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You Need an Insurance Audit

Many people overpay for inadequate coverage. To find out if you're among them, don't ask Flo; ask a financial planner.

By Ari Fischman, CFP® from Fischman Insurance Group, | June 2016

There is a good chance that you are paying too much for your insurance. And as much as you are paying, you probably are still not adequately covered where it matters.

SEE ALSO: Are You Covered?

A **white paper from insurance company Ace Group** indicated that more than 66% of affluent consumers are not appropriately insured. Based on my 15 years of experience in the insurance business, I would absolutely agree with that number.

As an insurance adviser, my job is all about discovering the pitfalls in insurance policies and helping to put the consumer on track to receive the appropriate level of insurance coverage; that could mean greater coverage in some areas and a reduction in others.

For affluent consumers, as their wealth increases, so does the complexity of risk management. The blanket policies used by the majority of the public are not created in a way to properly identify and cover the risks associated with affluent and super-rich consumers.

Insurance audits are designed to ensure the consumer is receiving the highest value on their insurance protection.

Deductible Dilemma

When making a claim on your home, auto or umbrella insurance, a low deductible may seem like a great idea in the event you need to pay it, but the evidence is quite the contrary.

According to the same Ace Group white paper, the average homeowners make a claim on their home once every 21 years. By increasing a deductible on a homeowner's insurance from $500 to $2,500, for example, it's quite possible that, within three years, the savings on the insurance policy would be greater than the $2,000 difference in the deductible. When that 21-year timeframe comes and goes, the savings are projected to be more than $15,000.

Lyle Wolberg, senior life financial adviser and partner at Telemus Financial Life Management, explains that most affluent consumers avoid filing an insurance claim if the cost is only a few thousand dollars, making the low deductible essentially unnecessary.

Value Beats Savings

But it's not always about savings. When your dollars are not being allocated efficiently, coverage can lack severely in the areas you need it the most.

Imagine a physician who purchases disability insurance when she is still a resident. Years later, she has since opened a thriving private practice, but has simply renewed the same insurance policy, failing to change it in accordance with her rising income. If she is unable to work at some point, the doc would still collect disability insurance only at the level of coverage held in her residency, which is now far below her means.

From a wealth standpoint, the physician has literally grown out of his or her old policy.

People also often have inadequate coverage when it comes to life insurance. When people purchase term life insurance and it expires, they can continue to pay to retain the coverage. Many do without realizing that they are paying well above the market rate. Universal life insurance is another type of policy that should be reviewed every few years to ensure the consumer is not only receiving the best coverage but that the universal policy isn't set to lapse before their beneficiaries are able to collect on the policy.

Let's say you bought life insurance five years ago, and since then you changed your diet and have lost 40 pounds. These changes can be factored in, and your current life insurance policy can be reinvested into a better policy—think of it in terms of the way you would refinance your home for a better rate.

It's also possible that your objectives have changed over the years. Term life insurance is what most people opt-in for at the start of their careers, but as their savings accumulates, and their kids grow older, consumers often find that they're spending money on objectives that no longer apply to their lives.

Insurance audits discover these pitfalls and correct them before more hard-earned money is wasted.

Common Pitfalls

Here are a few examples of the most common pitfalls often found during an insurance audit:

- If you have an alarm system for your home or vehicle yet have not told your agent, you could be losing out on loss prevention credits. In some estimates, over a third of affluent consumers are not taking advantage of these credits.
- Affluent consumers with mass market policies are very likely to have insufficient coverage against catastrophic loss. Liability, home structure and valuables such as jewelry are often found to be underinsured.
- Those insured under multiple carriers are often missing out on credits when bundling. Having your insurance underwritten by one company can translate into savings.
- According to the Insurance Research Council, an average of 14% of drivers are not insured. There are some states where the number increases to 1 in 5 drivers lacking coverage. Is there a major gap in your auto insurance that should be filled?

After speaking with a client and learning their objectives and long-term business, retirement and succession goals, an insurance audit can be performed to discover where a consumer may be over- or underinsured. This holistic approach to insurance auditing often leads to more bang for the buck.

If it’s time for you to renew any policies, it’s worth using the services of a certified financial planner to perform an insurance audit. More often than not, an audit will lead to savings, better value for your insurance and, most importantly, the right coverage for your needs.

SEE ALSO: How Much You'll Pay for Health Care in Retirement

Ari Fischman is a certified financial planner who has provided insurance, estate planning, and financial solutions for affluent consumers. He has recently entered a strategic partnership with the wealth management firm Telemus Financial Life Management and focuses exclusively on insurance.

This article was written by and presents the views of our contributing expert, not the Kiplinger editorial staff.