ACE Private Risk Services®

Retire with Confidence: How to Structure a Personal Insurance Program

Thirteen Steps to Better Protect Wealth and Reduce Expenses

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THE SCHOLES GROUP

Insurance Intelligence
White Paper

Executive Summary

To help financial advisors and their clients plan a secure retirement, this white paper presents 13 steps to strengthen wealth protection and reduce expenses when working with an independent agent or broker on a personal insurance program.

Financially successful couples and individuals in or near retirement face some of the most complex decisions about insurance at any time in their lives. While health and long-term care insurance usually top their list of concerns, personal property and casualty insurance, including homeowner, automobile and liability coverage, also deserve a thorough review. They play a key role in two overriding issues during retirement: wealth protection and expense management.

From a wealth protection standpoint, the most serious threat to net worth involves exposure to liability lawsuits from a variety of causes—auto accidents, slips and falls at home, disgruntled domestic staff, a small side business, volunteer work at a favorite charity, and more. Awards and settlements from liability lawsuits can reach tens of millions of dollars, yet more than 40 percent of wealthy households carry less than $5 million in coverage, according to an ACE study.

Another major threat involves property loss at home. Most successful people in or near retirement have full equity in their main residence and other properties they may own. Although this equity typically represents a large portion—if not the largest portion—of their net worth, many do not carry enough insurance to fully rebuild their home after a total loss. The contents of the home can also be significantly underinsured. A study of high value homes by ACE found that nearly half had insufficient coverage for contents, and the average amount of underinsurance was $600,000.

Home contents may also include collections of fine art, jewelry, wine and other valuable items that have taken years to amass. An ACE study of wealthy households found that 94 percent collected valuable objects, and the average value of the collections was $1 million. Yet nearly 40 percent did not have all of their collections insured with a valuables policy.

From an expense management perspective, financially successful people in or near retirement often overlook easy savings opportunities in their personal insurance program. They carry policy deductibles that are too low. They fail to take advantage of package discounts by combining their policies with one carrier. They do not claim credits for alarm and other safety systems in their homes and autos, and they insure rarely driven classic cars with standard auto policies.

To help retirement planners and their clients address these issues, this white paper presents 13 steps to strengthen wealth protection and reduce expenses when working with an independent insurance advisor on a personal insurance program. In combination, these steps can maximize the value of insurance expenditures and help financially successful people prepare for and thrive in retirement.

Strengthening Wealth Protection

Most successful people retire when their assets are at a peak. They have full equity in their home (or homes) and have accumulated enough savings and investments to generate an income that will sustain a comfortable lifestyle. Protecting that asset base is critical to a successful retirement that could last 20, 30, or even 40 years.

Here are the first nine steps, out of the thirteen overall, that will help prevent a significant loss of net worth through personal insurance.

A Few Assets At Risk

- Savings
- Investments
- Valuable Collections
- Yachts
- Vacation Homes
- Primary Homes
- Future Income Stream

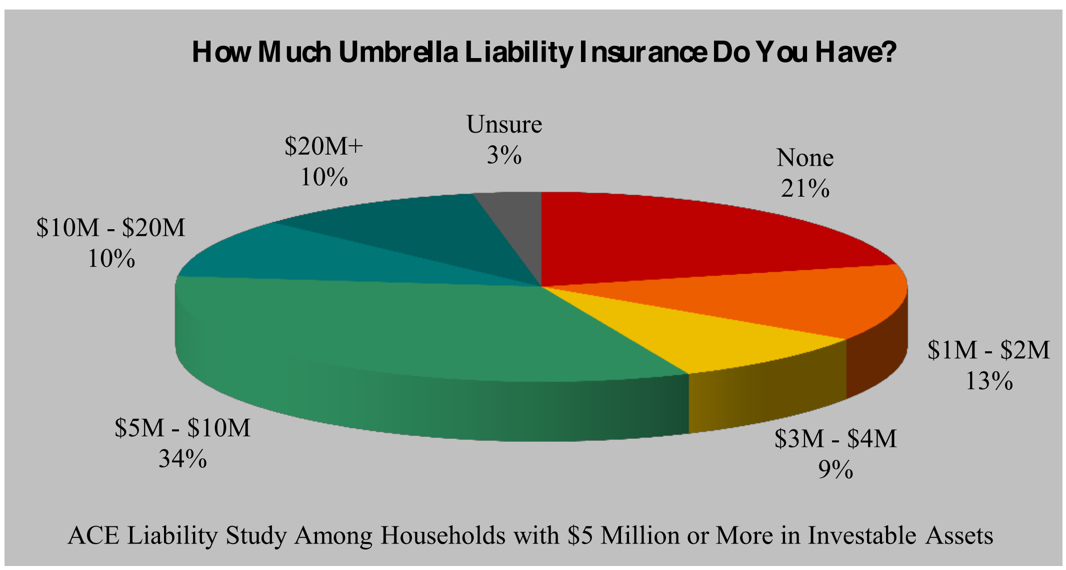
More than 40 percent of wealthy households have less than $5 million in umbrella liability coverage; 21 percent have none at all.

1. Purchase enough umbrella liability insurance to match assets at risk.

When your assets are at a peak, so too is your attractiveness as a target for a liability lawsuit. If you are held liable for an accident resulting in serious injury, the jury award or settlement could amount to tens of millions of dollars. One case in California resulted in a $49 million verdict after a college student was left in a coma for one month and expected to require lifetime 24-hour care due to a multi-vehicle crash.

If your insurance coverage falls short, the court can order the liquidation of assets. Certain trusts, IRAs, and other retirement accounts may be shielded from the court's reach, but regular savings and investments may not. Real estate holdings and personal property may come next. Courts have little sympathy in targeting vacation homes, rental properties, and lavish primary homes. Courts won't leave a defendant destitute, but they can drastically cut back on an affluent lifestyle.

Despite this risk, many wealthy households remain poorly protected. More than 40 percent have less than $5 million in umbrella liability coverage, including 21 percent who have none at all, according to research commissioned by ACE.[1]



Umbrella coverage provides a critical level of protection over and above the liability coverage in homeowner and auto insurance policies, which rarely exceeds $500,000.

For people near or in retirement, the prudent course of action is to purchase umbrella liability insurance to match their assets at risk. They should also understand the differences in coverage between carriers. For instance, those catering to high net worth individuals pay for the legal defense costs without counting it as part of the coverage limit.

They also provide coverage for having your own lawyer shadow the defense effort and a public relations firm defend your reputation, such as when the case attracts unfavorable press coverage.

Many are surprised at how affordable the coverage can be. The cost of $5 million in coverage may be just $600 annually. Going from $5 million to $10 million may cost an additional $300.

In California, 75 percent of homeowners affected by the 2007 wildfires in San Bernardino and Riverside counties were underinsured by an average of $240,000, according to a survey by United Policyholders, a consumer advocacy group.[2]

2. Seek full replacement cost coverage for the home structure.

The main home and any vacation homes often represent a significant, if not the largest, component of net worth for people in or near retirement. Therefore, having the proper coverage in the homeowners policy is critical to a wealth protection plan.

First, homeowners should secure full replacement cost coverage (also called guaranteed replacement cost coverage) for the home structure. Available in all but a few states, this coverage will usually pay to rebuild the home with similar quality materials and craftsmanship, even if the cost exceeds the coverage limit in the insurance policy.

Many people incorrectly assume they have this level of protection. Instead, most have basic replacement cost or extended replacement cost coverage. The former will pay to rebuild a damaged home up to the coverage limit in the policy. The latter will usually extend the amount it will pay up to 20-25 percent above the coverage limit. Both can be insufficient, because most homeowners and their carriers undervalue the replacement cost of the home structure. A 2012 report by MSB, a leading worldwide provider of building cost data and estimating technology for the property insurance industry, estimated that 61 percent of American homes are undervalued for the purpose of insurance.[3] In many cases, even the extended replacement cost coverage won't make up for the shortfall.

The problem can be even worse for families with properties valued at $1 million or more, because standard industry tools used to estimate the cost of rebuilding a home may not adequately reflect the cost of higher quality materials, superior craftsmanship, and unique architectural features in luxury, custom-built, or historic homes. Full or guaranteed replacement cost becomes doubly important for these homeowners.

The best insurance policies will not only provide full replacement cost coverage for the home structure, they will provide the same benefit for the other structures on the property, such as the driveway, fencing, walkways, swimming pools and detached garages.

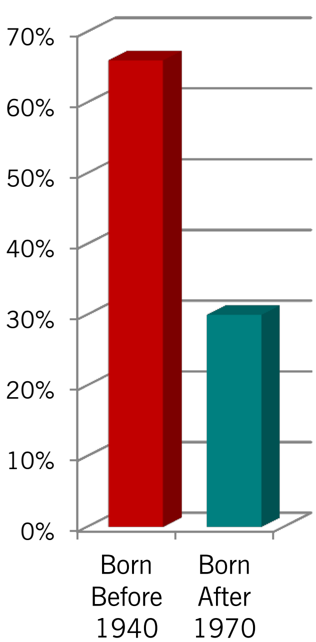
3. Ensure that the homeowner policy includes sufficient coverage for building code upgrades.

Constantly changing and increasingly restrictive building codes on a state and municipal basis can significantly add to the cost of rebuilding a home after a total or partial loss. Even homes built within the last 10 years may need substantial upgrades. Most homes are far older. According to the 2009 U.S. Census American Housing Survey, the median year built for an owner occupied single family detached house is 1975, and 38 percent of those houses were built before 1960. Retirees who have lived in their homes for decades are particularly at risk if their insurance does not provide adequate coverage for the cost of bringing a damaged home into compliance with the latest ordinances and laws.

Common, Costly Code Requirements

- Asbestos removal
- Lead paint abatement
- Insulation, air sealing
- Structural reinforcement
- Fire-resistant materials and safe access

Percent of Homeowners Underinsured for Contents by Date of Birth



Overall, the average amount of contents underinsurance was $600,000.

The basic coverage in standard insurance policies might provide up to 10 percent of the coverage limit for the home structure to account for the additional cost. So, if a home is insured for $1 million, up to $100,000 would be available to cover the cost of meeting the latest codes. But bringing an old home into compliance with codes can add up to 50 percent to the cost of rebuilding. For a $1 million home, that's $400,000 over the amount of coverage a standard policy would provide. For high value homeowners in or near retirement, the shortfall could seriously affect retirement plans.

As a solution, homeowners with standard insurance policies must remember to have their agent add a special endorsement for building code upgrades—a step often overlooked while trying to shop among policies for the lowest price. Moreover, a specific percentage above the standard 10 percent must be chosen, a decision the homeowner and agent may not be fully qualified to make.

By contrast, policies from carriers that specialize in serving high net worth families often include coverage for building code upgrades without pegging it to a specific percentage of the dwelling value in the policy. Coupled with the benefit of full replacement cost coverage, this approach provides superior protection against the burden of complying with the latest building codes.

4. Take an inventory of home contents and make sure the coverage limit for personal property matches its replacement cost.

Standard practices for setting the amount of coverage for the contents of the home—the furniture, clothes, kitchenware, window treatments, lighting, etc.—can leave many people in or near retirement underinsured.

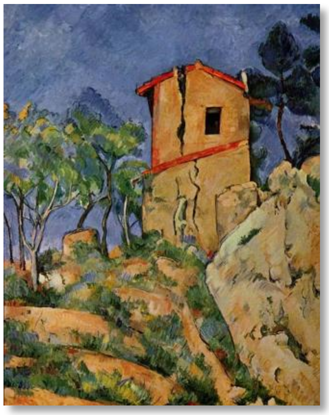
Why? Insurers typically set contents coverage as a percentage of the replacement cost of the home structure—usually between 50 and 70 percent. So, if a home would cost $1 million to rebuild, contents coverage would be set between $500,000 and $700,000. The agent and homeowner might adjust this amount up or down based on a rough guess.

But people usually increase the quantity and improve the quality of their personal property as they age. A couple near retirement will tend to have much more in their home than a young couple who recently purchased one and are 'house poor.' Consequently, the standard industry percentages for setting personal property coverage may be insufficient for the older couple, especially if they have downsized and packed their new, smaller home with all of their finest possessions.

An ACE analysis of 400 homes valued between $2 million and $7 million confirms this issue. The homes owned by people born before 1940 were more than twice as likely (66 percent) as those owned by people born after 1970 (30 percent) to be underinsured for contents. Overall, nearly half were underinsured for contents, and the average amount of underinsurance was $600,000.[4]

There is a better alternative to the default percentages used by insurance companies: people in or near retirement should conduct a home inventory and then estimate how much it would cost to purchase new replacements for everything they own. They can do the inventory themselves, or they can hire specialized companies to do it for them. In many cases, these specialized companies can also bring in appraisers to estimate the value of collections of jewelry, art, wine and other precious items. These items require special attention because their values can fluctuate greatly.

Additionally, ACE has developed a unique and complimentary service that provides the insurance agent and homeowner with a rough estimate of the contents value. To produce the estimate, an ACE risk consultant visits the home, takes a representative sample of the contents in the home, and feeds the information into a proprietary database of more than 200,000 items commonly found in high value homes. ACE can then produce a high and low estimate of the contents value for the agent and homeowner to consider.



94 percent of all wealthy households have valuable collections, and the average value is $1 million.

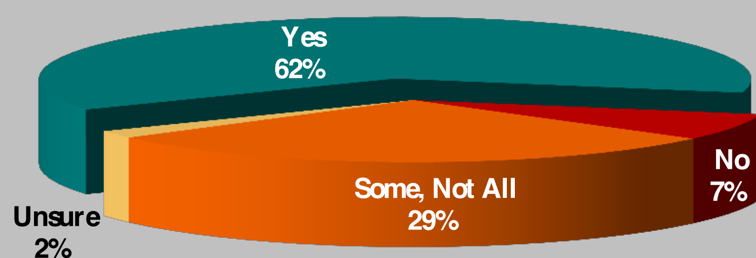
Nearly 40 percent of wealthy households do not have all of their collections protected by a valuables policy.

5. Use the added protection of a valuables policy for jewelry, art, wine, and other precious collections.

High net worth individuals nearing retirement likely have had ample time to accumulate sizeable collections of jewelry, art, wine, or other precious items. According to an ACE study, 94 percent of all wealthy households have valuable collections, and in 95 percent of those cases, the collections are worth at least $100,000. More than 20 percent exceed $5 million in value, and the average value is $1 million.[5]

Many of these collections are underinsured. Nearly 40 percent of wealthy households do not have all of their precious collections protected by a valuables policy. Instead, they rely solely on their homeowners policy. They may not realize that homeowners policies have specific restrictions on the amount of coverage for jewelry, silverware, furs, stamp and coin collections, and breakage of fragile items such as marble statues, musical instruments, and bottles of fine wine. In standard homeowners policies, the limits may equal only one or two thousand dollars. In special policies geared toward the affluent, the limits are higher, but they exist nonetheless.

Have you or your insurance agent insured all your collectible items with a valuables policy to supplement the coverage in your homeowners policy?



ACE Passionate Investing Study Among Households with $5 Million or More in Investable Assets

For this reason, collectors should supplement the coverage provided by the homeowners policy with a valuables policy, also known as scheduling. A valuables policy allows the collector to insure the collection for its full replacement value. Additional benefits include no deductible and coverage for perils commonly excluded in most homeowners policies, including but not limited to fragile item breakage and flooding.

Policies from companies catering to high net worth families have added benefits. They often offer a degree of protection against market volatility by paying up to 50 percent more than the scheduled amount to replace an item. In addition, they may provide the ability to cover groups of items, such as a jewelry or crystal collection, on a blanket basis in which an overall coverage amount is set for the group. This approach eliminates the tedium of trying to estimate the value of each individual item, and makes the overall policy easier to manage.

6. If the home is part of a property association, make sure the homeowners policy includes ample coverage for loss assessments.

For many people, a successful retirement means moving to a home that is part of a golf community or similar recreationally based property association. These retirees should have their insurance agent review the bylaws and insurance program of the association. Property associations usually have the power to assess members for losses if the association's insurance proves insufficient. So, if the clubhouse burns down and the insurance cannot pay the entire cost of rebuilding it, the association can force the members to make up the rest. These assessments can amount to tens of thousands of dollars per member.

Such costly assessments far exceed the $1,000 coverage limit typically found in standard insurance policies. By contrast, homeowner policies geared to high net worth individuals, such as the ACE Platinum Portfolio Home policy, include up to $100,000 for property association assessments due to a covered loss.

In an ACE survey, 62 percent of respondents reported serving or having served as a volunteer board member or trustee of a not-for-profit organization. Among this group, 35 percent did not have their own director's & officer's insurance to protect them, and another 10 percent were unsure if they did.

7. Address the need for director's & officer's liability if volunteering as a board member or trustee of a charitable organization.

Dynamic individuals transitioning to retirement may step up their activities in charitable organizations and volunteer as a board member or trustee as a way to give back to the community. In a survey among high net worth households commissioned by ACE, 62 percent of respondents reported serving or having served as a volunteer board member or trustee of a not-for-profit organization.[6] Unfortunately, this commendable behavior brings added risks.

Volunteer board members and trustees can be sued personally for the actions or inactions of the charitable organization. The most common suits involve wrongful employment practices, such as discrimination, wrongful termination and sexual harassment. These types of suits are not covered by a basic umbrella liability policy. Although the organization usually carries insurance to protect itself, coverage limits may be inadequate to cover some of the worst cases.

Not-for-profit director's and officer's (D&O) coverage will guard against this threat. But many volunteers lack this protection. Among the ACE survey respondents who reported serving or having served as a volunteer board member or trustee, 35 percent did not have D&O insurance, and another 10 percent were unsure if they did.

A lack of awareness explains most of the gap, since price is certainly no barrier. For instance, ACE Private Risk Services offers $1 million in coverage as an optional feature of its personal umbrella liability policy for about $500, with limits up to $5 million available.

8. Attend to liability risks originating from hobbies turned into small businesses.

In addition to volunteer activities, winding down a career may involve devoting more energy to a long-time hobby, such as managing a small vineyard, stable, or gentleman's farm. Although the income produced might be trivial, running a small business creates liability risks, especially if it involves employees.

Standard homeowner policies exclude losses connected with businesses conducted on the insured property. By contrast, homeowners policies geared to high net worth individuals usually provide coverage as long as the business produces only incidental income, defined as being in the tens of thousands of dollars. For farming operations, these policies may also allow part-time employees. Businesses that generate higher levels of income and employ full-time staff will probably require a small business policy, including worker's compensation.

9. Name trusts and limited liability companies (LLCs) on insurance policies.

Wealthy families near retirement often place homes, valuable collections, and financial assets in family trusts to shield assets and maximize the transfer of wealth to future generations. They may also use trusts to set up charitable foundations in the most tax-efficient manner. Finally, to limit liability exposure, they may form an LLC to manage a jointly owned asset, such as a plot of land shared by extended family members or a yacht shared by a group of friends.

While forming these entities, the families and their advisors need to make sure the trusts and LLCs are named on the appropriate insurance policies. Otherwise, they leave themselves or the trust unprotected against liability lawsuits.

For instance, consider someone who transfers ownership of his or her home to a trust but forgets to have the trust named on the insurance policy. Then, a visitor to the home suffers a serious injury. The visitor may sue both the individual and the trust. The insurance policy would provide for the defense of the individual but not the trust, leaving the home vulnerable to defense costs as well as any settlements or judgments associated with the case.

A similar scenario holds for an LLC. Consider a group of friends who decide to jointly own a luxury yacht through an LLC. When they establish the LLC, they neglect to secure sufficient liability insurance for the LLC and forget to have the LLC named on their personal insurance policies. Then, a crew member or passenger suffers a severe injury on the yacht. First, he successfully sues the LLC, but the insurance through the LLC is insufficient. So, he expands the suit to the friends. Since the LLC wasn't named on the friends' insurance policies, the carriers deny coverage. To satisfy the judgment, the friends might have to sell the yacht.

Increasing the deductible on a million-dollar home from $500 to $2,500 could save $900 per year.

Expense Management

Many people fall prey to inertia and fail to adjust their insurance programs from year to year. By the time they near retirement, they could not only be dangerously underinsured, they might be overlooking easy savings opportunities. Here are the four remaining steps, out of the thirteen overall, that can save 10, 20, 30 percent or more in insurance premiums.

10. Increase homeowner and auto deductibles.

Increasing the deductible amounts on homeowner and auto policies can save hundreds if not thousands of dollars a year in insurance premiums. Many wealthy families carry deductible amounts of $250, $500, or $1,000 as a holdover from when they were much younger and less able to absorb a loss in those amounts. Instead, they should ask their agent to estimate the premium savings associated with a range of higher deductibles. This step will allow them to evaluate the trade-off between risk and savings.

In the vast majority of cases, the savings will far outweigh the added risk of paying the higher deductible amount. Consider a couple living in a home insured for $1 million with a deductible of $500. If they increase the deductible to $2,500, they could typically save $900 in annual premium. The table below illustrates how, in only a few years, these savings can accumulate and outstrip the added risk of paying the higher deductible due to a loss. Since the typical home that ACE insures experiences a claim only once every 21 years, the homeowner stands an excellent chance of saving almost $17,000. The same logic applies to auto insurance deductibles.

Example of Potential Savings with a High Deductible
$2,500 Versus $500 Deductible on Home Insured for $1 Million

Year #	1	3	5	10	21
Cumulative Premium Savings	$900	$2,700	$4,500	$9,000	$18,900
Additional Deductible Paid If Loss Occurs	$2,000	$2,000	$2,000	$2,000	$2,000
Net Cost/Savings	**-$1,100**	**$700**	**$2,500**	**$7,000**	**$16,900**

A few companies such as ACE also offer disappearing deductibles in which the deductible amount drops by a dollar or percentage amount for each year the client goes without a claim. In ACE's case, the effective deductible on a first loss after 10 claim-free years could be zero.

11. Bundle different policies with the same carrier.

Lured by auto insurance ads promising savings, even well-to-do retirees wind up placing their auto insurance with one company and their homeowners insurance with another. But using multiple carriers forgoes the opportunity to earn package discounts that can be 10 percent or higher. When these discounts apply across multiple policies—homeowners, auto, watercraft, valuable collections, and umbrella liability—the savings can often outweigh the savings achieved by choosing the cheapest carrier for each type of policy. In the best cases, the policies can be written as part of one package with common term dates and one consolidated bill, saving the retiree time as well as money.

The combined credits can exceed 30 percent of the homeowners base premium and 5 to 20 percent of the comprehensive auto premium.

12. Get credits for loss prevention systems and upgraded plumbing, electrical, and heating systems.

Most insurers offer premium credits for safety and security systems installed in homes and automobiles, but many people fail to take advantage of them. Either they don't tell their agent about the presence of the systems, or the agent fails to ask them about the systems.

Systems that often Earn Loss Prevention Credits	
Home Systems	**Automobile Systems**
Burglar alarms	Theft alarms
Fire alarms and sprinkler systems	Fuel cut-off switches
Electrical backup, lightning protection	Hood locks
Temperature monitoring	Steering locks
Water leak detection with auto valve cut-off	Ignition cut-off switches
Gas leak detection	Location transponders

The combined credits for such systems can exceed 30 percent of the base homeowners policy. Depending on the sophistication of the devices, discounts can range from 5 to 20 percent on comprehensive auto coverage premium.

Also, after living in a home for many years, people in or near retirement have likely upgraded their plumbing, electrical or heating system. Each rehabilitated system can earn premium credits up to 5 percent, depending on how recently the work was completed.

Finally, installing loss prevention devices and upgrading plumbing, electrical, and heating systems make choosing higher deductibles easier because they minimize the risk of loss. The two savings strategies complement each other, and can cut premiums in half.

13. Insure classic cars with a classic car policy, not a standard auto policy.

Many people in or near retirement started driving in the 1950's and 1960's, two decades full of memorable cars—from the Mercedes 300 SL Gullwing Coupe, the 356 'Bathtub' Porsche and the Jaguar XK-E to the Corvette, Mustang and classic muscle cars. A significant number of retirees may have rediscovered (or held onto) this part of their youth by having one in their garage, perhaps taking it out for weekend spins to a local car show.

While they may know every detail about their beloved car, they might not realize that they can insure it with a classic car policy, which typically costs much less than a standard auto policy. Classic car policies cost less because the insurance companies know the cars are driven only rarely and usually very carefully.

Case Studies

To illustrate the benefits of rebalancing an insurance program to strengthen wealth protection and better manage expenses, the following case studies present a before-and-after comparison* for two typical couples with substantial assets.

1. Affluent Couple Nearing Retirement

Annmarie and James are a well-to-do couple in their mid-fifties with one child in graduate school. They live in an elegant home in Portola Valley, CA, near the heart of Silicon Valley and also have a ski home in Jackson Hole, WY. They own a BMW 750, Lexus GS SUV, Jeep Grand Cherokee, and 1956 Porsche 356 Cabriolet. They employ a caretaker 15 hours per week for the Jackson Hole property.

Paying $19,880 annually for their insurance program, Annmarie and James don't realize they are underinsuring their homes and personal property by $1.2 million and are leaving their assets exposed to the threat of costly liability lawsuits. They could better secure their long-term financial well-being while saving more than $2,700 or 14 percent of their premium by rebalancing their programs as follows:

Savings Opportunities

- Raise deductibles on homeowners policies from $1,000 to $5,000.
- Raise deductibles on auto policies from $500 to $2,500.
- Earn a 10 percent package credit by placing their homeowners, valuables, auto, and umbrella policies with the same carrier.
- Get proper premium credits for loss prevention measures, including water leak detection, gas leak detection, temperature monitoring, and living in a gated community.
- Move the 1956 Porsche 356, which is rarely driven, from standard to classic car coverage.

Coverage Improvements

- Increase contents coverage at the Portola Valley home by $500,000 and at the Jackson Hole home by $250,000 to reflect the true replacement cost value of their personal property.
- Raise the insured value of the Jackson Hole home from $1.7 million to $2.2 million to reflect its true replacement cost and secure full replacement cost coverage.
- Increase jewelry covered under the valuables policy from $100,000 to $150,000 to address price appreciation of precious metals and gemstones. Also, increase fine arts coverage from $100,000 to $200,000 and add a $5,000 blanket coverage for china.
- Increase umbrella liability protection from $5 million to $10 million; add employment practices liability coverage because of the caretaker.

*For the purpose of before-and-after comparisons in the case studies, all premium estimates are based on coverage rates for the ACE Platinum Portfolio program in 2012. Rates are subject to change and may vary by location and other factors.

The table below shows a before-and-after comparison of policy characteristics that address the imbalances.

James and Annmarie could better secure their retirement while saving more than $2,700 or 14 percent of their premium by rebalancing their program.

Affluent Couple Nearing Retirement – Insurance Program Comparison		
Home in Portola Valley, CA	**Before**	**After**
Home structure limit	$2.5 million	Same
Other structures limit	30% ($750,000)	Same
Personal property limit	50% ($1,250,000)	70% ($1,750,000)
Deductible	$1,000	$5,000
Water leak detection credit	No	Yes
Gated community credit	No	Yes
Gas leak detection credit	No	Yes
Package credit	No	Yes
Ski Home in Jackson Hole, WY		
Home structure limit	$1.7 million	$2.2 million
Other structures limit	10% ($170,000)	10% ($220,000)
Personal property limit	50% ($850,000)	50% ($1.1 million)
Deductible	$1,000	$5,000
Water leak detection credit	No	Yes
Gated community credit	No	Yes
Temperature monitoring credit	No	Yes
Package credit	No	Yes
Total homeowners premium	$9,484	$7,085
Valuables		
Jewelry	$100,000	$150,000
Silverware	$5,000	Same
China	$0	$5,000
Fine art	$100,000	$200,000
Package credit	No	Yes
Total valuables premium	$1,387	$2,141
Auto*		
2011 BMW 750 deductible	$500	$2,500
2009 Lexus GS 460 deductible	$500	$2,500
2005 Jeep Grand Cherokee deductible	$500	$2,500
1956 Porsche 356 C deductible	$500	$2,500
Package credit	No	Yes
Total auto premium	$8,162	$5,749
Umbrella (Excess) Liability		
Umbrella liability limit	$5.0 million	$10.0 million
Uninsured/Under-insured liability limit	$1.0 million	Same
Employment practices liability (1 staff)	No	Yes
Package credit	No	Yes
Total excess liability premium	$847	$2,190
Total Premium	**$19,880**	**$17,165**

. *For the sake of brevity, only those aspects of coverage that changed are listed.

2. Affluent Couple Just Retired

Carla and Steve are a couple in their mid-sixties who recently retired. Fans of city living, they sold their spacious home in the suburbs of Washington, D.C., and bought a luxurious condominium in the heart of Georgetown. They also own a home near the water in Savannah, GA. Avid art collectors, they own a large collection of paintings and sculptures in addition to several exceptional pieces of jewelry. They drive an Audi A8 and a Porsche Cayenne. Carla volunteers on the board of a charitable organization, and they employ one full-time housekeeper.

Overall, Carla and Steve pay $18,292 in annual premium for their homeowner, auto, valuables, and umbrella liability coverage, but they are underinsuring their homes and personal property by more than $2.3 million and are leaving a significant portion of their wealth exposed to liability lawsuits with only $3 million in umbrella liability insurance. By making the following adjustments, they can greatly improve wealth protection for only a modest increase of 4 percent in their insurance premium.

Savings Opportunities

- Raise deductibles in their homeowners policy from $1,000 to $5,000 and in their auto policy from $500 to $2,500.
- Earn a 10 percent package credit by placing their homeowners, valuables, auto, and umbrella policies with the same carrier.
- Take advantage of loss prevention credits for living in a gated community and, in the Savannah home, having water leak detection and lightning protection systems, as well as a rehabilitated electrical system.

Coverage Improvements

- Increase coverage for additions and alterations made to the condo from $500,000 to $800,000.
- Properly insure the Savannah home by increasing the coverage for the structure from $2 million to $3 million.
- Increase contents coverage at the Georgetown home by $390,000 to reflect the true replacement cost value of their personal property.
- Increase fine arts coverage under a valuables policy from $1,000,000 to $1,500,000 and increase jewelry coverage from $100,000 to $200,000, with half stored in a bank vault for a reduced rate.
- Add $20,000 in coverage for a wine collection on a valuables policy.
- Increase umbrella liability protection from $3 million to $10 million.
- Add not-for-profit director’s & officer’s liability coverage, considering Carla’s volunteer board position.
- Add employment practices liability coverage due to the full-time housekeeper.

Carla and Steve can address a $2.3 million gap between their insurance coverage and the replacement value of their homes and personal property, as well as vastly improve protection against liability lawsuits, for only a 4 percent increase in their annual premium.

The table below shows a before-and-after comparison of policy characteristics that address the imbalances.

Affluent Couple Just Retired – Insurance Program Comparison		
Condo in Georgetown, WDC	**Before**	**After**
Condo additions & alterations limit	$500,000	$800,000
Personal property limit	50% ($250,000)	80% ($640,000)
Deductible	$1,000	$5,000
Gated community credit	No	Yes
Package credit	No	Yes
Home in Savannah, GA		
Home structure limit	$2.0 million	$3.0 million
Other structures limit	20% ($700,000)	Same
Personal property limit	60% ($1.2 million)	40% ($1.2 million)
Deductible	$1,000	$5,000
Water leak detection credit	No	Yes
Gated community credit	No	Yes
Lightning protection system credit	No	Yes
Rehabilitated electrical system credit	No	Yes
Package credit	No	Yes
Total homeowners premium	$10,935	$9,415
Valuables		
Jewelry (at home / in bank vault)	$100,000 / $0	$100,000 / $100,000
Wine collection	$0	$20,000
China	$5,000	Same
Fine art	$1.0 million	$1.5 million
Package credit	No	Yes
Total valuables premium	$3,382	$4,408
Auto*		
2010 Audi A8 deductible	$500	$2,500
2009 Porsche Cayenne deductible	$500	$2,500
Package credit	No	Yes
Total auto premium	$3,473	$2,524
Umbrella (Excess) Liability		
Umbrella liability limit	$3.0 million	$10.0 million
Uninsured/Under-insured liability limit	$1.0 million	Same
Not-for-profit D&O liability limit	No	$1.0 million
Employment practices liability (1 staff)	No	Yes
Package credit	No	Yes
Total excess liability premium	$502	$2,595
Total Premium	**$18,292**	**$18,942**

*For the sake of brevity, only those aspects of coverage that changed are listed.

Conclusion

The tendency to keep personal insurance policies largely untouched year after year leaves many financially successful people in or near retirement exposed to the threat of lifestyle changing losses and unnecessarily high annual expenses. By working with an independent agent, these people can more strategically approach personal risk management and be more confident about enjoying the comfortable retirement they have worked hard to achieve.

About ACE Private Risk Services

ACE Private Risk Services is the ACE Group's high net worth personal insurance business, which provides specialty coverage for homeowners, automobile, recreational marine, umbrella liability and valuable collections insurance for individuals and families with emerging and established wealth. Policies issued by Bankers Standard Insurance Co. and ACE Insurance Co. of the Midwest. Additional information can be found at: www.aceprs.com.

The ACE Group is a global leader in insurance and reinsurance serving a diverse group of clients. Headed by ACE Limited (NYSE: ACE), the ACE Group conducts its business on a worldwide basis with operating subsidiaries in more than 50 countries. Additional information can be found at: www.acegroup.com.

Contact Information

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