

March 2022

*“Start where you are. Use what you have. Do what you can.”
– Arthur Ashe*

P&C INSURANCE

Insurance has been on many peoples’ minds lately driven, in a lot of cases, by the myriad natural disasters and spikes in vehicle and parts related thefts occurring over the last couple of years. Disasters such as the Marshall fire that occurred just west of Denver in December 2021 and destroyed 1,084 residential structures, and the deep freeze that affected all of Texas and much of the Midwest February 2021, are just a few of the recent events that have taken a significant toll. The loss of life and economic damage from these events were catastrophic for those impacted. And although events such as these are out of our control, there are things that can be taken away from these events and things that you can do proactively to help minimize your potential for financial loss.

Evaluating risk and, more specifically, how much risk you are willing to retain versus what you should transfer, is the key consideration for insurance planning. Although this risk calculation is highly specific to individual lifestyles, occupations, family, location, etc., there are basics that apply to everyone. For example, when reviewing coverages, it is important to consider what you have at risk, what in your lifestyle has the potential to cause risk, and the potential for loss in the event of a tragedy.

In this PCM Insight, we are going to focus on property and casualty (“P&C”) insurance, which is the insurance that covers our possessions as well as any liability that stems from the use of our possessions. P&C policies generally cover things such as an injury to a person in an auto accident or at our home. Effective use of these kinds of policies involves strategies intended to manage both property risk and liability risk.

PROPERTY RISK

Managing property risk starts with home and auto policies and an evaluation of coverage limits, and exclusions, along with the type of property and its finishes. Do you need replacement cost coverage or is actual cash value acceptable? Is there a need for a valuable personal property policy to specifically cover a significant asset (e.g. a prized collection or work of art)? Are you comfortable with your deductibles? Are there different deductibles for other losses, such as wind/hail or water backup? Do you want to assume more risk (increasing your deductible, lowering your premium) or assume less risk (increasing your premium, lower your deductible)? Taking stock of what you own is the first step to ensure your property policy will meet your needs if there is ever a loss.

LIABILITY RISK

The liability portion of a typical P&C policy, including excess liability, help mitigate risk if the policyholder is found to be responsible for an injury or damages. Do you have teens, a pool, long commutes, host events at your home? These are all things to think about when determining types and amounts of liability insurance. Home and auto policies have a liability component which may not suit your needs depending on your risk assessment. Additionally, every state has a minimum requirement for liability coverage amounts. These amounts are, in many cases, too low. Ensuring that you have an appropriate amount of liability coverage for both home and auto is vital. Often, the best way to do this is to have an excess liability policy, otherwise known as an umbrella policy. These policies will provide additional coverage for a liability above what the limit of liability is on an individual home or auto policy. Coverage generally begins at \$1,000,000 and will cover settlements in addition to providing legal representation if needed. Umbrella policies work with your auto and home insurance, which means it is important to ensure there are no gaps in between policies.

GETTING STARTED

Risk management is a big part of the financial planning process. For this conversation we focused on P&C, or property and casualty insurance. We'll dive into life, health, and commercial at another time.

Ensuring that a tragic event doesn't derail years of work towards financial goals is the principal goal when thinking about insurance of all kinds. This next statement shouldn't come as a surprise and applies to all aspects of financial planning: To get started, we recommend conducting an initial, in-depth evaluation of your current situation. Thereafter, make note of any life changes and update your coverage as necessary. Helping you think about the many pieces of your financial plan is an important goal for our team at PCM. Please reach out to your advisor if you would like to discuss your insurance situation in detail.

Sincerely,
The Private Capital Management Team

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