identity theft. It only reimburses some of the expenses that happen after identity theft occurs. Depending on your policy, these might be legal fees, credit monitoring services, notary fees.

You should check to see if it's already included in your homeowners or renters insurance policy. If it's not, you may be able to add it to that policy. Or you can buy it as a stand-alone policy. Either way, identity theft insurance usually costs from $25 to

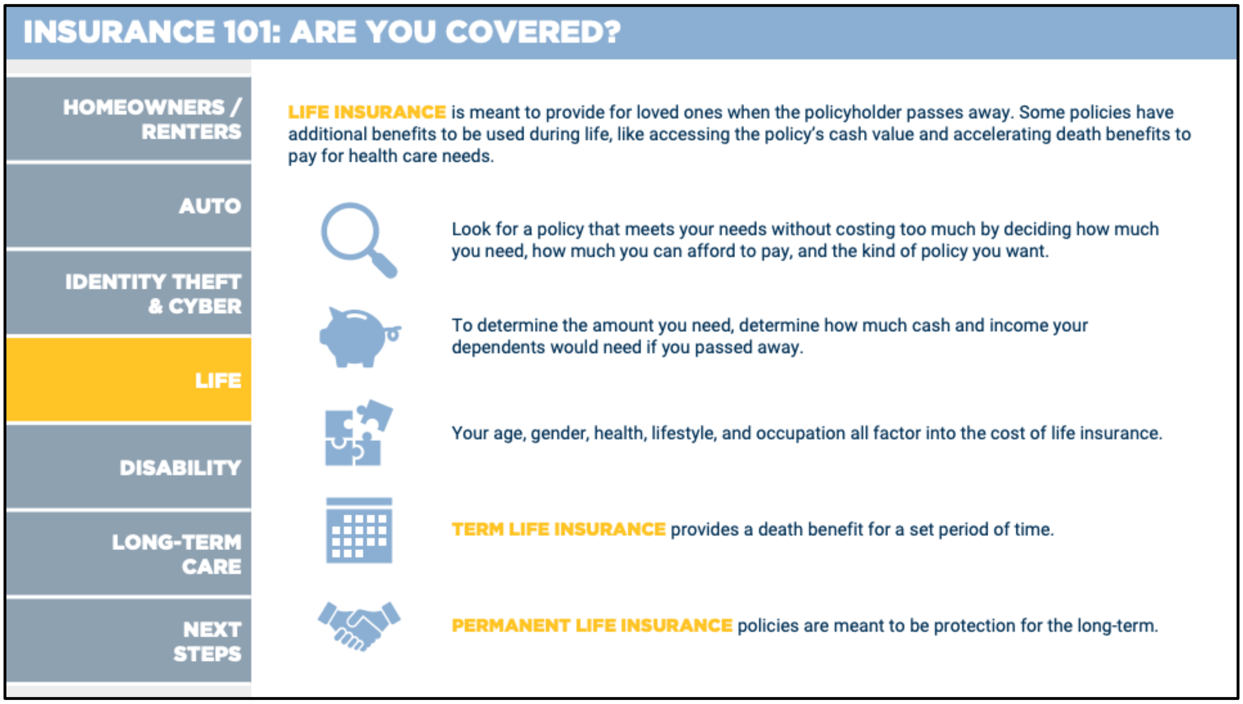
$50 a year. If you're thinking about getting identity theft coverage, find out what the policy limits are, if there's a deductible, and if it covers lost wages and legal fees.

Keep in mind, if you're a victim of identity theft, it could have other negative consequences – the thief may still have access to your personal information. Which leads us to cyber insurance. In general, a personal cyber insurance policy will provide financial reimbursement for the costs associated with the theft of digital information and assets up to your policy's limits. As we know, there are a variety of ways cyberattacks can result in a monetary loss, ranging from the theft of bank account funds to payments made after extortion through an anonymous online threat.

There are three categories of cyber insurance. Cyber attack coverage is sometimes called cyber personal and home protection coverage. It protects the policyholder against the financial consequences of personal online attacks and also protects against the integrity of your home systems.

Cyber extortion is when online criminals threaten the release of sensitive personal data or prevent individuals' access to their technology devices in return for a ransom. A personal cyber insurance policy with cyber extortion coverage reimburses individuals for payments they made under the duress of an extortion threat. Not only that, but it may also cover the costs of conducting an investigation to diagnose the cause of the event and help prevent such an occurrence in the future.

And the third category is cyber financial loss from fraud coverage. It refers to a pretty wide range of scenarios, which include identity theft, stolen bank funds, or fraudulent use of credit cards or checks.



Life insurance is an agreement between you and your insurance company. You make regular payments, called premiums, and the insurance company pays your beneficiaries a tax-free lump sum of money when you die. In other words, life insurance is to provide for your loved ones if something happens to you. Additionally, with some policies, you purchase other benefits to use during your lifetime, like accessing the policy's cash value, which can be used for a down payment on a home. You can also accelerate death benefits and use them for health care needs.

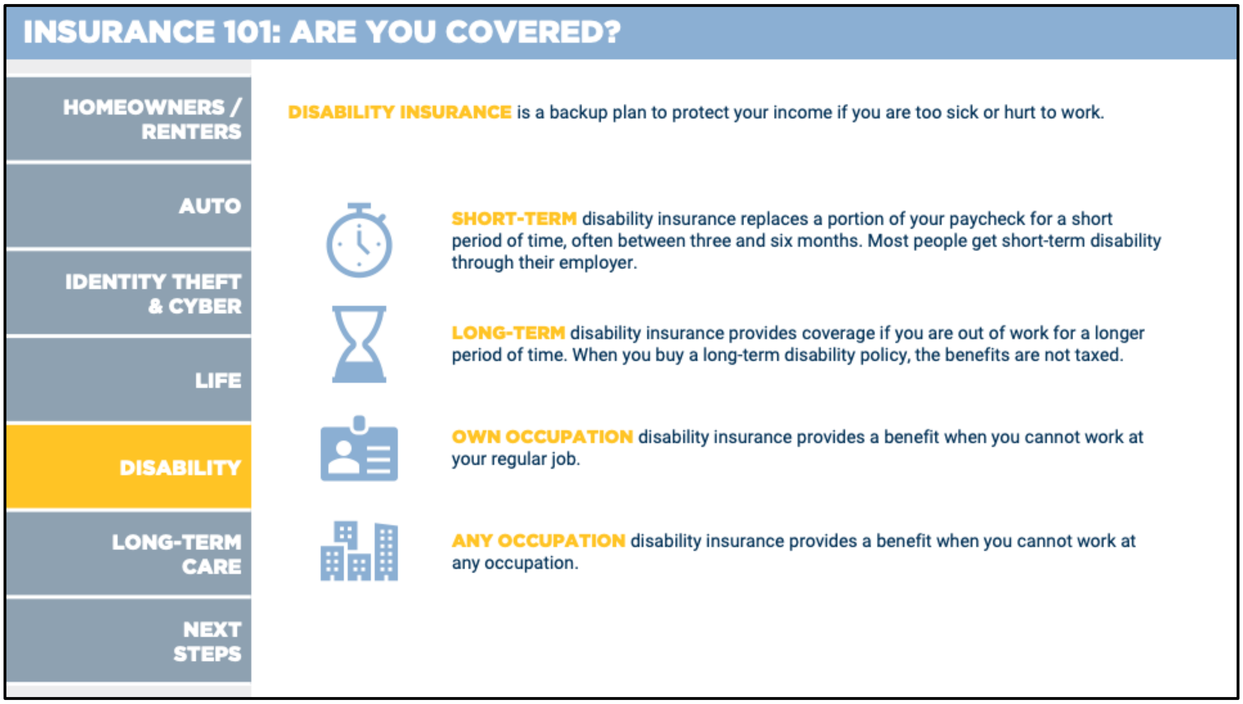
Here are some things to think about when you're buying life insurance:

Number one, you want a policy that fits your needs without costing too much. So you have to decide how much you need, how much you can afford to pay, and the kind of policy you want. To determine the amount you'll need, one way is to figure out how much cash and income your dependents would need if you were to die. You can think of life insurance as a source of cash needed for expenses for final illnesses, paying taxes, mortgages, and other debts. It can also provide income for your family's living expenses, educational costs, and other future expenses. Your age, gender, health, lifestyle, and occupation all factor into the cost of life insurance.

The two broad categories of life insurance are term and permanent. The one that's best for you depends on your needs and could even be a combination of products. But put simply, term life insurance provides a death benefit for a set period of time. The term is typically between one and 30 years. When the term is up, you can renew your policy or let it end. This is pretty straightforward insurance and what most people start out with.

Some of the benefits of term life insurance are that it provides tax-free money to your loved ones when you die. It tends to be less expensive than permanent insurance – you can generally buy a larger amount of insurance for a smaller premium. In addition, some policies allow conversion to a permanent policy in the future, should your health change.

As you might expect from the name, permanent life insurance policies are meant to be protection for the long-term. As long as you pay your premiums, you can't outlive this coverage. Permanent insurance offers different policies, so you can customize your coverage to meet your needs. Whole, universal, indexed universal, and variable universal all fall into this category. Most policies build cash value, which can be used in your lifetime to supplement your retirement savings, help pay for medical expenses, or fund your kid's college education. In addition to providing tax-free money when you die, permanent policies offer a way to potentially grow your money in a tax-deferred account. When done correctly, cash withdrawals from the policy generally aren't taxed either. There's no early withdrawal penalties, no required distributions, and payouts won't lower your Social Security benefit.



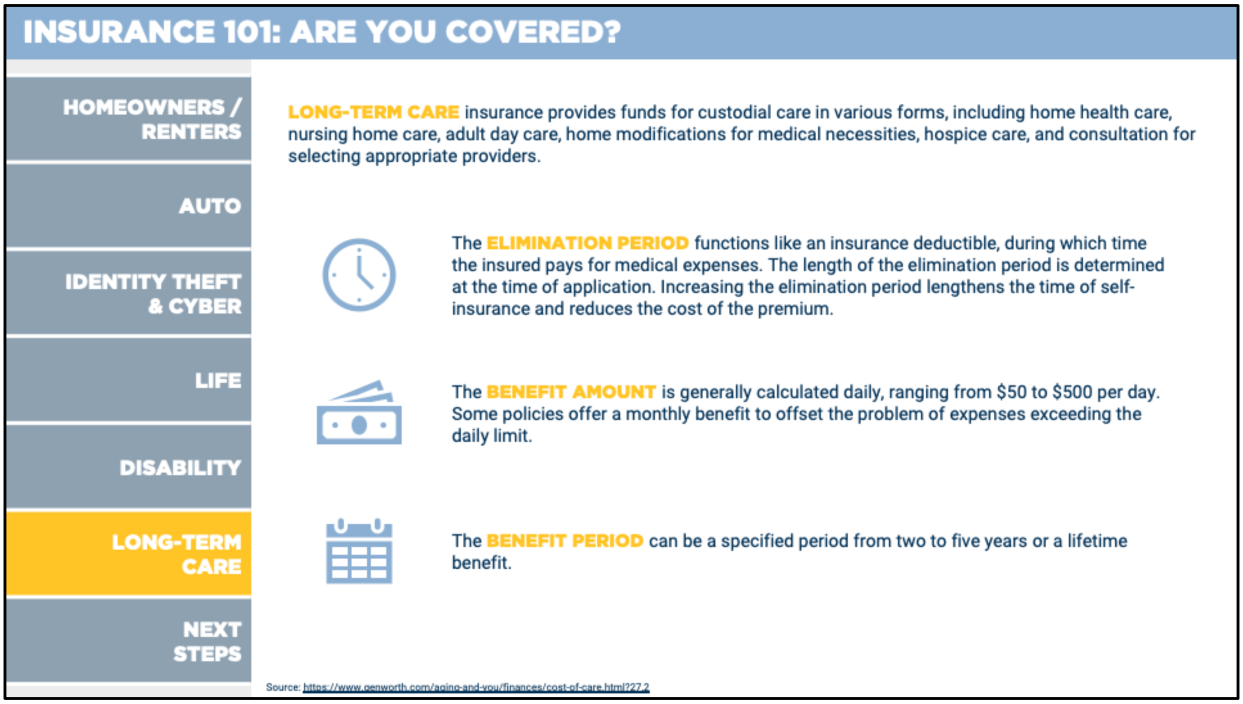
Your income pays for pretty much everything, from housing to utilities to food to childcare, and much more, right? If you're like most people, being without income because of an unexpected illness or injury could have serious financial consequences. But that's where disability insurance, also known as income protection, comes in. It's like a backup plan to help protect your income if you're too sick or hurt to work. You'll receive a set amount each month, just like a paycheck. If you're not sure if you need disability insurance, consider this: the Social Security Administration has found that around one in four 20-year-olds will become disabled before they retire.

Short-term disability insurance replaces a portion of your paycheck for a short period of time. Think three to six months. Most people get short-term disability through their employer. You can get an individual policy through some private insurers, but these plans generally cost more than they're worth.

Long-term disability insurance provides coverage if you're out of work for a longer period of time. Think years or even decades. Long-term disability premiums are based on age, gender, occupation, and the policy's various features, but you can generally expect to pay between 1% to 3% of your annual salary for a policy. Long-term disability is sometimes offered by employers, but the benefit is less common, and the coverage is often inadequate. That's why people tend to take out supplemental long-term disability policies. When you buy a long-term disability policy, because premiums are paid on an after-tax basis, the benefits aren't taxed. That means a policy that pays out 60% of your gross income would effectively replace most of your take-home paycheck.

These policies generally fall into two buckets: own occupation and any occupation. Own occupation disability insurance defines a disability as the inability to work at your regular job – or your own occupation. To qualify for any occupation disability insurance, you must be unable to work at any occupation. This is a harder policy to claim benefits from, but it's also usually less expensive than an own occupation policy.

Short- and long-term disability insurance policies work best in tandem. Long-term disability insurance doesn't kick in right away. There's an elimination period you'll wait out. It's usually anywhere from 30 to 365 days – which will hopefully be around the time your short-term disability insurance is expiring, because those policies are generally for three to six months. Long-term disability policies typically pay out for two, five, or ten years. And sometimes until retirement.



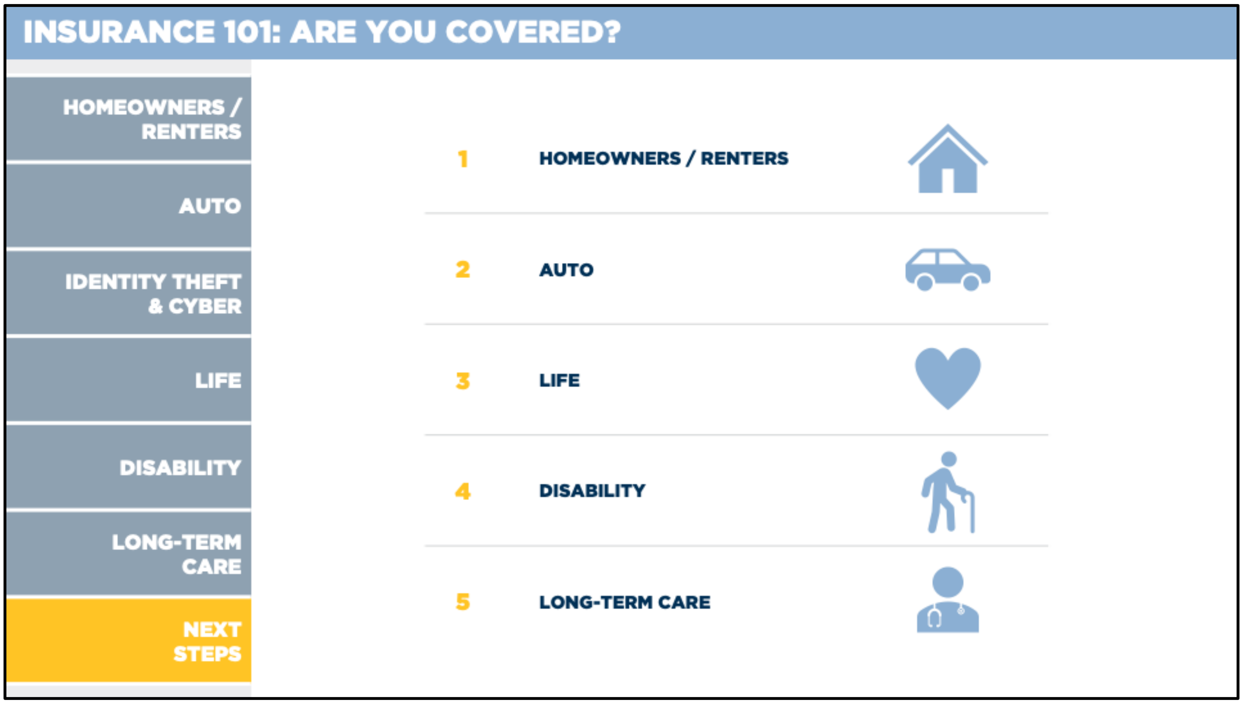
Long-term care refers to a host of services that aren't covered by regular health insurance. This includes assistance with routine daily activities, like bathing, dressing or getting in and out of bed. This may involve a nursing home or assisted living facility, but it could also be for in-home care or home modification. Long-term care isn't cheap. In Indiana, the median cost of care in a semi-private nursing home room is more than $80,000 a year.

People generally buy long-term care insurance for two reasons: to protect their savings and to get more choices for care. The more money you can spend, the better the quality of care you can get. If you have to rely on Medicaid, your choices will be limited to the nursing homes that accept payments from the government program. Medicaid does not pay for assisted living in many states.

A stand-alone policy is also known as traditional long-term care insurance. This kind of policy ensures that no matter where you need care, you'll have the money to cover at least a portion of the bill. A lengthy stay at a nursing home is less likely to drain your savings or wipe out your estate.

If you add long-term care as a rider on your permanent life insurance, this is sometimes called a hybrid or combination policy. Long-term care riders are generally only available through forms of permanent life insurance such as whole, universal, or variable policies. The rider allows you to receive a portion of the death benefit while you're still alive, and this death benefit can be used to pay for long-term care expenses. To access the death benefit, a doctor would need to diagnose you with a chronic illness first. And under most policies, you'll have to pay for long-term care services out-of-pocket for a certain amount of time, such as 30, 60, or 90 days, before the insurer starts reimbursing you for any care. One main advantage of adding a long-term care rider to life insurance is that the premiums are usually fixed. With a stand-alone plan, the provider may increase the premiums yearly.

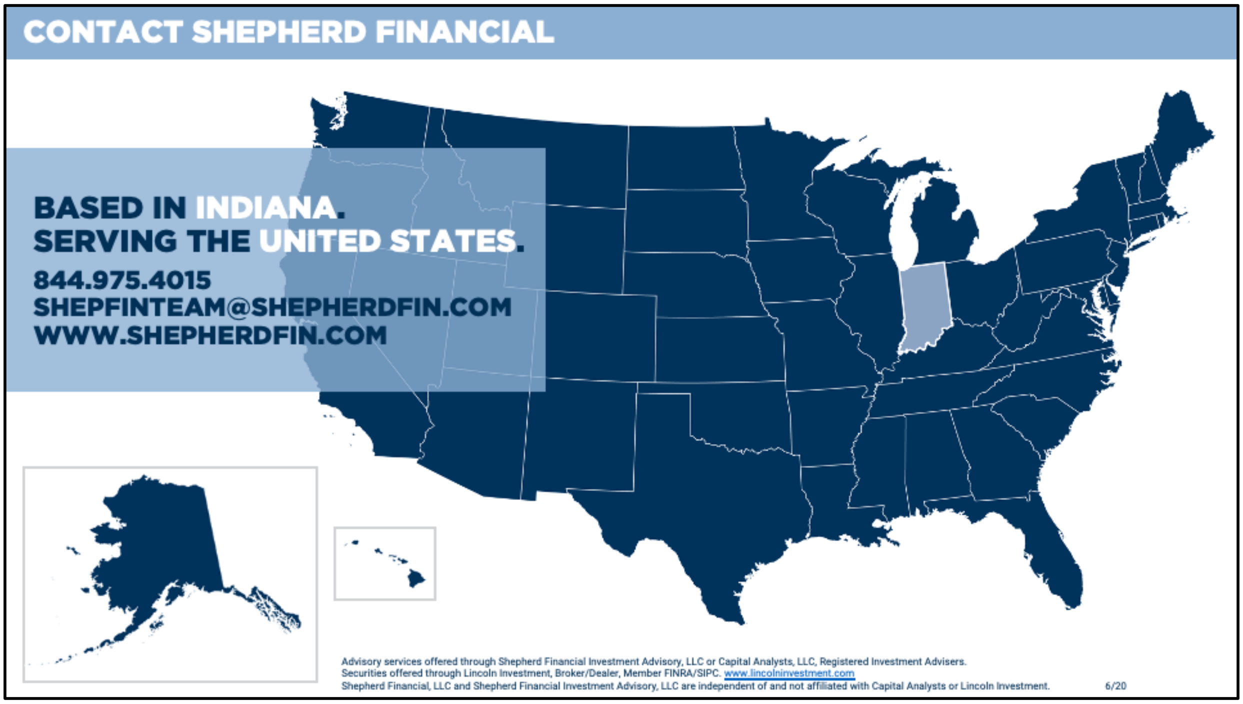
As you might expect, your age, family history, and health factor in the rates you might pay for long-term care insurance – the older you are and the more health problems you have, the more you'll pay when you buy a policy. Your gender and marital status are also factors. The insurance company you choose makes a difference, too. Prices for the same amount of coverage will vary among insurance companies. That's why it's important to compare quotes from different carriers. And, of course, consider the coverage. You'll pay more for richer coverage, such as higher limits on the daily and lifetime benefits, cost-of-living adjustments to protect against inflation, shorter elimination periods, and fewer restrictions on the types of care covered. To find the right policy, first determine the type of risk you're trying to cover. Consider your health, hereditary conditions and longevity in your family, availability of family caregivers, and personal preferences.



Let's say you are brand new to the world of insurance. How would you go about wrapping your head around all the content we've just discussed? Well, we've actually walked through it in the order we'd recommend – you want to get those basic coverages first, for your home and your vehicle. Then you want to consider how to protect and provide for your loved ones, so some kind of life insurance policy. And then adding on disability and long-term care.

You may have heard of umbrella insurance, but what is it and who might need it? Umbrella insurance is a form of liability insurance that will supplement your basic liability policies, such as your auto, home, or renters insurance. An umbrella liability policy covers a much higher limit and goes above and beyond claims directly relating to your home and auto. The main purpose of an umbrella policy is to protect your assets from an unforeseen event, such as a tragic accident in which you are held responsible for damages or bodily injuries. If another party files a lawsuit against you, your umbrella coverage will pay for the damages you're legally responsible for up to the policy limit. As a general rule, it's good to have a one-to-one ratio – so your policy should cover your net worth, up to $5 million.

If you need help determing the various types and amounts of insurance your family needs, connect with our team at Shepherd Financial, and we can incorporate insurance into the larger conversation of your financial plan. We'll make sure you get the support and direction you need. Insurance isn't a one-and-done conversation anyway – it should be part of your bigger financial picture. You want to make sure you're reviewing your policies and coverage regularly, especially as major life events occur – like getting married, adopting a kid, or buying a house. Conducting these regular reviews can help you identify cost savings and care for your overall financial health.



Don’t forget our next Open Phone Day is Tuesday, July 7th, and you can sign up for that by emailing shepfinteam@shepherdfin.com. If you’d like to chat with one of our team members at any other time, you can always call us at 844.975.4015 or 317.975.5033.

DEFINITIONS AND DISCLOSURES

Investments in Target Date Funds are subject to the risks of their underlying funds. The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the workforce. The fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. The principal value in a Target Date Fund is not guaranteed at any time, including on or after the target date, which is the approximate date when investors turn age 65. Should you choose to retire significantly earlier or later, you may want to consider a fund with an asset allocation more appropriate to your particular situation. The funds invest in a broad range of underlying mutual funds that include stocks, bonds, and short-term investments and are subject to the risks of different areas of the market. The funds maintain a substantial allocation to equities both prior to and after the target date, which can result in greater volatility. All investing is subject to risk, including the possible loss of the money you invest. Investments in bonds are subject to interest rate, credit, and inflation risk.

Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. There are some risks associated with investing in the stock markets: 1) Systematic risk - also known as market risk, this is the potential for the entire market to decline; 2) Unsystematic risk - the risk that any one stock may go down in value, dependent of the stock market as a whole. This also incorporates business risk and event risk; and 3) Opportunity risk and liquidity risk. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. Small and mid-cap stocks may be subject to a higher degree of risk than larger, more established companies' securities, including higher risk of failure and higher volatility. The illiquidity of the small and mid-cap markets may adversely affect the value of these investments so those shares, when redeemed, may be worth more or less than their original cost. In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities).

Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate. Treasury bills (T-bills) are short-term securities with maturities of one year or less issued at a discount from face value. Treasury bills are the primary instrument used by the Federal Reserve in its regulation of money supply through open market operations. Treasury notes (T-notes) are intermediate securities with maturities of 1 to 10 years. Denominations range from $1000 to $1 million or more. The notes are sold by cash subscriptions, in exchange for outstanding or maturing government issues, or at auction. Treasury bonds (T-bonds) are long-term debt instruments with maturities of ten years or longer issued in minimum denominations of $1,000. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features. Any fixed-income security sold or redeemed prior to maturity may be subject to loss.

Prior to rolling over assets from an employer-sponsored retirement plan into an IRA, it's important that you understand your options and do a full comparison on the differences in the guarantees and protections offered by each respective type of account as well as the differences in liquidity loans, types of investments, fees, and any potential penalties. A variable annuity is an insurance contract which offers three basic features not commonly found in mutual funds: (1) annuity payout options that can provide guaranteed income for life; (2) a death benefits; and (3) tax-deferred treatment of earnings. When applicable, the tax deferred accrual feature is already provided by the tax-qualified retirement plan (e.g. 403(b), IRA, etc.) The U.S. Securities and Exchange Commission (Investor Tips: Variable Annuities) has suggested that for most investors, it would be advantageous to make the maximum allowable contribution to a tax-qualified retirement plan before investing in a variable annuity. The separate account of a variable annuity is not a mutual fund. While separate accounts may have a name similar to a mutual fund, it is not the same pool of funds and will experience difference performance than the mutual fund of the same or similar name. In addition, the financial ratings of the issuing insurance company do not apply to any non-guaranteed separate accounts. The value of the separate accounts that are not guaranteed will fluctuate in response to market changes and other factors. Variable annuities are designed to be long-term investments and early withdrawals may be subject to tax penalties and charges. None of the information in this document should be considered as tax advice. You should consult your tax advisor for information concerning your individual situation.

Treasury inflation protected securities (TIPS) refer to a treasury security that is indexed to inflation in order to protect investors from the negative effects of inflation. TIPS are considered an extremely low-risk investment since they are backed by the U.S. government and because the par value rises with inflation, as measured by the Consumer Price Index (see below), while the interest rate remains fixed.

The consumer price index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households.

Past performance is no guarantee of future results. No person or system can predict the market. All investments are subject to risk, including the risk of principal loss.

Consult your financial professional before making any investment decision.