

Creating a Personal Safety Net

The disappearance of some traditional safety nets from both the public and private sector has forced the American public to shoulder more of the burden for their financial well being. Today, many people realize that because the government and employers are less able to provide financial security, they must create their own personal safety net.

To do so, individuals need and want help identifying and addressing the risks within their control. However, financial products are getting more complicated, so people are looking for help in navigating through the maze of choices in order to make the best decisions for their circumstances.

And who better to explain those needs than a financial services representative? Research uncovers the worst part of the process is getting started. Many people have feelings of unease, worry or concern. But those same people report feeling better than expected during the process and positive feelings of security, relief and satisfaction immediately following meetings with financial services representative. And feelings get even more positive with the passage of time. Rather than feeling buyer's remorse, these individuals feel that meeting with a financial services representative was the right thing to do.

Isolating the need to collaborate with a financial services representative is an important first step. Close to follow should be the realization that good insurance coverage can improve an individual's quality of life. Most people associate insurance coverage with benefits for one's family more strongly than with benefits for themselves (especially true with women and established families) – taking care of one's family is the most important emotional end benefit.

Constructing a personal safety net requires thinking, in broad terms, about the life events that could trigger financial adversity and taking the requisite steps to prepare for those uncertainties. While it is impossible to predict all of life's uncertainties, it's possible to group them into a few common categories. They include:

- **Morbidity Risk** – In our low-savings, high-debt society, medical expenses for an acute injury or illness fall outside the reach of many Americans. Moreover, a chronic disability requiring long-term care could be financially devastating. There are many insurance solutions that can help defray the cost of medical and dental emergencies.

- **Mortality Risk** – Life insurance allows an individual to insure against premature death. It is viewed by many as the foundation of their family’s safety net. Without life insurance, the premature death of a primary breadwinner can be financially devastating. However, in 2004, one third of adults still carried no life insurance at all, similar to the 30 percent of adults without coverage in 1960, according to the Life Insurance Marketing Research Association. Regardless of your current financial situation, life insurance should be an integral part of your personal safety net.
- **Longevity Risk** – First the good news: people are living longer than ever thanks to modern advances in healthcare and medicine. But as pensions are replaced by personal savings plans such as 401(k)s and IRAs, and Social Security lingers on the brink of a boomer overload, outliving one’s savings is more possible than ever. Most insurers offer solutions to help individuals maintain an income stream after they retire. Deferred annuities, for example, can be a great tool for one’s portfolio, as they enable people to save money now, on a tax-deferred basis, for use down the road. Immediate annuities, on the other hand, allow an individual to immediately receive a guaranteed stream of income for as long as he or she lives. Individuals should work closely with their advisors and insurers to develop a customized income plan for retirement.

Both fisherman and tightrope walkers can testify to the importance of a strong net; a weak net could mean significant losses for both. Similarly a financial safety net is only as strong as the company that provides it. Individuals should make sure that they are working with a strong, stable insurer that can guarantee coverage when it counts.

Now, more than ever, insurers are in the position to help offset the erosion of traditional social support structures by leveraging vast asset pools and economies of scale. Most people should consult their insurer and financial services representative to develop a portfolio that will prepare them for both the possibilities and uncertainties they face throughout their lives.