

# Protecting Your Future: Why Insurance and Estate Planning Matter (Even If You're Young)

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When you're in your 20s or early 30s, life insurance and estate planning probably aren't top of mind. You're focused on building your career, growing your income, maybe buying a home, or starting a family. But financial planning isn't just about investing and saving—it's also about protecting what you're building. If something unexpected happens, the right planning ensures that you (and your loved ones) don't face unnecessary financial hardship.

Here's why insurance and estate planning should be on your radar, even if you think you don't need them yet.

## 1. Life Insurance: Who Needs It and Why?

A lot of people assume life insurance is only for those with kids or a mortgage. While those are big reasons to have coverage, the reality is that life insurance can be a smart financial move even before those major life events.

- **If you have dependents:** Whether it's a spouse, children, or even parents who rely on you financially, life insurance ensures they're taken care of if something happens to you.
- **If you have debt:** Federal student loans may be forgiven if you pass away, but private loans often aren't. If a parent or partner co-signed for a loan, they could be stuck with the balance.
- **If you plan to have a family someday:** Locking in a term life insurance policy while you're young and healthy is significantly cheaper than waiting until your 40s or 50s when premiums skyrocket.

## What Type of Life Insurance Should You Get?

We typically recommend term life insurance for young professionals because it provides the coverage you need at a much lower cost than permanent policies. Term insurance is simple, affordable, and designed to protect you for a set period—typically anywhere from 10 to 30 years—aligning with the years when financial obligations like a mortgage, student loans, or raising a family are at their peak.

Whole life and cash-value policies are often marketed as investment tools, but in most cases, they're significantly more expensive and not the best way to build wealth. The premiums for these policies can be 5 to 10 times higher than a comparable term life insurance policy, which means you're tying up a lot of money in insurance rather than using it for other financial priorities.

While they do accumulate cash value over time, the returns are often lower than what you could achieve by investing in a diversified portfolio through a 401(k), IRA, or brokerage account. Additionally, accessing the cash value often comes with fees, loan interest, or restrictions that make it less flexible than traditional investments.

For most people, it makes sense to keep insurance and investing separate—use term life insurance to protect your loved ones at an affordable cost and invest the difference in tax-advantaged retirement accounts or other growth-focused assets. This approach ensures you're getting the protection you need while maximizing long-term wealth-building opportunities.

At the end of the day, we actually hope term life insurance is the worst investment you ever make—because that means you lived a long, healthy life, and your family never had to use it. But if something unexpected happens, having it in place can make all the difference for those you leave behind.

## 2. Disability Insurance: Your Biggest Asset is Your Income

Your ability to earn an income is your most valuable financial asset—more than your car, house, or even your investment portfolio at this stage. If you got sick or injured and couldn't work for months (or years), what would you do?

### Why You Need It:

- **The risk is real:** According to the Social Security Administration, 1 in 4 people will experience a disability before retirement.
- **Employer coverage isn't always enough:** Some jobs offer short-term disability, but these benefits often last only a few months and replace just a portion of your salary.
- **Long-term protection:** A private long-term disability policy can replace 50-70% of your income if you can't work due to illness or injury.

### Pre-Tax vs. After-Tax Disability Insurance Premiums

One important factor to consider with disability insurance is whether you're paying your premiums with pre-tax or after-tax dollars—because it directly affects how much of your benefit you'll actually receive if you ever need to claim it.

- **Pre-Tax Premiums (Employer-Paid or Payroll Deduction):** If your employer provides disability insurance and pays the premiums (or if you pay through payroll deductions on a pre-tax basis), any benefits you receive will be taxable income. This means that if your policy replaces 60% of your income, taxes could reduce that amount significantly—potentially leaving you with closer to 40-50% of your actual take-home pay.
- **After-Tax Premiums (Individually Purchased or Payroll Deduction):** If you pay for your own policy with after-tax dollars, any benefits you receive are tax-free. While this means you don't get a tax break on the premiums now, the trade-off is that if you ever need to claim disability, you'll receive the full benefit amount without deductions for taxes.

## Which Option is Better?

If you're relying on a long-term disability policy to replace income in the event of illness or injury, having tax-free benefits can make a huge difference. Many people opt for an individual policy paid with after-tax dollars for greater security, especially if employer coverage is limited or taxed.

The key takeaway? Make sure you understand how your policy is structured so you're not caught off guard by unexpected taxes on your benefits when you need them most.

## 3. Umbrella Insurance: Affordable Extra Protection for the Unexpected

Umbrella insurance is an affordable way to protect yourself from major financial setbacks. While your car, home, and renters insurance provide essential coverage, they each have limits. If you get into an accident or face a lawsuit where the damages exceed those limits, umbrella insurance can step in and cover the difference. Think of it as extra coverage that kicks in when your existing policies aren't enough.

For example, if you're involved in a serious car accident and the total damages and medical bills are \$500,000, but your car insurance only covers \$250,000, an umbrella policy could cover the remaining \$250,000. It can also protect you in other situations, such as if someone is injured on your property.

What makes umbrella insurance especially appealing for people in their 30s is that it's surprisingly affordable. You can typically get \$1 million in coverage for as little as \$150 to \$300 per year. Given that you're likely building your career, growing savings, and starting a family, the last thing you want is for a big accident or lawsuit to jeopardize everything you've worked for. Umbrella insurance helps shield your assets and future income from these unexpected events.

While you might not think you need it now, if you have assets (like a house or savings) or drive a car, umbrella insurance is a smart investment to ensure that the unexpected won't derail your financial future. Plus, it's much easier on your budget than you might think. For peace of mind and extra security, umbrella insurance is definitely worth considering.

## 4. Basic Estate Documents Needed for Most People

Without a proper estate plan, your loved ones could face unnecessary complications. Here's what you should consider having in place:

- **Will:** Specifies who gets your assets and who will care for any dependents.
- **Durable Power of Attorney (DPOA):** Grants someone the authority to manage your finances if you're unable to do so due to incapacity.

- **Healthcare Power of Attorney:** Designates someone to make medical decisions on your behalf if you're unable to communicate or make them yourself.
- **Healthcare Directive (Living Will):** Ensures your medical preferences are followed in the event of a severe illness or injury.
- **Beneficiary Designations:** Keeps assets like retirement accounts and life insurance out of probate, making distribution easier and faster.

Having these documents in place makes things easier for your family, ensuring your wishes are followed when it matters most.

## **Final Thoughts: Plan Now, Avoid Regret Later**

Nobody likes thinking about worst-case scenarios, but financial planning is about being prepared. The best time to put these protections in place is before you need them—because by the time you do, it's often too late.

If you're under 35, getting the right insurance and estate plan in place isn't just for peace of mind—it's a smart, responsible financial move that makes life easier for your loved ones. And the best part? Once you set it up, you don't have to think about it again for years. However, we typically recommend reviewing your insurance and estate plan every 5-7 years, or whenever there's a major life change—like buying a home or having children. This ensures that your coverage and documents stay aligned with your evolving needs. Additionally, law changes can impact your estate planning, so it's important to stay updated and adjust your plan as needed.

At Carver Financial, we're happy to help you put together recommendations based on your full financial picture, ensuring that your plan aligns with your long-term goals. Whether you need guidance on life or disability insurance, an estate plan, or simply want to make sure everything is structured properly, we're here to help. We can also connect you with trusted professionals—such as estate attorneys and insurance specialists—when needed.

If you have questions or want to review your options, feel free to reach out. We're always happy to have a conversation and help you put the right protections in place.

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