

Is Insurance an Investment or Expense?

By Tracy Piercy, CFP www.moneyminding.com

You can put it in different places on your financial statements and argue technically both ways so we won't debate that here.

You can ask various experts and they will advise you one way or the other based on their experience and their frame of reference so that won't give us an answer.

When you look at insurance 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 a common theme:

Merriam-Webster's Dictionary of Law, © 1996 Merriam-Webster, Inc. defines **insurance** as: 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. They define **investment** as 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 efficiently use our resources to achieve personal financial goals, then investing money and time is what we do. Along the way we minimize risk, often with insurance strategies in anticipation of earning a return on our efforts. We insure homes, cars, business expenses, lives, health costs, income, children, and everything else we can think of. The risks of course are that our capital assets would be at risk in the case of loss.

While this might seem obvious and simplistic, consider for example what you think of first when you think of the various types of insurance you personally have in place. 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 pull together a financial plan to achieve personal goals that involve financial resources there will be an investment of time and money and there will be risks. However, the answer to whether any type of insurance program or strategy is an investment or an expense is all in how you view it.

If the financial goals are truly valuable to you, then the individual investment and insurance strategies required to get you there are all part of the investment. 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 valuable is your goal and how are you going to get it with the resources you have with the least risk of loss (or failure).

This means that insurance programs of any type have to be considered as an investment in your future. How you structure them, and combine them with the rest of your financial programs in your personal planning will depend on how efficiently you can use your resources. If you focus on the expense of the insurance you are not seeing it as an investment in your future. You are likely considering it as an obligation, or something you 'should' do.

Insurance of all types, sizes, and purposes plays a valuable role in your current as well as your future financial success and given its intended purpose it should also be viewed as a component of your financial plan that gives you the security and peace of mind 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 your protection, your peace of mind and your exit plan all rolled into one. It gives you the confidence to make other investments of your time and your money.