Your Protection Portfolio for 2021: The policies and emergency stash you’ll need to build a solid financial future

By Jean Chatzky, CEO of HerMoney.com

As we continue to navigate through the uncertainties of an ongoing global health pandemic, it’s important to take stock of your protection portfolio - the policies and emergency funds you may already have in place - to help ensure you and your loved ones won’t face financial hardships if something unexpected happens to you.

My book, Money Rules, offers tips to help you navigate 2021 as we all look forward to a brighter and less socially distanced future. Something I’ve learned (See Money Rule #78) is that the biggest threat to your financial security is your health. That’s why it’s vital to get a comprehensive health insurance plan. Even if you can’t afford the platinum plan you want, a less expensive high-deductible plan is much, much better than going without. Beyond health insurance, which is non-negotiable, here’s a guide to the things you need to have in place to protect your income, property and identity now and in the future.

An emergency cushion

Last year is proof we all need a stash of cash for the unexpected. If you don’t have an emergency fund of three to six months’ worth of living expenses socked away in a savings account or money market fund, it’s time to start building one today. Make it easy on yourself and automate this step by setting up an electronic withdrawal from your checking account a day or so after you are paid. If you can only afford to save a little, then save a little and gradually increase the amount over time.

Homeowners insurance

When reviewing insurance coverage, Leo Marte, a certified financial planner and founder of Abundant Advisors, wants to make sure homeowners have adequate liability coverage in case someone is injured on their property. For those who earn six figures or more, he says, having anything less than $500,000 in liability coverage would be a concern: “If the dog bites your neighbor’s child or the UPS driver, if anyone gets injured, you are liable.”
The replacement costs for a home is another factor Marte reviews on homeowner’s policies. “If the replacement cost is not sufficient, that’s an issue. Most insurers require homeowners to insure for at least 80% replacement. I like for it to be at 100% replacement value.” In some areas, such as close to coastlines or in areas where extreme weather can cause extensive property damage, some insurance agencies require homeowners to carry up to 200% of the replacement value of their dwelling.

**Life Insurance**

While thinking about death is not fun, making sure you have the right amount of coverage sooner rather than later will help your loved ones pay for your funeral, a mortgage and even college expenses depending on your policy. The general rule of thumb is this: if someone depends on your income now, including a parent or business partner as well as dependent children, you need life insurance to help them in the future.

While there are several types of policies to choose from, the most popular choice is term life insurance because it’s typically the most affordable. Term offers protection for a specified amount of time such as 20 or 30 years. Here’s an example: A healthy 30-year-old can purchase a $250,000 20-year level term policy for about $15 a month. Which means if you purchase the policy and pay $15 a month every month, your beneficiary will receive $250,000 if you die during the 20-year period. (Here’s a life insurance calculator to help determine how much coverage you may need.)

**Disability coverage**

Finally, if you are dependent upon your own income (particularly if there’s not a second wage earner in the family) you’ll want long-term disability coverage. The least expensive way to buy it is via a group policy through your employer, but if that’s not an option look into the private market. “The loss of your future earnings can destroy your life,” he says. “The future value of that money is pennies on the dollar and worth every penny.” Make sure any disability policy is paid for with after tax dollars, Marte notes, so that you don’t have to pay taxes on the money when you can least afford it. It’s also vital that disability coverage extends until age 65 or 67, to bridge the gap until Social Security kicks in.

With reporting by Casandra Andrews