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the INSURANCE issue

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THE INSURANCE ISSUE

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INTRODUCTION

Insurance is basically a protective measure against loss. It is a contract binding one party to protect another against a specified loss in return for premiums paid.
In the financial planning world, insurance is known as risk protection or risk management. Purchasing insurance to cover the unexpected provides a safeguard against events over which you have no control. When purchasing insurance, you need to consider the cost and evaluate the benefits to decide what is appropriate for your particular situation. There are many different types of insurance and many different companies that offer insurance.

TERMS TO LEARN

Appraisal
The written estimate of the value of property to be insured such as a home, furniture, or jewelry.

Asset
A resource having monetary value that is owned by an individual or corporation.

Beneficiary
An individual designated in a will to receive an inheritance or an individual designated to receive the proceeds of an insurance policy, retirement account, or other asset.

Cash Value
The cash reserve built up within a whole life insurance policy. The cash value of a policy is the amount received if the policy is canceled.

Co-pay
The portion of an expense that is not covered by insurance and must be paid by the insured.

Death Benefit
The amount payable, as stated in a life insurance policy, to the designated beneficiary(ies) upon the death of the insured. It is reduced by any outstanding loans against the policy.

Deductible
The amount that must be paid by the insured for covered losses before the insurance company pays a claim. For example, if your health insurance has a $300 deductible, you would be required to pay medical expenses up to $300 before the insurance company is required to pay any claims.

Dividends
Refund of excess premiums paid to the owner of a participating life insurance policy.

Estate
The total of assets an individual owns at the time of his or her death. The estate is distributed to heirs according to the terms of the person's will or, if there is no will, by court ruling.

Face Amount
The benefit payable from the base coverage (excluding riders) at the death of the insured.

Group Insurance
Coverage provided to all members of a group by means of an agreement between the group representative and the insuring company. The group representative is typically an employer or an association to which the covered members belong. The insured individuals do not exercise any control over the agreements between the group representative and the insuring company.

Guaranteed Insurability
Amounts of insurance that can be added in the future, regardless of the health of the insured.

Insurance
A protective measure against loss.

Insured
A person whose interests are protected by an insurance policy. If the insured is an adult, he or she is usually (but not always) the owner of the policy.

Long-Term Care Insurance
An insurance contract that pays benefits if the insured needs long-term medical care in a facility other than a hospital, such as a nursing home.

Mortality Table
A table that outlines how many people in a certain group are expected to be alive at a given age. There are generally separate statistics for males and females, and for people with certain risk factors (for example, pilots and smokers). A mortality table is used by insurance companies to calculate premiums.

Non-forfeiture Provisions
Different ways the policy owner may apply the cash value of a policy if it lapses, or is canceled.

Open-enrollment Period
A defined period of time during which individuals are permitted to enroll in a group insurance plan, either without providing evidence of insurability or with limited questioning about their health.

Owner
The person who can exercise all rights under an insurance contract (for example, changing the beneficiary, surrendering the policy, or taking out a policy loan). The owner is frequently, but not always, the insured.

Permanent Insurance
Insurance which has a required premium structure that ensures adequate reserves build up for lifetime coverage (generally to age 100).

Personal Property
In the context of homeowners' and renters' insurance, all the contents of your household (furniture, jewelry, etc.). Insurance coverage for personal property may be limited to a percentage of coverage on your house. This coverage is generally subject to a deductible.

Pre-existing Condition
An illness or pre-diagnosed medical condition for which a person was treated before applying for a life or health insurance policy. A pre-existing condition can result in cancellation of the policy if it is not disclosed in the application.

Preferred Provider Network (PPO)
Network of doctors, hospitals, and clinics that have agreed to a pricing structure which is significantly below the normal pricing structure.

Premium
The amount paid for insurance coverage. Depending on the insurance provider, premiums may be paid monthly, bimonthly, quarterly, semi-annually, or annually. Premiums may be structured in various ways.

Premium Payment Period
The time during which premiums must be paid for an insurance policy. For many policies, this period lasts as long as the coverage is in force.

Proof of Insurability
Evidence provided by a statement or other information in an insurance application that the health and other risk factors of the proposed insured are acceptable to the insurance company.

Reinstatement
The process by which a life insurance company puts a lapsed policy back in force.

Representation
Statement of facts, believed by the applicant to be true, upon which the insurer bases its policy issuance decision.

Reserves
A portion of assets held by the insurance provider to support insurance claims at a later date. Permanent insurance generally has larger reserves, while temporary insurance has smaller reserves. Reserve amounts are governed by state regulations.

Rider
A contract attached to an insurance policy that provides additional insurance or benefits.

Risk Factors
Hobbies, health and vocational factors, and other considerations that may be hazardous to an individual's life or health, and thus cause higher risk to the insurance provider.

Settlement Options
Options the owner has regarding how benefits are to be paid.

Supplemental Insurance
Any coverage provided in addition to the basic amount. It may be provided within the same policy that provides the basic coverage (and is then called a "rider") or provided as a separate policy.

Surrender
The action by a cash value policy owner to relinquish a policy for its cash value.

Temporary Insurance
Also referred to as term insurance. Life insurance that remains in effect only for a specified period of time, normally less than a full lifetime (for example, a 10-year level term or a decreasing term to age 65).

Underwriting
The process the insurance provider goes through before accepting a policy application to identify the potential risks of insuring an individual.

Will
A document that, when signed and witnessed by appropriate individual(s), gives legal effect to the wishes of an individual to provide for the disposal of his or her estate upon death.

Here is a list of some of the different types of insurance:

- **Automobile**
- **Casualty**
- **Credit**
- **Flood**
- **Health**
- **Homeowners'**
- **Liability**
- **Life**
- **Disability**
- **Marine**
- **Pet**
- **Renters'**
- **Travel**
- **Workers' Compensation**

The types of insurance covered in this module are:

- Health Insurance
- Automobile Insurance
- Homeowners' Insurance
- Renters' Insurance
- Umbrella Insurance
- Disability Insurance
- Life Insurance

With all the different types of insurance available, it is difficult to know where to start.

This module discusses several different types of insurance, explains their purposes and benefits, and gives tips on how to compare and select insurance companies and policies.

HEALTH INSURANCE

In the past, when people needed medical attention, they paid the doctor directly for diagnosis and treatment, but times have changed. Modern medicine can work miracles…at a staggering price. Protecting against the financial consequences of an enormous medical bill is imperative for everyone.

Without adequate medical insurance, your assets could be seriously depleted if you become ill or injured. Today, most Americans rely on a third party, either a private insurer or a public government entity, to help them finance the cost of medical expenses.

There are two basic types of health insurance available:

- Indemnity plans.
- Managed care.

Indemnity Health Plans

Indemnity plans are considered fee-for-service health insurance plans. This means that an indemnity plan will reimburse eligible medical services, regardless of who provides the service. Different plans use different methods to determine how much you will be reimbursed for your medical expenses. In some situations, the amount reimbursed may be limited.

The insurance may pay only a percentage of the actual charges instead of the full amount. It is best to thoroughly read the rules of your insurance plan to avoid misunderstandings about your coverage.

Advantages of Indemnity Plans

Indemnity plans give you the freedom to choose your doctor, specialist, or hospital with few, if any, limitations. You do not have to get a referral from a primary physician to see a specialist, and there are no network or preferred provider networks.

Disadvantages of Indemnity Plans

You may have a deductible. The deductible is the amount you are required to pay before the policy benefits are provided. After the deductible is satisfied, you may be required to pay a co-payment (or co-pay). A co-pay is the percentage you pay of a covered medical expense.

For example: If your eligible charges are $800 and you have a $200 deductible, you pay the $200 deductible, which leaves $600 unpaid. If your co-pay is 20%, you are still required to pay 20% of the remaining $600, which would be $120, leaving the unpaid balance of $480 to be paid by the insurance provider.

Some indemnity health insurance plans do not cover preventive services. Preventive healthcare includes annual check-ups and other routine office visits designed to prevent illnesses. In addition, these services may not count toward your deductible.

Indemnity plans may cost a little more, but the payoff is in the flexibility of choices.

Managed Healthcare Plans

Because of increasing medical care costs under the traditional indemnity system, a more cost-effective way of financing medical services was needed. The managed healthcare system was put in place to control the financing and delivery of health services.

The goal of managed healthcare is to ensure that medical providers deliver appropriate, high-quality care in an environment that controls costs. There are three major types of managed care plans:

- Health Maintenance Organizations (HMO).
- Preferred Provider Organizations (PPO).
- Point-of-Service (POS) Plans.

Health Maintenance Organizations (HMO)

An HMO is an organization that enters into a contractual arrangement with healthcare providers, doctors, and hospitals, which form a provider network to offer medical services at a fixed price.

A medical provider who holds a contract with the health insurance company is considered in-network. The insured selects a Primary Care Physician (PCP) who provides, arranges, coordinates, and authorizes all aspects of the member's healthcare. The PCPs are usually family doctors, internal medicine doctors, or general practitioners. If an HMO member needs to see a specialist, he/she is required to see the PCP first to receive a referral.

Advantages of an HMO

The major advantage of an HMO is the cost. There are lower deductibles and premiums, and hospitalization rates and co-payments are typically lower than with other plans. HMOs also emphasize preventive care and, as a result, tend to offer broader coverage for things like routine physicals and medical screenings. An HMO typically provides members with a greater range of health benefits for the lowest out-of-pocket expenses.

Disadvantages of an HMO

HMO plans tend to be very restrictive and have many rules. The biggest downside of an HMO is that they require members to get treatment within the designated provider network.

If you choose to get treatment outside the network without permission and/or a referral from your PCP, the HMO will not cover your care. In cases of emergency, you must notify the plan as soon as possible, and even then, there is no guarantee that all of your medical expenses will be covered.

Preferred Provider Organizations (PPO)

PPOs are contractual arrangements that provide services at a discount to a group of patients. Unlike HMOs, which are prepaid systems, PPO providers operate on a fee-for-service basis, similar to traditional indemnity arrangements. The rates, however, have been pre-negotiated with those who contract for the providers' services, such as employers, unions, and insurance companies.

In return for their discounted rates, the preferred group of doctors is guaranteed a specific volume of patients.

Unlike HMOs, the insured does not have a PCP nor do he/she have to use an in-network provider. You can use a primary care provider outside the PPO network. However, patients are given financial incentives to use doctors in the preferred group.

These incentives may include lower deductibles, lower co-pays and higher reimbursements.

For example, if you see an in-network family physician for a routine visit, you may only have a small co-pay or deductible. If you see a non-network family physician for a routine visit, you may have to pay as much as 50 percent of the total bill.

Advantages of a PPO

PPOs are less restrictive than HMOs. You do not have to choose an in-network provider for your medical needs, and you do not need a referral from a PCP to see a specialist. You will have more control over your own healthcare decisions than you would under an HMO.

Disadvantages of a PPO

PPOs tend to require greater out-of-pocket payments from members. There may be more cost to you if you choose a provider that is not in the preferred group.

Point-of-Service (POS) Plans

The POS plan, or open HMO, is a combination of the traditional HMO, preferred provider network, and fee-for-service plans. POS plan members pay minimum fees for service within the network and for referrals authorized by the primary care physician. The member's share of the cost increases for treatment outside the network and for self-referrals.

POS plans encourage, but don't require, members to choose a PCP. As in a traditional HMO, the PCP can be used to make referrals to specialists.

Members who choose not to use their PCPs for referrals (self-refer) but seek care from an in-network specialist will pay higher co-pays and/or deductibles than members who use their PCPs for the referral. POS members who opt to "self-refer" and visit an out-of-network specialist will have even higher co-pays and deductibles.

Advantages of POS

POS offers flexibility and freedom of choice that standard HMOs do not and, as a result, you will have access to a wider range of doctors. POS plans provide the ability to choose a provider, in- or out-of-network, and see that physician either with or without a referral from a PCP.

Disadvantages of POS

It may cost more if you choose a provider that is out-of-network or see a specialist without a referral from your PCP.

Selecting a Plan

Selecting a healthcare plan may depend solely on what is offered by your employer. Your employer will probably offer several different plans with various levels of coverage.

The major difference between most health plans will be your out-of-pocket expenses. Deductibles, co-pays, and other expenses will vary as well as your monthly premium.

Under most circumstances, the higher the premium for the health plan, the lower the deductible and co-pays. It is important to thoroughly review the plans offered to make sure you are getting the coverage you need without paying more than you should.

If you cannot access job-based coverage because your employer does not offer it or you are self-employed, you will need to purchase an individual policy.

Several insurance companies offer individual policies and policies for small businesses. Whether you take the healthcare plan offered by your employer or purchase an individual policy, there are still some things you should consider when choosing your health plan.

- **Identify the levels of coverage needed and/or wanted.**
- **Determine what medical expenses are covered under the plan.**
- **Determine your out-of-pocket expenses, such as co-pays or deductibles. Talk to your healthcare providers to help you identify out-of-pocket expenses.**
- **Identify pre-existing health issues that may not be covered or that may cause your medical expenses to increase.**
- **Determine if your current physician(s) is part of the insurance network or out-of-network.**
- **Confirm that the plan offers guaranteed renewability, which means your health insurance cannot be canceled if you become sick.**

Researching the plans available will ensure you are getting the right coverage for the right price.

Adding Family Members

Most healthcare providers will allow you to add family members to the insurance coverage under these circumstances:

- During an open-enrollment period.
- Due to a life event such as:
    - Marriage.
    - Loss of employment.
    - Birth or adoption of a child.

AUTOMOBILE INSURANCE

Auto insurance is a contract between you and an insurance company in which the insurance company agrees to pay for specific car-related accidents or incidents that may occur.

In return, you agree to pay the insurance company a specified premium.

The purpose of auto insurance is to:

- Protect your investment.
- Pay for necessary medical expenses.
- Cover legal liability.
- Cover any additional losses related to driving.

State law (and/or a lender) will require you to purchase a minimum amount of auto insurance.

Types of Auto Insurance Available

The type of insurance coverage available is highly regulated by each state. Check with your state Department of Insurance to find out what coverage is required in your state.

Different types of auto insurance available:

- Collision Coverage
- Comprehensive Coverage
- Liability Coverage
- Medical Payments Coverage
- Personal Injury Protection (PIP) Coverage
- Rental Reimbursement Coverage
- Towing and Labor Coverage
- Uninsured/Underinsured Motorist (UM/UIM) Coverage

Collision Coverage (Damage to Your Car)

Pays: Collision coverage pays the cost of repairing or replacing your car after an accident, regardless of who was driving or who was at fault. Payment is limited to your car's actual cash value, minus your deductible.

Actual cash value is the market value of your car before it was damaged.

Comprehensive (Physical Damage Other than Collision) Coverage

Pays: Comprehensive coverage pays the cost of replacing or repairing your car if it is stolen or damaged by fire, vandalism, hail, or another cause other than collision.

Comprehensive coverage also pays for a rental car or other temporary transportation if your car is stolen.

The insurance company usually will not pay for an auto theft unless you report it to the police.

Payment is limited to the car's actual cash value, minus your deductible.

Liability Coverage

Pays: Liability coverage pays other people's expenses for accidents caused by drivers covered under your policy, up to your policy's dollar limits.

This may include the other person's:

- Medical and/or funeral costs, lost wages, and compensations for pain and suffering.
- Car repair or replacement costs.
- Auto rental while the other person's car is being repaired.
- Punitive damages awarded by a court.

Liability insurance also pays attorney fees (if you are sued) and bail if you are arrested.

Covers: Liability insurance will cover you, your family members, and other people driving your car with your permission, even if they do not have their own liability insurance and are not named on your policy.

You and your family members are also covered when driving someone else's auto, such as a rental car or a company car.

Medical Payments Coverage

Pays: Medical payment coverage pays medical and/or funeral bills arising from accidents, including those in which the victim was a pedestrian or a bicyclist.

Covers: You, your family members, and passengers in your car, regardless of who caused the accident.

Personal Injury Protection (PIP) Coverage

Pays: Personal Injury Protection pays the same expenses as medical payments coverage, plus at least 80 percent of lost income and the cost of hiring a caregiver for an injured person.

Covers: You, your family members, and passengers in your car, regardless of who caused the accident.

An insurance company must offer you at least $2,500 in PIP, but you can buy more. If you do not want PIP, you must reject it in writing.

Rental Reimbursement Coverage

Pays: Rental reimbursement coverage pays a set daily amount for a rental car if your car is stolen or is being repaired because of damage covered by your policy.

Towing and Labor Coverage

Pays: Towing and labor coverage pays towing charges when your car cannot be driven. It also pays labor charges, such as changing a tire, incurred at the place where your car is disabled.

Uninsured/Underinsured Motorist (UM/UIM) Coverage

Pays: UM/UIM pays your expenses resulting from an accident caused by an uninsured or underinsured motorist, up to your policy's dollar limits. It also pays for accidents caused by a hit-and-run driver, if you promptly reported the accident to the police.

- **Bodily injury** - UM/UIM pays for medical bills, lost wages, pain and suffering, disfigurement, and permanent or partial disability.

- **Property damage** - UM/UIM pays for auto repairs, a rental car, and damage to items
- carried in your car.

Covers: You, your family members, passengers in your car, and others driving your car with your permission.

Insurers must offer UM/UIM coverage, but you can reject it in writing.

Auto Insurance Rates

Individual auto insurance rates are affected by several factors:

- **The type and level of coverage needed** Buy enough to protect your assets; minimum levels of coverage may not be enough for you.

- **Your age or amount of driving experience** Your age or amount of driving experience affects the cost of auto insurance. Young drivers will usually pay more than those over a certain age. Different companies set different ages at which drivers are considered adults.

- **The kind of car** - The car's make, model, year, and any safety or security features will all be taken into account. Expensive cars cost more to repair or replace, so collision and comprehensive insurance costs more. Also, certain cars have a higher probability of theft, so the insurance company may charge higher rates for those vehicles.

- **Where you live** - Insurance companies will alter premiums based on where you live. The insurance companies have found that accidents are more likely to occur in certain areas than in others, and it costs more to settle claims in those areas.

- **Vehicle use** - Different people use their cars for different purposes. Some people drive to work, and others drive only for pleasure. What is the average annual mileage you put on your car? The less you drive, the less you may be charged for insurance.

- **Your driving record and insurance history** - Most states require an insurance company to accept an applicant at regular rates unless they fail to meet specific eligibility requirements. Having traffic violations, as well as substantially-at-fault (more than 50%) accidents, will cause you to pay higher rates. The more tickets and accidents you have, the higher your rates may be. Non-driving matters, such as prior ineligibility or cancellation for nonpayment of your auto premiums, may also affect your eligibility.

Price Quotes

You will need to have information on all of these factors available when you research price quotes.

You can easily obtain price quotes for auto insurance on the internet. Several insurance companies have quote calculators on their websites.

You can also call various companies to get quotes. When you compare rate quotes, make sure you are looking at identical levels of coverage and service.

While cost is an important factor, remember that you are buying a service as well as a product.

The convenience of excellent customer service may or may not be worth a little extra in premiums.

Lowering Your Premium

There are several ways in which you can decrease the amount you pay for auto insurance.

- Link auto and homeowners' policies with the same company. Some companies will cut premiums up to 15% for multiple policies.

- Buy a vehicle that isn't a popular vehicle to steal. You can find this type of information from your insurance company or consumer reports.

- Ask for a higher deductible on collision and comprehensive coverage, if you can afford the cost if something happens.

- Decrease your liability coverage, i.e., assume more of the risk yourself.
- Some companies give credit for vehicles with air bags, automatic seat belts, anti-lock brakes, anti-theft systems, or other safety features.
- Some companies offer discounts to people who drive fewer than a specific number of miles a year. If you carpool or take public transportation to/from work, you may qualify for a credit.
- Parents can place teenagers as occasional drivers on their least expensive car, and ensure they only drive that car.

Making Changes to Your Auto Insurance

It is a good idea to review your automobile insurance policy as situations change. Because marital status, number of drivers (children), and asset levels may change over time, existing policies should be reviewed from time to time to ensure adequate coverage. For example, if you keep the car for several years, the value of the car drops.

As the value of your car decreases, you might want to adjust the collision and comprehensive coverage and just keep liability insurance. Collision and comprehensive coverage will pay the repair costs or the value of your car if it is damaged.

If the cost of repairs exceeds the value of the car, the insurance company will only pay out the value of the car.

HOMEOWNERS' INSURANCE

When you decide to buy a house, you usually obtain a loan from a bank or some other financial institution. The lender will typically require a homeowners' insurance policy to protect the loan.

A homeowners' insurance policy protects the home, other structures on the same property (tool shed, workshop, etc.), personal property, and personal liability.

Most policies cover damage such as fire, lightening, hail, explosions, smoke, theft, and falling objects to both structures and personal property. Homeowners' insurance will pay for damages to the home and its contents as well as provide protection from financial liability if someone is injured on the insured's property.

If someone has an accident on your property that results in an injury, you may be considered "at-fault" and therefore responsible for any expenses incurred by that person due to the injury. Liability insurance is the portion of a homeowners' policy that will pay for expenses if such an incident occurs. These expenses may include, but are not limited to, medical bills, rehabilitative therapy, and lost wages.

The liability portion of an insurance policy also covers a legal defense representative as needed.

Note: If you own your home outright, (i.e., there is no mortgage involved,) you could choose not to have a homeowners' insurance policy. However, if there were a catastrophic incident to the home, such as a fire, the responsibility of paying for damages would fall to you. This is a gamble most people should not take.

Different Types of Homeowners' Insurance

There are two types of homeowners' insurance:

- Cash Value.
- Replacement Insurance.

Cash value pays the insured for what the property was worth at the time of damage. An insurance adjuster will review the claim and determine the amount of reimbursement to the insured.

Replacement insurance covers what it would take to rebuild the insured's home with similar quality materials. This is a better policy, though it's more expensive.

The type of coverage you purchase is determined by what makes you comfortable and how much you can afford.

Damages that may not be covered by homeowners' insurance

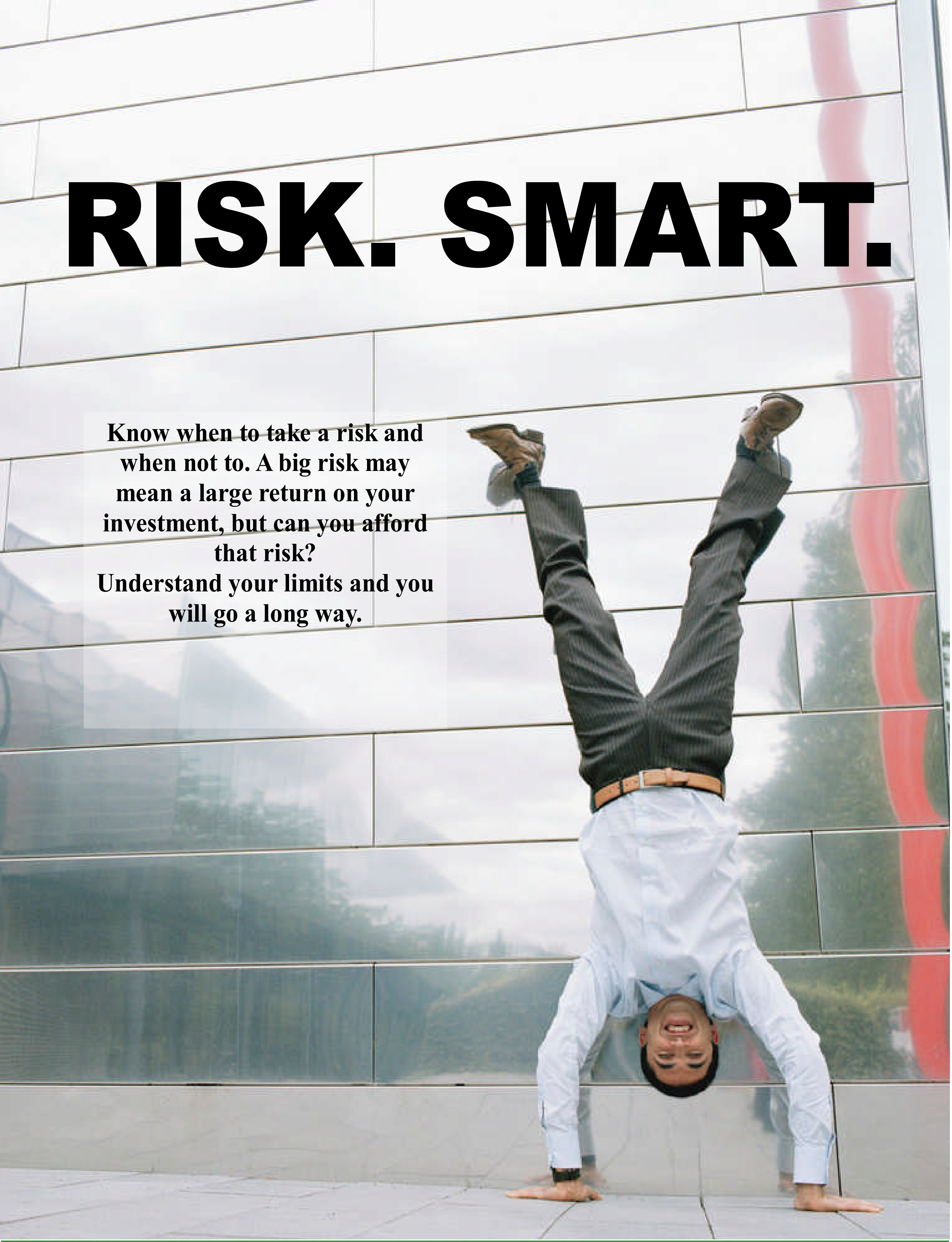
The catastrophes that usually are not covered in a standard homeowners' insurance policy are floods and earthquake damage. Coverage for these types of events can be purchased separately. After an accident or catastrophic event occurs is not the time to find out that your insurance does not cover it. Make sure you know what your homeowners' insurance policy covers and what it does not.

Flood insurance and/or earthquake insurance may be necessary if a survey indicates your home is located in a flood and/or earthquake-prone area. This type of coverage will be an extra cost to you, so if you are not in one of those areas, you may not want to carry this type of insurance. Just remember, if you choose to decline this coverage, and for some reason your home is damaged by an earthquake or flooded by a storm, the cost to repair any damages will come out of your pocket.

Amount of homeowners' insurance needed

Assess your needs and purchase adequate coverage. The minimum coverage generally recommended is the amount needed to:

- Rebuild the home.
- Rebuild other structures like a porch, garage, or shed.
- Cover personal property and contents – usually up to 50% of the coverage of the main structure.
- Cover living costs if the homeowner is unable to stay in the home while repairs are underway – usually up to 20% of the coverage of the main structure.
- Cover losses of personal property while away from home.
- Cover personal liability up to a maximum for each occurrence (usually up to at least $100,000).
- Provide medical payment for injuries that occur on the premises – up to a maximum per occurrence (usually set at $1,000 per person).
- Cover damages to trees, shrubs, and plants – up to 5% of the coverage of the main structure.
- Insure the personal property of others – usually up to $250.


RISK. SMART.
Know when to take a risk and when not to. A big risk may mean a large return on your investment, but can you afford that risk?
Understand your limits and you will go a long way.

Additional coverage can be added for valuable personal property such as collections, antiques, and valuable jewelry. The insurance company may require appraisals on these items before they agree to insure them.

It is always a good idea to have the appraisal value of your home and property reviewed periodically to include additional items acquired or improvements to the property. If the appraised value increases, you may want to consider purchasing additional insurance.

Selecting an insurance company for your homeowners' policy

Selecting the right insurance company can be confusing if you have no idea of where to start. Although most homeowners' insurance policies are standardized throughout the United States, there are several different policies sold through hundreds of insurance companies.

Here are suggestions on how to select an insurance company for a homeowners' policy:

- Ask co-workers, friends, neighbors, relatives, or a trusted financial advisor for referrals.
- Ask the mortgage lender and/or real estate agent for a list of insurance companies and referrals.
- If you currently have insurance (auto, life, etc), you can contact your agent or the insurance company to advise them of the home purchase and your need for homeowners' insurance. The insurance agent may be able to provide a discounted rate to current clients.
- Check online for an insurance company. Often, a website will provide instant home insurance quotes that cover specific needs.

Other tips:

- Contact local, well-known insurance agencies.
- Find out if the agent is a full-time agent or one who sells insurance as a sideline business.
- Have the agent provide customer references.
- Talk with the agent to determine if you are comfortable working with this person.
- Check the insurer's claims payment history by asking questions and reading company publications. Ask the agent(s) how quickly claims are typically paid. Learn as much as possible about the company in regards to promptness in claims settlement.
- Contact the state Department of Insurance to check if a company is licensed to sell insurance in that state and/or to find out if there are any reports of fraud or complaints from customers.
- Get price quotes from each company. Be sure to compare similar policy coverage. It's hard to compare "apples to oranges"; have each company provide the exact policy cost and coverage.

Lowering your premium

Here are several ways to reduce the cost of insurance:

- Shop around for the best rates.
- Raise your deductible.
- Obtain a non-smoker discount.
- Install fire and burglar alarm systems, anything to improve your home security.
- Select a home built with fire-resistant materials (bricks, metal or composite roof, etc.)
- Use the same insurance company you use for your auto and life insurance.
- Qualify for a new home or renovated home discount if your home was built in the last 10-15 years or has been recently renovated.

SAFE. SMART.

When picking out an insurance company to start a new policy, consider the following:

- What are all the products they offer?
- Are they financially stable to support claims that might come in or last long enough to pay out claims when you need it?
- What sort of claims service does the company offer? Check out national databases to see if the company has any complaints.
- Do they use independent brokers to sell their products? This allows the broker to offer various options and provide less biased advice.

RENTERS' INSURANCE

When you are renting a place to live (home, apartment, mobile home, etc.), protection against unexpected accidents can be provided by renters' insurance.

When an accident occurs, it is comforting to know that an insurance policy is in place to protect you. A landlord's insurance will cover his/her property, but it will not cover the renters' personal possessions or liability.

The landlord's policy doesn't cover anything that belongs to the occupants. The only exception to this would be if the loss was caused by negligence on the part of the landlord, and then you would have to prove it in court.

Most insurance companies provide renters' insurance. If you have auto insurance, you can call your agent and talk to him or her about renters' insurance, or check with local insurance companies. The same tips for finding a homeowners' insurance provider will apply to finding a renters' insurance provider.

Cost of renters' insurance

It may be surprising to learn that renters' insurance is not very expensive. Premiums can be even less by getting a policy with roommates and sharing the cost, increasing the deductible, or having multiple policies with the same carrier (renters' and auto insurance, for example).

Having renters' insurance is certainly cheaper than replacing all of your belongings after a disaster.

UMBRELLA INSURANCE

Almost every state has financial responsibility laws that will hold homeowners and drivers accountable for bodily injury and property damage resulting from an accident. A person considered at-fault could be sued for damages. Personal assets could be seized as the result of a lawsuit.

Courts are awarding larger and larger amounts of money in liability lawsuits. Unfortunately, your homeowners', auto, and watercraft policies have a limit on the amount of liability insurance available.

Even though liability insurance pays for expenses such as medical bills, rehabilitative therapy, and lost wages, the standard liability policy may not be enough. Since no one can predict how much a judge may award the injured person, umbrella insurance is not just for the wealthy anymore; it is a protection for every policyholder.

Umbrella insurance is designed to give the insured additional liability protection above and beyond the limits on homeowners', auto, and watercraft insurance policies. With an umbrella policy, depending on the insurance company, one can add an additional $1 to 5 million in liability protection. This protection is designed to "kick in" when the liability on other current policies has been exhausted.

If you have considerable assets, high earning potential, or a hazard such as a swimming pool, you might want to consider an umbrella policy to protect property and future earnings from lawsuits.

A personal liability umbrella insurance policy can give the insured additional liability protection without a large added cost. Additional liability insurance is often inexpensive, especially compared to the coverage gained. Furthermore, liability insurance covers non-business activities anywhere in the world.

DISABILITY INSURANCE

Disability insurance provides income when you cannot work due to sickness or injury. It is paid to you weekly or monthly.

The payout provided may be a percentage of your current income or a set dollar amount. The policy will define the conditions of the payout, such as:

- How much you will be paid?
- How soon the payments start after you are disabled?
- When the payments will cease?

Benefit periods may depend on whether the disability was caused by an accident or illness. The longer the benefit period, the higher the premium will be.

There are two types of disability insurance; Short-Term, and Long-Term care.

Short-term Disability Insurance

Short-term disability insurance provides you with income for a short period of time. If you become ill or are involved in an accident, short-term disability will pay the contracted amount for a specific time period (usually 3 to 6 months). Most people who have short-term disability insurance get it through their employers, although an individual policy can be purchased.

Long-term Disability Insurance

Long-term disability insurance provides cash income if you become disabled through illness or injury for an extended period of time.

Usually, if your inability to work exceeds six months, long-term disability will replace up to 75% of your monthly gross income for a maximum of $4,000 per month.

Note: The timing of when long-term disability actually takes effect may vary so be sure to review any disability policy to fully understand the terms and conditions set forth by the insurance company.

LIFE INSURANCE

Life insurance is a contract between you and an insurance company to provide for your family in case of your death.

Life insurance provides funds to the beneficiary of the policy to pay outstanding bills, funeral costs, family needs, taxes, and income loss.

The need for life insurance can change over a lifetime, so the policy should be reviewed periodically; consider your circumstances and the standard of living you want your dependents to have.

TYPES OF LIFE INSURANCE

There are two basic types of life insurance:

Whole Life Insurance.
Term Insurance.

Whole life insurance is for a specified amount of money to be paid at the time of the insured's death. As long as the premiums are paid, whole life insurance stays in force as long as the insured lives. It provides protection for you dependents by paying a death benefit to the designated beneficiaries upon your death. In addition, a portion of the premiums are deposited into a tax-deferred cash value account that you can use while you are alive.

In other words, as long as you meet the criteria for withdrawals or loans, you may obtain funds from the insurance policy while you are still living.

Term insurance carries a death benefit only for a specified period of time, usually 5, 10, or 20 years. When the period is over, the benefit is no longer available and coverage is gone.

If you should die during the term of the policy, the term insurance will pay a specific lump sum to the designated beneficiary. The policy protects your family by providing money they can invest to replace your salary and to cover immediate expenses incurred by your death.

To understand these types of insurance, it will be helpful to understand how insurance is paid for. The cost of insurance is largely based on mortality tables.

As a person ages, the cost of insuring him or her will increase because there is less time to pay premiums to the insurance company before a potential payout. Typically, a portion of the premium is used to cover the current risk, and a portion is held in reserve. These reserves are held by the company as a cushion to support the more expensive coverage in later years. The longer the period of coverage without a change in the premium, the larger the cushion has to be.

Life insurance can be divided into three main groups:

- Permanent insurance.
- Temporary insurance.
- Potentially permanent insurance.

PERMANENT INSURANCE

Permanent insurance has a required premium structure that assures adequate reserves build up for lifetime coverage (generally to age 100).

The premium is usually level, although there may be a required modification at a future date. The premium payment period is normally for the life of the policy.

A shorter (limited) payment period would cause the premium to be higher. Permanent insurance may have more expensive premiums than other types of insurance because a larger amount is held in reserve to supplement the premiums in the individual's later years. Permanent insurance generally has a cash value, which is the insured's portion of the reserves held by the company. This kind of insurance is often recommended to provide for survivors' needs that will never go away (for example, funeral costs), but it may not be affordable for everyone.

Participating Whole Life, Non-Participating Whole Life, Interest-Sensitive Whole Life, and Variable Whole Life are four types of permanent insurance.

Participating Whole Life

A type of permanent insurance in which rebates (dividends) from surplus premiums may be distributed to the policy owners. These dividends can be used to pay some or the entire premium, or to purchase additional coverage. The premium is generally level during the premium payment period. This type of policy has a cash value with guaranteed increasing amounts over the life of the policy.

Non-Participating Whole Life

There are no dividends paid to the policy owner with this type of insurance. Non-participating whole life insurance has a required premium which generally remains level during the premium payment period. There is a cash value with guaranteed increasing amounts over the life of the policy. Premiums for this type of insurance are generally lower than for participating whole life insurance.

Interest-Sensitive Whole Life

A permanent insurance policy whose minimum cash value is guaranteed. Cash value may increase depending on the amount of interest that is earned. Premiums are usually level, but may vary, depending on the performance of the underlying interest-bearing vehicle.

Variable Whole Life

The cash value in a variable whole life policy is subject to investment market fluctuations and, therefore, may not be guaranteed. Premiums are required and may be level or modified to reflect an increase at a later age.

TEMPORARY INSURANCE

This type of insurance is often recommended to provide for survivor needs that will not always exist, such as day care or college expenses for children. The benefit is that an individual can usually purchase a large amount of temporary coverage at a low cost. Because temporary insurance does not have adequate reserves to keep the premiums level for the lifetime of the insured, the premium eventually exceeds what the owner is willing and able to pay.

Conversely, if the premium is held steady, the coverage will eventually decline to zero. There is generally no cash value with this type of policy. In some cases, temporary insurance can be converted to permanent insurance. Of course, at an older age, the premium for the permanent coverage will be more expensive than if it had been purchased originally.

Two types of temporary insurance are described below:

- Level term.
- Decreasing term.

Level term

Provides a death benefit which is level for a specified period (5 years, to age 50, etc.). The premium is generally required and level for this period. At the end of the specified period, the owner may have the option to continue temporary coverage for another specified period at a lower death benefit or higher premium, or to convert part or all of the coverage to permanent insurance.

Decreasing term

Provides a death benefit that decreases over the specified time period. The premium is generally required and level. Often, the coverage is specified to last until the insured reaches a specified age (such as 65).

POTENTIALLY PERMANENT INSURANCE

Potentially permanent insurance has flexible premiums. The premium can be structured by the insured. (In some cases, this requires the agreement of the company.) Based on the premium chosen by the insured, there may or may not be sufficient reserves to keep the premiums affordable for the insured's lifetime. This could cause a major dilemma for the owner in the future. Too much flexibility can lead to poor decisions and an eventual loss of coverage. There may be a cash value, but it often varies based on many factors and is not always guaranteed. **Adjustable life, universal life, and variable universal life are three types of potentially permanent insurance.**

Adjustable life

Has an adjustable premium, but changes must be coordinated with the company. The amount of coverage and the premium selected will determine how long the coverage is guaranteed to last. The owner usually has the option to re-negotiate the premium in the future. After each change, the company will reissue the policy to show the effect of the new premium on the length of coverage. The owner may also decrease or increase the death benefit. (Changes in the death benefit must also be coordinated with the company, and any increase requires proof of insurability.) Adjustable life is frequently designed to pay dividends which can be used to extend the period of cover age. Any cash value in the policy is affected by premium and death benefit adjustments and other factors.

Universal life

This type of policy allows for flexible premiums. If an individual has unexpected financial difficulties, the payment can be deferred. No coordination with the company is required. Although flexibility is an advantage, deferment of payments will likely affect how long the policy will last. The owner will not know exactly when the coverage may expire unless he or she requests a re-illustration of the policy. This type of policy also features an adjustable death benefit as in the adjustable life policy. The cash value is affected by changes in premiums, death benefit, interest rate, and other factors.

Variable universal life

In variable universal life, there is a separate investment account subject to stock market fluctuations. As with universal life, the flexible premium can be either an advantage or a danger. In addition, there is no minimum rate of return for the cash value, since it is subject to investment market fluctuations. The death benefit is adjustable, just as it is in universal life.

FACTORS THAT AFFECT INSURABILITY

Are you even eligible to get life insurance? Insurance companies have factors they analyze to determine whether an individual is insurable.

Some factors that may make a person uninsurable with one provider may cause another provider to simply charge an extra premium for the requested coverage.

Insurability may be affected by the following factors:

- Hazardous vocation, such as aviation.
- Hazardous avocation (hobby), such as sky diving, scuba diving, or racing automobiles or motorcycles.
- Personal health.
- Family health history.
- Personal habits such as smoking, drinking, or drug use.
- Travel plans (for example, to countries deemed dangerous).
- Driving habits (for example, DUI or tickets).
- Military service.

If a person has any of the above factors and is considering a commercial policy, it may be a good idea to compare different providers or talk to an advisor who is familiar with more than one insurance provider.

Premiums

Life insurance premiums are typically based on:

- The type of insurance bought (whole life or term).
- The amount of insurance bought.
- The statistical chance of the insured's death occurring while the policy is in effect (age, high-risk career, high-risk hobbies, etc).

Depending on the provider, the policy owner may have the option to pay annually, semiannually, quarterly, monthly, or biweekly. Some companies will allow an automatic bank draft to pay the premium.

For most companies, the annual premium is the base from which other premiums are calculated. Semi-annual and quarterly premiums may be more than one-half or one-quarter of the annual premium to compensate for the fact that the company does not receive the entire year's premium up front. In some cases, monthly premiums that are paid automatically through bank draft are actually one-twelfth of the annual premium in recognition of the cost savings that an automatic payment offers the company.

Amount of life insurance

How much life insurance a person needs is unique to each family. It is important to consider several factors to determine how much insurance your family needs.

- Burial costs.
- Potential debts outstanding at time of death.

- Paying off a mortgage.
- Compensation for loss of income.
- Other expenses, such as child care, college expenses, etc.
- Current insurance.
- Current assets.
- Current death benefits available.

Another important consideration is how much life insurance the family can afford.

For example, they may have needs that would be best covered by permanent insurance, but the budget does not allow for buying that amount of permanent insurance.

In this case, an insurance agent might recommend term insurance, or combine term and permanent insurance, to cover these needs, at least temporarily. Later, when they can afford more permanent coverage, the temporary coverage could be converted.

Other considerations for buying life insurance

Some other factors you may want to consider are whether the insurance provider has rate-ups, interim coverage, and trial applications.

Rate-ups are additional premiums for above-normal risks. If you have some of the factors affecting insurability (described above), your provider may charge you a rate-up for coverage. Some providers might choose not to insure you, and some providers might not even consider your risk factors because there are other factors they deem more important.

Interim coverage is coverage available prior to the policy date. This may be helpful if you are between policies. There may be no charge or a small charge for this coverage. There are sometimes conditions that have to be met.

A trial, or cash on delivery (COD), application is an application submitted without a mode of payment. This process may be useful for an individual who has a number of risk factors and needs to see what the provider will offer before accepting. The policy begins when the company accepts the risk and the insured pays the first premium. There is no interim coverage on a trial or COD application.

Available Riders

There are many types of riders (contracts attached to a policy to provide additional insurance or benefits). The cost may vary, depending on the company and the specific type of rider. When a policy has a rider attached, the original policy is often referred to as the base policy. The following information describes common policy riders:

Accelerated death benefit/living needs rider - This rider pays benefits to the policy owner in the event of the insured's terminal illness or permanent confinement to a nursing home. Some considerations of this rider are:

- It is only available in some states.

- Benefits may be provided as a lien against the policy. In this case, the amount received, plus interest, will be removed from the death benefits.

- Receiving the benefit could affect eligibility for Medicare, Medicaid, and Supplemental Income. For current rules, contact the Social Security Administration.

Accidental death benefits – If specific criteria for cause of death are met, the company will pay an additional death benefit. In some cases, the accidental death benefit is the same amount as the original death benefit and may be referred to as "double indemnity."

Annuity – The purpose of this rider is to provide monthly income or one lump sum payment at a later date. The additional premium charged for this rider is placed in a savings or investment vehicle, and there is no annual tax on the earnings.

Child rider – This rider typically provides level term insurance coverage for any children of the insured up to age 25 or another age specified by the company. Usually, there are provisions for the children's coverage to be converted to permanent insurance when the original coverage expires.

Cost of living rider – This rider provides for increasing coverage of a predetermined amount, usually a percentage of the base policy. The increases are usually available annually and may or may not be based on an index such as the cost of living index.

Disability rider – If the insured becomes disabled, this rider pays out proceeds to the insured. Some insurance companies only offer this rider if the waiver of premium rider is purchased.

Family rider – This is a combination of the child rider and the spouse rider. It provides coverage for the spouse and children of the insured.

Health benefit – This rider provides an additional payment over the normal death benefit if the insured is diagnosed with certain ailments, such as cancer.

Long-term care benefit – This rider may not have a separate premium from the base policy. If the insured satisfies the long-term care criteria set forth in the policy, he or she can receive monthly payments from the death benefit to finance long-term care needs.

Military POW or MIA benefit – There is generally no additional premium for this benefit. It waives the premium for a specified period (frequently 1 year) when an insured military member is listed as a POW or MIA.

Option to Purchase Additional Insurance (OPAI) - This rider provides guaranteed future insurability for the insured. Individuals who have this rider will be reminded at specific intervals that they have the option to purchase additional insurance. They will not have to prove their insurability. Some examples of how this rider might be beneficial are:

- At the time they buy insurance, some individuals cannot afford to purchase all the insurance needed to satisfy their goals. Medical conditions could arise in the future that would limit a person's ability to get new insurance or cause it to be prohibitively expensive. With guaranteed insurability, the insured could

- purchase more insurance at the standard rate for his or her age group.
- Needs may not currently exist but may arise in the future. (For example, when a person separates from the military, he/she no longer has the same amount of insurance from that source.)

Premium deposit fund – The primary purpose of this rider is to pay premiums in the event of financial difficulties. As this amount is held outside of the policy itself, using it does not reduce the cash value of a policy.

Spouse rider – This provides coverage for the insured's spouse. Different Insurance companies may offer different types of insurance products (whole life, term, universal life) for this rider.

Term riders – These riders are often found on whole life policies. They provide temporary insurance in addition to the insurance provided by the base policy. Term riders may be offered in decreasing term or level term and are used to cover needs that will not always exist. For example, Jenny Brown purchases a $65,000 whole life policy with a $45,000 term rider. Her total insurance at this time is $110,000. She plans to drop the term rider after her son graduates from college, at which time only her $65,000 policy will remain in effect.

Waiver of premium – In the event of the insured's extended disability, this rider pays the policy premiums. There generally is an elimination period of 3 to 6 months, meaning the insured has to be disabled for that amount of time before the premium is waived. Once the waiver of premium takes effect, most Insurance companies will refund premiums that were paid during the elimination period.

Note: Some riders may not be available on certain types of life insurance policies, and some companies may offer riders that are not offered by other companies. An insurance agent or financial advisor can explain what is available on a specific policy.

Life insurance for family members

If family members are dependent on a spouse's income or services, (for example, child care), it is good planning to insure the value of the contribution the spouse makes to the family. It may be a good idea to get enough insurance to cover the income and/or the cost of services that will be lost in the event of his or her death. At a minimum, and regardless of other economic factors, the expenses of a funeral should be provided for.

For children, a small amount of insurance may be recommended to provide for burial or funeral expenses. It is also possible to provide guaranteed insurability for a later date, so your children can insure themselves when they come of age.

If, for some reason, your child becomes uninsurable as an adult, (i.e. they are diagnosed with medical conditions that make them otherwise uninsurable) the policy purchased as a child should remain in force and be available to the designated beneficiary.

Children's policies are usually very affordable and do not require a medical exam.

The child rider, spouse rider, and family rider are options that an insurance provider may offer on a policy to provide insurance for family members.

Beneficiaries

It is always wise to name a beneficiary on your insurance policy, regardless of what is stated in your will. Having a named beneficiary will cause the proceeds to bypass the will (and probate court) and go directly to the person designated as the beneficiary.

Canceling a Life Insurance Policy

A policy owner may have the option of canceling the policy and retrieving the available cash value. Before canceling a policy, however, there may be other applicable options. Non-forfeiture features may exist that can be used to keep the policy from lapsing (being canceled) if you are no longer able or willing to pay the premiums. Some non-forfeiture features that may be available are:

• APL (Automatic Premium Loan)

Uses cash value available in the policy to pay for missed premiums. If the policyholder still does not pay premiums after the cash value has been exhausted, the policy will lapse.

• Reduced paid-up coverage

Uses cash value available in the policy to purchase permanent coverage for a lesser death benefit than the original policy. This will replace the existing policy.

• Extended term coverage

Uses cash value available in the policy to purchase term coverage for the full amount of the base policy (the length of coverage will depend on how much cash value was available).

Another possibility may be available if the reason for canceling is financial difficulties. Some policies allow a loan to be taken against the cash value. This amount can later be repaid (there may be interest required); however, a policy loan is generally only recommended after other options have been exhausted (for example, cutting costs in other areas, using available savings, or taking out a loan at a bank or credit union).

If the policyholder intends to cancel a policy, written notification should be sent to the insurance company. The insurance company may require you to complete a company-specific surrender form. In some cases, not paying premiums will automatically cause a policy to lapse, but the insurance companies are under legal obligation to do what they can to keep a policy from lapsing inadvertently.

To meet this legal obligation, many policies include a non-forfeiture provision, allowing premium payments to be taken from the cash value if there is no payment or communication from the policy owner.

These premium payments would continue until the cash value is depleted. At that time, the policy would be automatically canceled. Non-forfeiture provisions vary from one contract to another. If you miss a payment, consult your insurance provider to discuss options.

Selecting a life insurance company

Perhaps the most important quality an insurance company should have is financial security.

Additional tips for selecting a life insurance company:

- Contact local insurance agencies.
- Ask for references from friends and family or a trusted financial advisor.
- Check the insurer's claims payment history by asking questions and reading company publications.
- Ask the agent(s) how quickly claims are typically paid. Learn all you can about the company's promptness in claims settlement.
- Contact your state Department of Insurance to check the status of a company's license to sell insurance in that state and/or to find out if there are any reports of fraud or complaints from customers.

Selecting a life insurance agent

There is no definitive list of the qualities of a good insurance agent, but the following tips may help in the search:

- Financially secure companies generally contract creditable agents. They have a screening process because it is in their best interest to ensure they have agents that will give the company a good name. If you're not sure where to start looking for an agent, you may want to begin with a reliable insurance or financial services company. (It is always possible that a few incompetent people will slip through the screening, so the company's reputation should not be construed as a guarantee of a good agent).
- Find out if the agent is a full-time advisor or if insurance is a sideline business.
- Have the agent provide customer references.
- Talk with the agent to determine if you are comfortable working with this person. You should look for someone with whom you feel comfortable. If you don't feel that you can trust a particular agent with something as important as the family's life insurance, you shouldn't use them as your agent.
- If you have a specific philosophy about finances or about life insurance, you should look for someone who shares it your philosophy.
- Ask for a referral from a friend or a trusted financial advisor. Make sure the referred agency/agent being considered wants to know about you and your situation before making a recommendation. If the agent does not even bother to find out about your needs, chances are he/she will not recommend the most appropriate product.

Consumer safeguards

A license is required to be able to sell an insurance product. State tests have to be passed to be allowed to sell in the state. Companies are regulated by the insurance department of each state in which they do business. Both their business practices and their products must be approved by the state regulators. If state regulators approve a product for sale in their state, it is not an endorsement. It just means the product is acceptable for sale in the state and that it is a reasonable product that could be used for some purpose by some people. Most states have a life and health insurance license.

Some states have separate licenses for life and health insurance. There may be special licenses for other types of insurance.

Most states have a state guarantee fund, controlled by the state. The state taxes all the companies that do business within the state and pools the money in the fund. If an insurance company experiences financial difficulties, the state can take it over, charge a fee to other companies operating in the state, and use the proceeds from the taxes and fees to pay the claims of the company that was having problems.

The amounts may be limited, and in many cases, an individual must be a resident of the state in order to receive assistance.

State insurance regulations

The website for the National Association of Insurance Commissioners (www.naic.org) is a good place to learn about your state's insurance regulations. A United States map is provided on this website with links to the state's Department of Insurance websites.

Resolve Contract Disputes

Insurance companies generally use contract language with an established meaning that has been tested in the courts and approved by state regulators. It is, therefore, unusual for a dispute to arise.

The first step for a policy owner who has a concern about the provisions of the contract is to write to the company.

If the response is not satisfactory, the next step is a letter to the insurance commissioner of the state where the policy owner resides.

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CONCLUSION

While insurance may not be the most desirable topic of discussion, it is an important protection that everyone needs. By assessing your own personal situation, you can determine the type of insurance needed and the amount required.

Understanding insurance and the types available will be crucial to choosing the right insurance policies as well as the right insurance company.