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ON THE WEB

Life & Disability Insurance

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Wealth Matters

Never Mind Your 401(k). How's Your Insurance?

DARREN HAUCK FOR THE NEW YORK TIMES

Greg Oberland, the chief insurance officer at Northwestern Mutual in Milwaukee, said group life and disability insurance could be difficult to replace after a layoff.

By PAUL SULLIVAN

Insurance is the least sexy asset in most portfolios. If it were an appliance in a remodeled kitchen, it would be the garbage disposal — useful, hidden and nothing to show off like that stainless-steel range.

Yet in a recession that is dragging on, insurance is the one thing people of all wealth levels should keep current. The problem is, it is often the first thing they eliminate or reduce.

"At first, people were very fixated on their portfolio losses — it was so dramatic and so quick," said June Walbert, certified financial planner at USAA. "With job losses, people began looking at ways to cut back."

This has meant different things for people with different means. But any reduction in coverage at a time like this could have dire consequences. The primary use of insurance, after all, is to reduce risk.

What you have to consider, though, is how to manage risk exposure without becoming paranoid. "Insurance is always sold with a lot of promises," said Holly Isdale, managing director at Bessemer Trust. "It may sound like it will make your grass greener and your teeth whiter. But the long and short is that now, more than ever, it's important to look at the policy and see what you actually have."

Here is what people at three wealth levels should be considering:

WEALTHIEST The biggest insurance need for the wealthy is personal liability, often called an umbrella policy. Its primary focus is to protect against lawsuits.

"In a tough economy, it's more likely that someone will sue because everyone's looking for a buck," said Charles Williamson, president of the private client group at AIU Holdings, a division of A.I.G. "In a good economy, people may look the other way. In a bad one, that person may suddenly say, 'Here's the lottery — Ms. Mercedes-Benz just plowed into me and my neck hurts.' "

That may be a cynical way to look at your fellow man, but any insurer has horror stories about liability claims. Jim Fiske, marketing manager in the United States for Chubb Personal Insurance, said the largest claim his firm paid in the last decade was $16.5 million — for a car accident in which a number of pedestrians were hurt.

The reality is that settlements more than $10 million are rare, but those over $1 million are far more common. “Anyone who has anything to lose should carry at least $1 million,” he said. “Five million dollars should be the minimum for any executive of any corporation.”

The cost of coverage is relatively inexpensive for what you get. He estimated that the average person could buy $10 million of personal liability for $1,750 a year.

Mr. Williamson is more blunt about it. “People don’t buy it because generally the notion is that it won’t happen to me. And that is true,” he said. “But if it does, you can get to $2 to $10 million pretty quickly.”

UPPER MIDDLE CLASS The insurance issues for those whom many advisers call the working rich are far more complex and daunting. At the end of the day, a very rich person has the assets to self-insure in most cases. People who have high-paying jobs and live well do not.

Consider someone who is laid off from his job. He typically thinks first about the lost wages and health insurance. But Greg Oberland, the chief insurance officer for Northwestern Mutual, said a company’s group life and disability insurance often ends with the job, and those can be more difficult to replace, particularly for someone who is older or has health problems.

While many people carry additional life insurance, personal disability coverage is often overlooked. It is what will pay your wages if you get hurt and cannot work. “In the past, people said, ‘I’m covered at work,’ ” Mr. Oberland said. “In this environment, you need to have your own.”

He said the volume of applications was up this year, but what was more interesting was how people were looking for ways to afford these policies. Quality disability coverage is typically among the most expensive insurance a person buys. The reason is that it is fairly easy to calculate when someone will die, but not so easy to figure out who will get injured and make a claim.

Yet just as term life insurance was created for people who could not afford the much higher premiums for whole life, several firms now offer stripped-down versions of disability coverage. One way to lower premiums is to buy a policy with coverage that does not start for 6 to 12 months after a claim. This would protect someone from a catastrophic accident but not something minor. Another way is to limit the coverage to a period of years; traditional disability policies cover people until age 65.

Northwestern also offers what it calls “annual renewable disability insurance.” The cost for it starts out low and increases as a person gets older. A perfect candidate, Mr. Oberland said, is a medical student in residency. He needs to protect his future earnings but does not have the income to pay the premium on what that projected income will be.

Certain whole life policies can help out-of-work people in a different way: the policies can be tapped for loans.

In tough times, the temptation is to cancel a policy and take the cash value. A better option from a risk mitigation standpoint is to borrow against the policy. Depending on the type of policy, a person could borrow up to the whole amount of what he has paid in premiums.

The catch is that the money is lent with interest. New York Life’s borrowing rate is 5.44 percent, said Steve Berlin, senior vice president in the individual life insurance department. But the upside is you continue to have life insurance.

“Say you borrow $50,000 on a $100,000 cash value,” he said. “If you die, that is deducted from the face value of the policy,” he said. A $1 million policy would then pay out $950,000.

Another money-saving device is raising the deductible on a homeowner’s policy. This increases the out-of-pocket expense if something minor happens but saves on annual premiums.

“Increasing deductibles make sense if the payback is three to five years,” Mr. Fiske said. “If you went from $500 to $1,000 deductible, I would expect in three years you would receive that amount of savings in lower premiums.”

He added that Chubb offered a “disappearing deductible” for major claims, like water damage over $50,000.

MIDDLE CLASS As in other parts of American life, the less you have, the less you can afford. But you still have things to lose.

The one form of insurance that the middle class should strive to keep is some form of life insurance to provide for their family should they die.

“It’s important to note that wealthier Americans tend to protect what they have, but those with more modest means can’t afford to lose what they have,” Ms. Walbert said. “That’s why life insurance is so important. But now, it’s on the table for them.”

When every penny counts, the people who can least afford to increase their risk often do. But people at every wealth level need to remember that accidents happen.