

**THOMAS JAY MCALLISTER CFP**  
**1098 TIMBER CREEK DR. #7**  
**CARMEL, IN 46032**  
**email: tom@tommcallister.com**  
**Phone: 317-571-1112 Cell 317-571-1112**

## **RISK MANAGEMENT**

- A. Definition of Risk. Financial loss due to the occurrence of a particular event.**
- B. Definition of Insurance. The shifting of risk from a person who has it to another party willing to assume it for compensation ("premiums").**
- C. Deductible. The amount of risk a policyholder is willing to keep in order to reduce premiums.**
- D. Property and Casualty Insurance**
  - 1. General Liability**
  - 2. Fire**
  - 3. Theft**
  - 4. Acts of God -storms, earthquakes, floods, etc.**
  - 5. Homeowners -incorporates all or most of the above**
  - 6. Auto -Liability & Collision**
  - 7. Loss of limb or ability to perform -Lloyds of London**
  - 8. Errors and Omissions**
  - 9. Other -"Umbrella" policy**
- E. Health Insurance (Medical Insurance)**
  - 1. Covers cost of health care**
  - 2. Can be individual or group**
  - 3. Can be prepaid via HMO or incidental**
  - 4. Normally paid by employer (tax deductible)**
  - 5. Medicare**
  - 6. Medicaid**
  - 7. Nursing Home Care**
- F. Life Insurance -everyone dies. Two types of life insurance**
  - 1. Term Insurance. Similar to P&C. Pure insurance**
    - a. Premium varies with age. Goes up as we get older**
    - b. Short term use normally**
  - 2. Permanent or Whole Life Insurance -incorporates a savings account which accumulates tax free inside the policy to cover premiums later in life**
    - a. Whole Life - Endowment policy**

## **Risk Management cont.**

- b. **Universal Life**
    - c. **Variable Life**
    - d. **Universal Variable Life**
  - 3. **"Dividends" -not related to earnings on the policy**
    - a. **Guaranteed and declared**
    - b. **Can be used to carry policy when large enough**
  - 4. **Owner of policy can borrow most of savings account of policy at will**
    - a. **Interest rate is normally favorable**
  - 5. **Estate Tax coverage**
    - a. **Use of Irrevocable Life Insurance Trust removes proceeds from estate**
    - b. **Second to Die insurance available for couples. Less expensive**
- G. Disability Insurance -four times as likely to occur as death during career years**
- 1. **Pays certain amount per month so long as insured unable to perform work**
  - 2. **Cannot buy more than you need. Coverage limited to percent of income.**
  - 3. **Premiums for good policy are not cheap**
  - 4. **Social Security Disability. Don't count on it**
- H. Annuities promises to pay fixed amount monthly for life. Earnings accumulate tax free until withdrawn from policy. At death principal balance goes to annuity provider, not part of annuitants' estate**
- 1. **Fixed Annuities**
    - a. **Immediate**
    - b. **Deferred**
  - 2. **Variable Annuities**
    - a. **Mutual Fund wrapped in an annuity**
  - 3. **Taxation**
    - a. **Earnings taxable at regular income tax rates when withdrawn**
    - b. **Principal tax free as returned -part of each withdrawal is principal**
    - c. **Earnings taxable at death at regular income tax rates**
  - 4. **Private Annuity -Purchased from heirs or other private individuals**
    - a. **Moves assets out of estate to heirs**
    - b. **Must be unsecured**
    - c. **Terms must be the same as if purchased from commercial company**