

## [Preparing for the Future: A Risk-Management Checklist](#)

*This is a guest post from Robert Brokamp of [The Motley Fool](#). Robert is a Certified Financial Planner and the adviser for The Motley Fool's [Rule Your Retirement](#) service. He contributes one new article to Get Rich Slowly every two weeks. Many of you asked for a follow-up to last week's post about [what happens to your stuff when you die](#); this article offers more info about how to prepare for the inevitable.*

Some aspects of financial planning are meant to get you where you want to go. Others are meant to protect you along the way. This post is about the latter, focusing on safeguarding your hard-earned progress by making sure you're doing all you can to control risk.

Here's a checklist of everything you need to protect your paycheck, your stuff, and your family's sanity. If you're on top of your financial and legal arrangements, then this exercise will be pretty easy. If not, it will help to highlight any gaps in your financial plan — *before* they become catastrophes.

### ***Income Protection***

Whether you're still working or not, you need to take steps to make sure unforeseen circumstances don't disrupt your, or your family's, ability to pay the bills:

- **[Life insurance](#)**. If your family relies on your paycheck, or would have to hire someone to provide services you now provide (child care, for example), then you need life insurance.
- **[Disability insurance](#)**. Most taxpayers have some disability insurance through Social Security. However, eligibility is strict, and the benefit won't replace your entire paycheck. If you and your family would be financially devastated if you were unable to work, look into disability insurance.
- **[Emergency fund](#)**. Shoot for enough cash savings to cover three to six months' worth of living expenses.
- **Income cushion**. If you're retired, have five years' worth of living expenses that you expect to be covered by portfolio distributions in cash, [CDs](#), or short-term bonds — just in case those distributions don't happen as planned.
- **A plan for growing your [human capital](#)**. Your income depends on your ability to keep a job and merit ever-higher compensation. Think about ways to increase your skills, your value to your employer, and your worth in the marketplace.

### ***Family Protection***

Having the [right, updated documents](#) — legal and otherwise — will keep more wealth in your family and save a lot of heartache during times that are already very difficult:

- **Updated [will](#)**. If you don't have a legally binding document that says who gets what, someone else will make those decisions. Make sure your will has been updated to reflect changes in family composition, recent acquisitions of property, and fluctuations in which relatives you like best.

- **Advanced medical directive.** This legal document describes the medical care you wish to receive (or not) if you are no longer capable of making those decisions.
- **Durable power of attorney.** This will allow someone you appoint to make financial or medical decisions on your behalf if you become incapacitated.
- **Trusts.** Not everyone needs a trust. It will depend on your assets, the state in which you live, and how much you trust the people who will eventually inherit your money.
- **Updated beneficiary information.** This isn't a separate document but rather something you need to do with all your insurance policies, accounts, and retirement benefits to ensure that the right people inherit your assets.
- **List of where you keep everything.** If something were to happen to you, your family would need to be able to access trusted advisors (attorneys, accountants), legal documents, insurance policies, safe-deposit boxes, and so on.

### *Asset Protection*

There are ways to protect what you own and ways to get reimbursed in case something happens to it. You want both:

- **Auto insurance.** It's required by every state, and most of us should have more than is legally mandated. This will cost more, but you can cushion the blow by raising your deductible and dropping collision coverage on older cars.
- **Homeowners' or renters' insurance.** This will cover damage or theft to your property, and in the case of homeowners, damage to the home itself.
- **Umbrella liability insurance.** This is a relatively inexpensive way to increase the liability coverage offered by a homeowners' or renters' policy and an auto policy.
- **Safe-deposit box or fireproof safe.** If you have possessions that merit more than the protection offered by a shoebox, put them someplace difficult for ne'er-do-wells (burglars, Mother Nature, children) to take or damage them.
- **Inventory of possessions.** Your personal tragedy will be less tragic if you can prove to the insurance company what you owned.

### *Protect to taste*

So how did you do? Were you able to check off most of those items? Do you have most of your risks managed, mitigated, and massaged? Not every person will need every one of these items. But consider each item you're missing, decide which of those don't apply to you, and then put the rest on your "to do" list.

I know, I know: This stuff is boring. But for most of these items, once you've done the up-front work, they thenceforth require just occasional maintenance. It's a small price to pay — much smaller than what you'd

pay if something unfortunate happens and you didn't have sufficient protection.

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