Insurance Rate

ASSESSMENT GUIDE

Insurance Rate (Ir) measures how much insurance you have compared to how much you might need based on factors like spending, income, and net worth.

Elements®

Insurance Rate

Note: All insurance coverage rates are capped at 0% and 100%

Life Insurance Coverage Rate

General notes:

- Life insurance coverage rates are calculated at the individual person level for any Head of Household in a given household. So if there's one HOH, there is one life insurance rate. If there are two HOHs, there are two life insurance rates.

How to calculate the Life Insurance Rate for a given person (for example, "Jim"):

LIFE INSURANCE RATE CALCULATION

$$\div \frac{\text{Jim's Current Coverage}}{\text{Jim's Estimated Coverage Needed}}$$

Jim's Life Insurance Rate

Jim's Current Coverage = the sum of all death benefits for any *personal* life insurance policy where Jim is the "Owner."

Given our limited data model for life insurance policies, we are assuming

that the "Owner" of a policy is also the "Insured" and the spouse is the "Beneficiary". This assumption isn't always right, but it's typically right.

Exclude buy-sell and key person life insurance policies regardless of who owns them. These are business life insurance policies, not personal life insurance policies.

ESTIMATED COVERAGE NEEDED CALCULATION

$$\frac{\text{Household Estimated Spending Need} - \text{Household Adjusted Net Worth}}{\text{Jim's Life Insurance Rate}}$$

HH Estimated Spending Need = 30 * HH's Annual Spending (the Term Elements denominator...i.e including debt payments)

HH Adjusted Net Worth = (Total NW) - (Sum of all Primary Residence Real Estate equity) - (Sum of all business equity)

Due to our limited data model for assets and debt ownership, we are assuming that all assets are jointly owned or otherwise set to benefit the spouse upon death.

EXAMPLE

Jim's Current Coverage:
$1,000,000

Household Spending Needs:
(Annual Spending × 30) =
$85,000 × 30 =
$2,550,000

Jim's Estimated Coverage Needs:
Spending Needs – Adjusted Net Worth
$2,550,000 – $95,000 =
$2,455,000

Adjusted Net Worth:
HH NW minus personal real estate equity minus business equity
$345,000 - $250,000 - 0 =
$95,000

Jim's Life Insurance Rate =
Current Coverage ÷ Estimated Need
$1,000,000 ÷ $2,455,000 =
41%

Disability Insurance Coverage Rate

General notes:

- Disability insurance coverage rates are calculated at the individual person level for any Head of Household in a given household. So if there's one HOH, there is one disability insurance rate. If there are two HOHs, there are two disability insurance rates.

How to calculate the Disability Insurance Rate for a given person (for example, "Jim"):

DISABILITY INSURANCE RATE CALCULATION

$$\div \quad \frac{\text{Jim's Current Coverage}}{\text{Jim's Estimated Coverage Needed}}$$

Jim's Disability Insurance Rate

Jim's Current Coverage = the sum of all monthly benefits for any personal disability insurance policy where Jim is the "Owner".

Given our limited data model for disability insurance policies, we are assuming that the "Owner" of a policy is also the "Insured" and the "Beneficiary". Unlike life insurance, this assumption is always correct.

Exclude Business Overhead Disability regardless of who owns it. This is a business disability insurance policy, not a personal disability insurance policy.

Jim's Estimated Coverage Needed = Personal monthly income (sum of all income owned by Jim).

Liability Insurance Coverage Rate

General notes:

- Unlike life insurance and disability insurance coverage, liability insurance coverage is calculated at the household level, not the individual person level.

How to calculate the Liability Insurance Rate for a household:

LIABILITY INSURANCE RATE CALCULATION

$$\div \frac{\text{Household's Current Coverage}}{\text{Household's Total Net Worth}}$$

Liability Insurance Rate

Household's Current Liability Coverage = the sum of all coverage amounts on all personal liability insurance policies where the owner is client or spouse. Exclude Malpractice Liability and Business Liability regardless of who owns it. These are business liability insurance policies, not personal liability insurance policies.

Household's Total Net Worth = Just like it sounds. Everything.

Insurance Rate

Calculate a straight average of all individual scores.

While the average of multiple individual insurance rates doesn't produce a meaningful score on it's own (in other words, a 55% Insurance Rate means nothing to the outside world, advisors and clients alike), it does accomplish some key principles of an Elements score:

- **The Insurance Rate calculation is simple for clients** (in this case, as simple as a derivative calculation can be). "Whats the Insurance Rate?" "It's your average coverage rate for life, disability, and liability insurance." Yes, the underlying calcs will ultimately need to be explained, but to a client on the surface, it's simple. The higher the score, the more secure.

- **The Insurance Rate is objective.** As a straight average of underlying scores, there's no subjectivity in the overall score. Yes, the underlying insurance needs calculations require subjectivity to determine "needs" (this is unavoidable), but our assumptions are very simple, conservative, and limited in number. This calculation is as objective as it can be.

- **It serves as a meaningful backdrop to a conversation.** The score reacts to a client's current financial data, indicating their current insurance coverage health. And while the number itself is less standardizable than, say, Total Term or Savings Rate, it ultimately prompts a conversation around Insurance which is otherwise a complicated topic that has all sorts of nuances that Elements leaves to the advisor, insurance brokers, and other insurance calculation tools to more precisely solve.

EXAMPLES

Two-Person Household

Jill's Life Insurance Rate =
85%

Jack's Life Insurance Rate =
45%

Jill's Disability Insurance Rate =
65%

Jack's Disability Insurance Rate =
80%

HH's Liability Insurance Rate =
45%

Insurance Rate =
(85%+45%+65%+80%+45%) ÷ 5 =
64%

One-Person Household

Bob's Life Insurance Rate =
0%

Bob's Disability Insurance Rate =
65%

HH's Liability Insurance Rate =
35%

Insurance Rate =
(0%+65%+35%) ÷ 3 =
33%