

## Is Insurance an Investment or Expense? By Tracy Piercy, CFP

*How do you talk to your clients about insurance? What messages do you get back from them? Do they see it as an expense or an investment? More importantly, which side of the ledger would **you** put insurance on?*

Some financial advisors have built thriving practices around insurance products. Others use insurance reluctantly, if at all. In a world of diverse, full-service financial practices, insurance can't be ignored, and your own perception of its place in a financial plan can make all the difference to your practice.

So: is insurance an investment or an expense? It can legitimately sit in different places on a financial statement and accountants can argue technically both ways so we won't debate that here.

When you look at insurance products, there are so many different types and purposes that the answer to investment or expense won't be easily found there either. But if you go back to the definition of insurance and the reasons we have it in the first place, you can begin to see an underlying theme.

Merriam-Webster's Dictionary of Law has a couple of useful definitions:

**Insurance:** a promise of reimbursement in the case of loss; paid to people or companies so concerned about hazards that they have made prepayments to an insurance company.

**Investment:** the commitment of funds with a view to minimizing risk and safeguarding capital while earning a return.

If the goal of financial planning is to help our clients use their resources efficiently to achieve financial security, then investing money and time is the means to that goal. Along the way we help them minimize risk, often with insurance strategies, in anticipation of earning a return on our efforts. We insure homes, cars, businesses, lives, health costs, income, children, and everything else we can think of. Of course, the risk our clients are insuring against is capital depletion in the case of personal, property or occupational loss or impairment.

While this might seem obvious, consider what first comes to mind when you think of the various types of insurance you've acquired for yourself. Do you think of the item being insured, the amount of the benefit, the purpose of the benefit, or the cost of the premium?

When you help your clients pull together a plan that involves financial resources to achieve personal goals, of course you discuss with them the investment of time and money, and types of risk involved. However, the answer to whether any type of insurance program or strategy is an investment or an expense is all in how your clients view it.

If the financial goals are truly valuable to your clients, then the individual investment and insurance strategies required to get them there part of the overall plan. When you look at each item individually, there will inevitably be confusion and hesitancy. **The real question is not whether insurance is an investment or expense, but rather, how high a priority is your client's goal and how might it they achieve it with the resources they have - and with the least risk of loss?**

Encourage your clients to consider insurance programs of any type as an investment in their future. How you use the insurance tools, and combine them with the other aspects of your client's financial plan will depend on how efficiently their existing resources are allocated. If your clients focus on the expense of the insurance, they are not seeing it as an investment in their future. They are likely considering it an obligation, or something they 'should' do.

Insurance of all types, sizes, and purposes is a valuable component in your clients' current as well as their future financial success. Its intended purpose is to provide your clients with the peace of mind they need to make other investment decisions. It is not an expense – it is a requirement in a complete financial success plan; second only behind the written goal. Insurance is protection, security and an exit plan all rolled into one. Use it to give your clients the confidence to make other investments of their time and your money.

Money expert Tracy Piercy is a Certified Financial Planner, author, and founder of the personal MoneyMinding Makeover System. To learn more about this step by step system and to get the **Free 12 Simple Steps** program visit [www.moneyminding.com](http://www.moneyminding.com).

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