

## Insurance

# “Protecting Yourself from Financial Risks”

### Life Smarts:

- Research the cost of home and auto insurance.

### What is insurance?

Life is full of unexpected events, from accidents to theft; natural disasters to fraud; and unemployment to death. Buying insurance is a way to protect your assets (property/belongings) from these unfortunate circumstances. Insurance is just a purchased form of “protection.”

### How does insurance work?

Insurance companies enroll a large number of people who each pay a monthly **premium** (fee) to be a part of the group. The insurance company uses this pool of money to pay for eligible losses (known as **claims**) that are incurred by any member of the group. The premiums collected by the insurance companies are generally much greater than the losses they pay out; this is how they make money.

### Deductibles

**Deductibles** are upfront, “out-of-pocket” costs that are paid each time you make a claim to receive benefits from your insurance company. Insurance policies vary from policy to policy and from company to company. One area they may differ is the deductible. In most cases, the higher the deductible, the lower the monthly premium. If you have two policies that offer the same coverage but one has a \$500 deductible and the other has a \$1,000 deductible, the higher deductible policy will

cost less. The reason is if you pay a higher deductible, the remaining amount that the insurance company has to pay on a claim is less. Additionally, anyone who has a \$1,000 deductible and suffers an event that results in damages greater than \$500 (but less than \$1,000) will not make a claim. It wouldn't make sense to pay the \$1,000 deductible when you can pay for the damage yourself rather than going through the insurance company.

Read the options below.

**Option 1:** Your deductible is \$1,000 for a claim; your premium is \$200 per month.

**Option 2:** Your deductible is \$500 for a claim; your premium is \$250 per month.

1. Which insurance option would you choose? Why?

Answers will vary based on the amount of deductible you are willing to pay.

2. Using the following website, list the categories you would choose to insure your home:  
<http://www.2insure4less.com/home-insurance-quotes>

Answers will vary: Structural coverage, individual property coverage, home warranty protection, flood insurance.

## Homeowner's insurance

If you have a mortgage, it is mandatory in most states to have **Homeowner's Insurance**. Homeowner's Insurance, like other insurance policies, includes deductibles. **Escrow** simply means an account that is created by a third party to hold, in trust, monies to guarantee the prompt payment of recurring liabilities like property taxes and homeowner's insurance. A **homeowner's policy** is based on the value of your home and covers the land, structure, and personal property inside the home. **Liability** is a component that covers you if someone gets injured on your property.

## Homeowner's insurance – what it covers

Homeowner's insurance provides coverage for loss or damage to personal belongings such as clothing, furniture, and some appliances. Most insurance companies will cover 50% to 70% of household items.

**Example:** If you own \$200,000 of personal belongings, your insurance will only cover up to \$140,000 ( $\$200,000 \times 70\%$ )

Compute the personal coverage amounts below if insurance covers 50% and 70% of your personal belongings:

- You own \$100,000 in personal belongings **Answer: Between \$50,000 and \$70,000**
- You own \$125,000 in personal belongings **Answer: Between \$62,500 and \$87,500**
- You own \$175,000 in personal belongings **Answer: Between \$87,500 and \$122,500**

**Personal liability** is a component of homeowner's insurance that protects you for accidents that occur on your property, including injuries caused by your pets. Most policies start at \$100,000, but many experts recommend having \$300,000 coverage at a minimum. If you purchase a home and put less than 20% down, you will hear the term **PMI**. PMI stands for private mortgage insurance, and it extends standard coverage to include damage from earthquakes, floods, hurricanes, etc. PMI is mandatory unless you pay 20% or more toward the purchase price of a home.

3. If you purchase a home for \$185,000, how much would your down payment be if you don't want to pay the PMI?

**Answer: \$37,000 ( $185,000 \times .20$ )**

## Homeowner's insurance savers

It is up to you to find the best rates, and the only way to do that is to shop around and obtain several quotes for home insurance. Compare the coverage and the premiums to see which offers the best value. You can also save money by getting insurance directly from a provider, not through an agent.

Some additional ways to save on insurance are by combining all of your policies with one carrier. If you cover your home, auto, and life insurance with a single carrier, they will usually provide multiple policy discounts. Avoid claims by paying for the smaller damages out of your own pocket, and you will save in the long run. In addition, how frequently you pay your premiums can affect the cost. Paying monthly is costlier than if you pay every six months or once a year.

## Auto insurance

There are important things to know about automobile insurance: **(1)** It is mandatory in most, if not all, states; **(2)** It has a deductible that varies from policy to policy; and **(3)** It includes three main components of coverage: comprehensive, collision, and liability.

**Comprehensive** covers essentially most types of direct and accidental damage not related to a collision. **Collision** covers damages related to an actual collision/accident. **Liability** is the component that is state-mandated, and it covers you for injury or damage to others. Additional components of automobile insurance include **uninsured motorist** coverage, which protects you when an "at fault" party does not have insurance. **Gap insurance** is an optional component of car insurance. In the early years of a loan, many people owe more on a vehicle than it is worth (due to depreciation). Gap insurance pays the difference between the actual cash value (ACV) of the vehicle and the current outstanding balance on your loan or lease in the event of a crash. The cost of this insurance is calculated per individual. The factors that influence the cost include age, gender, and grades, as well as the specific vehicle being insured.

Using the Internet, research what the average price might be to insure a teenager with auto insurance for one year.

### 4. How much do your parents pay for your automobile insurance?

Answers should vary between \$500 and \$2,000 per year.

## Auto insurance – what it covers

Who is covered under an automobile insurance policy? Most policies cover all relatives living in the home of the policyholder (and any additional licensed drivers listed on the policy). This coverage includes bodily injury and physical damage to your vehicle. It also covers physical damage to the other person's car.

## Common types of coverage

In addition to the three main components of automobile insurance, there are many subcomponents. **Personal injury** is the portion of the policy that pays for medical and funeral expenses resulting from injuries sustained in an accident (no matter who is at fault). **Medical Payments** coverage provides protection for passengers and family members in your vehicle at the time of an accident. It also covers you when you are in another person's vehicle or if you are hit by a car while walking. **Uninsured** and **underinsured motorist** coverage covers bodily injuries to the policyholder when the injury results from uninsured, underinsured, or hit-and-run motorists. **Auto rental** coverage reimburses you for the cost of renting a car while yours is in the shop. **Emergency roadside assistance** covers the cost of unexpected towing and other basic roadside-assistance expenses.

## Auto insurance rate factors

Insurance rates are complex and determined by many factors. Insurance companies gather this information in order to build a profile to help them determine habits, tendencies, and potential risks. Past driving history is one of the primary indicators used by insurance companies to determine rates. The value of the vehicle is also a factor. (It costs much more to insure a Ferrari Testarossa than it does to insure a Ford Focus). Where you live also affects your rate; some areas have conditions that are prone to produce a higher percentage of accidents than others. How far you commute to work and school is another factor in determining your rates, as is age, gender, marital status, credit history, and grades (if you are a student). The specific policy and coverage you select are also factored into your rate.

5. Why do you think insurance companies might give you a discount for having good grades?

Answers will vary.

6. Why do you think insurance companies offer a discount for being married?

Answers will vary.

## Auto insurance savers

Insurance companies quote their standard rates based on the information you have provided. You have two choices: You can pay what they quote, or you can ask your agent how to qualify for discounts. Discounts include multiple car and driver discounts and good grade discounts, among others.

Keeping a clean driving record is the most important thing you can do to get the best rates. Drive defensively, like they teach at driving school. Some insurance companies give a discount after completion of a defensive driving course. Rates vary greatly, so it is important to obtain quotes from several companies before making a decision. If you have the option to take mass transit (a bus or train) or to walk or ride a bike to work or school, this will greatly reduce the number of miles driven each week. This, in turn, also reduces the cost of car insurance.

The type of car you own affects your rates. It is important to do your research and factor the cost of insurance prior to purchasing a vehicle. Get quotes with low, mid, and high deductibles. Compare the premiums to see which might be the best option for you. A good credit rating can lead to better rates, so keep your financial situation in good standing!

[Read the example.](#)

**Example:** Joe has a 2007 Toyota RAV4, a car that depreciates slowly compared to other similar models. Joe narrowed his insurance options and has to make one final decision.

**Option 1:** \$1,000 deductible = \$130/month

**Option 2:** \$500 deductible = \$170/month

7. Which of the options should he choose? Why?

**Answer:** Option #1 would save him \$40/month over option #2, or about \$500/year (\$2,500 over next five years). However, if he were to have even one claim a year, he would lose his entire savings for that year.

## Auto insurance savers continued

Where you live can also impact your insurance rates. If you live in a high-crime neighborhood, you may be charged higher rates. Make realistic decisions when selecting coverage for your vehicle; don't overinsure! Installing alarms and other anti-theft devices, such as LoJack™ and others, can reduce the cost of your insurance.

**Example:** The value of your car is \$1,000.00 and you pay \$500.00 per year for collision. Is it worth it to insure your car with collision coverage? Would liability be a better option?

## Other auto insurance savers

Insurance companies, like many other companies, offer discounts for military service, getting good grades, or working for certain companies. The only way to get these discounts is to ask.

## Why do I need health insurance?

According Becker's Hospital Review, United States hospital costs outpace other countries threefold. In 2011, the average hospital stay in the United States cost \$15,734; in Germany, \$5,004; in Chile, \$4,948.

## Types of health insurance

**Major Medical/Hospitalization/Preventative** insurance covers basic medical needs from check-ups and doctor visits to emergency room visits, hospital stays, surgery, etc. **Dental insurance** covers basic and advanced dentist services (orthodontics may or may not be covered). **Vision insurance** covers annual visits to the eye doctor, as well as partial benefits for eyeglasses (frames and lenses). Contact lenses may or may not be covered.

## Types of health insurance plans

**Major Medical/Hospitalization/Preventative** is offered in a variety of plans/styles. The three most common are **Traditional**, **HMO (Health Maintenance Organization)** & **PPO (Preferred Provider Organization)**. **Traditional** plans allow you the freedom to see any doctor and any medical facility/institution that you want. There is a pre-determined deductible, usually \$100, \$250, \$500, or \$1,000. No benefits are received until your "out-of-pocket" deductible is satisfied. After you meet your deductible, plan benefits begin and you pay a pre-determined percentage of all costs thereafter.

Common percentages range from 60 to 80%; you are responsible for paying the remaining percentage of the bill. **HMO** plans are controlled by large organizations that contract with medical providers that agree to specific cost models for their services.

Since the cost of every service is known in advance, the plan provides you with a list of co-pays (the amount that you are responsible for paying) for the services offered. This is similar to a deductible, but rather than paying the entire amount before benefits are received, you pay a small portion each time a service is received. With this style of plan, you are limited to seeing only the doctors and medical facilities/institutions that are members of your HMO.

**PPO** plans are like HMO plans but with more flexibility. PPO plans allow you to see “in-network” medical providers and receive benefits, and they allow you to see “out-of-network” medical providers while receiving benefits, at a reduced amount. In a PPO plan, you do not have to have a primary care physician, nor do you need referrals to see specialists.

### Who provides health insurance?

Parents can provide insurance through their employers for their children up to the age of 18, and up to the age of 26 if the child is a full-time student. If you are employed, you may be eligible to enroll in your employer’s group plan. The military provides insurance for all of its members, and some schools offer insurance programs. Government organizations provide insurance coverage through Medicare/ Medicaid, state insurance pools. Private “for profit” organizations offer insurance programs, including Blue Cross Blue Shield, Humana, Lovelace Health Plan, Presbyterian Health Plan, and United Health Care, just to name a few.

Employer-based Health Insurance		
Employee Yearly Cost (2011)	NM	U.S.
Individual Coverage	\$1,271	\$1,090
Family Coverage	\$4,724	\$3,962
Individual-based Health Insurance		
Individual Coverage	N/A	\$2,580
Hospital Stay Cost		
Per Day	\$2,058	\$1,910
Data obtained from: <a href="http://www.StateHealthFacts.org">www.StateHealthFacts.org</a>		



## How does health insurance work?

Health insurance works in much the same way as other insurance programs. You enroll in a plan, and once you are accepted, you begin paying a “premium” (monthly fee) for the coverage you select. The two most basic programs are “Individual” for single people and “Family.” Depending on the type of insurance you are enrolled in, you will either pay a “deductible” (a predetermined out-of-pocket amount that you are responsible for before benefits begin) or a “**co-pay**” (a predetermined portion of the cost of the service you are receiving) every time you have a covered service. Co-pays vary depending on the service you are receiving (i.e., doctor visit, urgent care visit, emergency room visit, hospital stay, or surgery). Health insurance pays for the costs that are more than the co-pay. Health insurance plans usually cover a portion of the cost of prescribed medications.

**Tip:** Coverage varies greatly for generic medications vs. non-generic equivalents. You can enjoy significant savings by requesting generic equivalents.

## Health insurance for children

Every state provides low-cost or free insurance for children in low-income households. To obtain information about these programs, call the U.S. Department of Health and Human Services at 877-kidsNow (877-543-7669).

## Disability insurance

**Disability insurance** will help you pay for your living expenses if you become injured or sick and unable to work for a long period of time. Some employers offer this type of insurance. It’s a good idea to purchase this type of protection even if you have to pay for part of the premium. Statistics show that people have a higher risk of becoming disabled before age 65 than dying.

## Life insurance

As you begin to develop wealth in your life, your net worth begins to increase. **Life insurance** is a way to help protect that and your family in the event of your death. A life insurance policy will pay money to those you choose, known as a **beneficiary**. As with most insurance policies, the type and amount of life insurance depends on your circumstances. Some employers offer low-cost term insurance that can offer protection for young families.

## **Tips for protecting your wealth and saving on insurance**

As discussed in this topic, insurance is important and a necessity to have in life. Here are a few reminders to consider to help you protect your wealth. Take advantage of insurance through your employer, if it is offered. Consider changing your deductible periodically to reflect what you can afford. Don't overinsure your assets or yourself. Always shop around and get at least between three and five quotes. Ask for discounts that may be available (good driving record, good grades, safety equipment, and multiple policies with the same provider, etc.). Last, review your insurance coverage periodically to ensure that it is appropriate as changes occur in your life.

### **Life Smarts: Research the cost of home and auto insurance.**

Conduct an Internet search and write down three quotes for both home insurance and auto insurance. For each quote, specify how much the insurance will cost per month and what is included in the policy.