SESSION II

Are You Covered? Insurance Basics

Mary has a lot of risks
With her car, her home, and health
That's why she buys insurance
So she can protect her wealth

What will be covered in Session II

Insurance Lessons

1. Managing Life's Risks
2. Insurance Basics
3. Life Insurance
4. Health Insurance
5. Disability Insurance
6. Long-Term Care Insurance
7. Auto Insurance
8. Homeowner's Insurance
9. Umbrella Liability Insurance

Terms to Learn *(bolded in the text)*

Any-occupation disability insurance
Cash value
Coinsurance
Copayment
Declarations page
Deductible
Elimination period
Exclusions
Guaranteed renewable
Indemnity plan health insurance
Large-loss principle
Liability insurance
Managed care health plan
Noncancelable
Own-occupation disability insurance
Permanent life insurance
Policy limit
Risk acceptance
Risk avoidance
Risk reduction
Risk transfer
Term life insurance

Exercises

1. Life Insurance Needs
2. Checklist for Financial Fitness
3. Insurance Evaluation and Goals

From the 192-page book *Money Talk: A Financial Guide for Women*, NRAES-160
Available from PALS Publishing, www.palspublishing.com/moneytalk, Ph. 607-255-7654

Managing Life's Risks

Life is full of risks.

Many of life's risks have financial consequences. Some examples of potential financial losses include:

- damage to your car in an auto accident.
- a fire that destroys your residence and personal possessions.
- loss of income due to disability (accident or illness).
- loss of a household earner's income due to death.
- loss of a homemaker's services (e.g., child care) due to death.
- large medical bills for a major disease (e.g., cancer) or injury (e.g., car accident).
- a court judgment holding you liable for damages to others.

> ***Risk.*** According to Webster's Dictionary, "exposure to loss, harm, or danger."

People manage the risk of financial loss in five different ways. Below is a description of each method and examples of each.

Do nothing and hope for the best. Deciding, consciously or by default, to take no action to deal with life's risks is a risk management strategy used by some people. For example, they forgo health insurance or property insurance that covers the loss or theft of personal possessions. Often, the cost of insurance is an obstacle to managing risks. Thus, people who can least afford to pay for a loss are often without coverage.

Risk avoidance. Eliminating the possibility of a loss by avoiding activities that expose you to a risk. For example, not driving in the snow avoids the chance of a weather-related traffic accident. Ditto for other potentially hazardous activities such as skiing, bungee jumping, cigarette smoking, and sun-tanning.

Risk reduction. Instead of avoiding an activity altogether, you take measures to reduce a loss, should one occur. Examples include wearing seat belts when driving, using smoke detectors and burglar alarms, taking a defensive driving course, and buying a car with airbags and/or an antitheft system.

Risk acceptance. Intentionally accepting small financial losses that you can afford to pay out-of-pocket, if needed. Generally, this is done to keep the cost of insurance policies affordable. Three common examples are the deductible (e.g., $500) for comprehensive and collision auto coverage, dropping collision coverage on an older car, and the copayment (e.g., 20%) for medical expenses and doctor's bills.

Risk transfer. Transferring the risk of loss to a third party (insurance company) in exchange for a specified payment (premium). Insurance coverage is especially recommended for potentially large losses such as disability and liability. Insurance companies pool premiums from many people to cover losses.

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Insurance Basics

Insurance is the most common method that people use to protect themselves against potential financial losses.

> ***Insurance.*** According to Webster's Dictionary, a guarantee against risk of loss or harm in consideration of a payment proportioned to the risk involved (premium).

An important principle behind the purchase of insurance is the **large-loss principle**. This means that the size (amount) of a potential loss—rather than its probability—is the determining factor in purchasing insurance.

In other words, you want to spend the bulk of your insurance premium dollars to protect against risks that can wipe out your assets and/or claim future income for years to come (e.g., a court judgment). Small expenses, such as a dented fender or broken eyeglasses, should be covered through insurance deductibles or emergency fund savings.

On the other hand, certain types of insurance are clearly unnecessary. This includes insurance that duplicates coverage you already have, insurance that covers small losses, and very narrowly defined coverage (e.g., dread disease insurance). Below is a list of commonly sold, but generally unnecessary, types of insurance.

> **Major "Large-Loss" Risks that Can Greatly Affect a Family's Finances**
>
> - Loss of income due to disability (illness or accident).
> - Loss of a household earner's income (death).
> - Destruction of one's home due to fire, flooding, etc.
> - Liability losses resulting from a court judgment.
> - Large hospital and doctor expenses (e.g., expenses for cancer treatment).

Credit (life and/or disability) insurance. This covers loan payments if a borrower becomes disabled or dies. According to the Consumer Federation of America, credit insurance is grossly overpriced. Credit insurance is generally calculated as a flat rate per $100 of loan balance. Sometimes it is added to a loan contract without a borrower's knowledge and/or consent, a practice known as "packing." Much better alternatives are to build up emergency reserves to cover small debts (e.g., $1,000 loan) and purchase or increase general life and disability coverage to cover large debts (e.g., $80,000 mortgage).

Term life insurance for children. The purpose of insurance is to protect dependents against the loss of a household earner's income. Children are generally dependents and have a low probability of dying. Therefore, insuring them is rarely necessary. Some people argue that policy proceeds could be used for a child's funeral or family grief counseling. However, it is likely that college funds, no longer needed, could be tapped for this, if necessary. As for the argument that children could get sick and be turned down for coverage later as an adult, they could probably still get insurance through an employer group plan.

Cancer insurance. Cancer makes headlines, but heart disease is actually America's most frequent killer. The bottom line is that no one knows what diseases they may or may not contract. Therefore, comprehensive major medical coverage is needed rather than "dread disease policies" that provide protection only against a specific illness.

"Double indemnity" insurance rider. This policy feature doubles the face amount of a life insurance policy if a person dies from accidental causes. In reality,

most people do not die in accidents. If additional life insurance is needed, it should be purchased as part of a basic policy that provides coverage regardless of the cause of death.

Hospital indemnity policies. These policies provide a specific benefit for each day spent in a hospital. Generally, they pay much less than the amount that a patient is actually charged. Again, a much better alternative is a comprehensive major medical health insurance policy that covers expenses incurred both in a hospital and as an outpatient.

Flight insurance. This is life insurance sold in vending machines at airports. Like double indemnity, it is an unwise choice because it shouldn't matter if you die in a plane crash or by natural causes. Instead, life insurance should be purchased based on the needs of a spouse and/or children. In addition, some credit cards (e.g., "gold" bankcards) provide $100,000 of flight insurance coverage for free if you charge your plane ticket.

Collision-damage waivers (car rentals). This is coverage for the risk of damage to a rental car. It is expensive and can add as much as 50% to the cost of a car rental. Rental car use is probably covered under a personal auto policy, so check with your auto insurance agent. If not, a better alternative is to add a "rental car rider" to your policy.

Life insurance for people without dependents. If you are single and childless or have a working spouse that can get by without your income, there may be no economic reason to buy life insurance.

In addition to buying unnecessary coverage, the following four errors are often made:

- not following the "large-loss principle"—in other words, covering small losses (e.g., having a low deductible on auto collision) rather than large ones (e.g., having a high auto liability limit of at least $300,000 per occurrence).
- not becoming knowledgeable about employer-provided insurance benefits, especially if both spouses in a couple work and benefits need to be coordinated. Ditto for public benefits for income-eligible families without health insurance.
- failing to carry disability insurance to cover the risk of loss of income due to accident or illness and umbrella liability insurance to cover large (e.g., $1 million and up) court judgements.
- not checking the credit rating of an insurance carrier, both at the time of policy purchase and periodically after that. You should select a company with at least an "A" rating.

One of the largest insurance company rating firms, A.M. Best, provides free reports to registered users through their Web site at www.ambest.com. Other insurance company rating firms, which may have reports in public libraries as well as information available by phone and online, are Duff & Phelps, Moody's, Standard & Poor's, and Weiss Research. Other sources of information about insurance company credit ratings are your insurance agent and company sales brochures. If an insurance company has a high rating, the rating will be featured prominently in marketing materials.

To summarize what you've learned so far about insurance, insurance companies aggregate risks and use laws of probability and large numbers to provide consumers with protection against financial losses caused by illness, death, accidents, natural disasters, and other destructive or damaging events. When you purchase insurance, you pool your risks and premium dollars with those of other people. You pay (or your employer pays for you) a premium to an insurance company that, in return, pays you (or someone else) for the damaging effects of a loss, should one occur.

Evaluating your insurance needs is an important part of financial planning. This includes determining how much coverage you need and what type of policy you should buy. When selecting insurance, you should:

- insure for major losses and cover small losses only if the premium is very inexpensive or paid by a third party.
- choose a company with a strong financial rating.

- select enough coverage to adequately insure your income (e.g., disability insurance) and assets (e.g., liability and property insurance).
- select the highest deductible you can afford.
- pay annually or semiannually rather than quarterly or monthly (to reduce premium costs).
- avoid duplicating coverage.
- ask about available discounts (e.g., price break for having all property coverage with one insurance company).
- follow "The Rule of Three" and compare prices from at least three competing insurers.
- take the time to read a policy and understand it, preferably *before* signing a contract.

The basic types of insurance that most people need are as follows:

- health/medical
- disability
- life
- property (for homeowners or renters)
- auto

In addition, for many people, the following types of policies should also be purchased, or at least explored:

- umbrella liability
- long-term care

No matter what the type of policy, you'll find the following sections in an insurance contract.

Declarations page. This is descriptive material about a particular person's insurance policy (e.g., name of the insured, beneficiary (if any), type and amount of coverage, policy deductibles and/or coinsurance, period (term) of coverage, premium amount and due date(s), policy number, name of insurance agent).

Insuring agreements. These are broad descriptions of coverage with definitions of important terms often in boldface.

Exclusions. This is a description of risks that are not covered by a policy. Common examples of policy exclusions are nuclear war, earthquakes, and floods (unless you have a special policy), a personal car used as a taxi, and business liability losses (e.g., a client comes to your home-based business and falls on the sidewalk) on a personal insurance policy.

Endorsements and riders. These are additional clauses to an insurance contract that add coverage in exchange for a higher premium. Common examples are theft coverage for property left in a vehicle, business use of a car, and a "scheduled property rider" to cover the total value of property such as jewelry and coins.

Insurance policies also contain the following features that specify coverage limits.

Benefit coordination clauses. This feature is designed to prevent people from collecting from two insurance policies for the same expense, especially in the case of two-worker families with employer-provided health coverage. Generally, a worker can claim from a spouse's policy only the amount not covered by his or her employer's policy. In other words, the total claim cannot exceed 100% of the cost.

Deductible. This is a dollar figure, usually a flat dollar amount (e.g., $200 or $500), that an insured person must pay out-of-pocket before an insurance policy reimburses him or her for the remainder of a loss. For example, with a $500 deductible and a $2,000 covered loss, the insured would pay $500 and the insurance company would pay the remaining $1,500.

Elimination period. With some types of policies (e.g., disability and long-term care), there is a certain number of days (e.g., 30, 60, or 90), starting from the date of an insurable event (e.g., injuries from an accident), before benefits are paid.

Copayment. Copayments are commonly used with prescription drug coverage and office visits to health maintenance organization (HMO) plan doctors. They are the amount (e.g., $5 per office visit or $10 per prescription) that an insured person must pay out-of-pocket. The remainder of the cost is covered by the medical plan.

Coinsurance. This is the amount (usually stated as a percentage) of a claim that an insured person is expected to pay out-of-pocket. For example, some health insurance policies pay 80% of approved charges and the insured is responsible for 20%. There is a limit on the amount someone must pay for health care costs during a policy period (typically a year). This is called the **out-of-pocket** maximum. While various health care plans can have different out-of-pocket maximums, health care reform sets maximum annual limits.

Policy limit. This is the highest dollar amount that an insurance policy will pay. For example, an auto insurance policy with a $300,000 liability limit will not pay benefits greater than $300,000.

Life Insurance

One of the costliest risks that families face is the death of a breadwinner (worker). This is especially true if a spouse and/or children depend upon that person for all or part of their support. Losing that income can be a tremendous financial blow. Another person who may also need life insurance protection is a full-time homemaker. Otherwise, his or her survivors may not have enough money to hire people to provide necessary services (e.g., child care).

To protect family members against financial disaster resulting from death, consider the purchase of life insurance. Life insurance makes sense if you have dependents who would suffer financially in the event of your death. No simple formula exists to determine the amount of life insurance you need. Instead, many factors must be considered, including:

- current assets and liabilities.
- earning power of surviving family members.
- other sources of income to the family.
- projected expenses and family support.

Carry too little insurance and you may not provide sufficient resources for your family after your death. Carry too much and you may not enjoy a reasonable level of living while you're alive. Many insurance companies have worksheets to calculate life insurance needs. They total up a family's economic needs and subtract available resources. You can also use the ***Life Insurance Needs*** worksheet (Exercise II-1) on page 52 to calculate your life insurance needs.

The worksheet assumes that you'll need 75% of your current income if a breadwinner is not alive. This is because living costs will be reduced. It also includes a calculation of lump sum cash needs such as mortgage liquidation (optional), debt repayment, and funeral expenses, as well as calculations for the income needs of children (e.g., college expenses) and the surviving spouse. After the total amount of money needed is calculated, existing income sources (e.g., government Social Security benefits), insurance, and assets are subtracted to determine the additional amount of insurance required.

Once you have calculated the amount of coverage that you need, choose an insurance product that is right for you. Two basic types of coverage exist, which, in one form or another, are the basis for virtually all forms of life insurance. The two basic types are term insurance and permanent (cash value) insurance.

Term life insurance is, as the name suggests, insurance that provides protection only for a specific period of time or term. It has no cash value or investment component. Term insurance is one of the best ways to solve an insurance need of short or limited duration (e.g., a worker with young children). It generally also has the lowest up-front premium cost.

Level term policies offer a level amount of protection for a given period of time (e.g., 10 years). Each time the policy is renewed, the premium increases to reflect the additional risk of loss as an insured person ages. The longer the time of the guaranteed premium (e.g., 15 years versus 5 years), the higher the initial premium will be.

Decreasing term policies were developed for people with an insurance need that declines over time. It is most commonly used with home mortgages. With decreasing term insurance, the level of protection declines over time, but the premium remains constant.

Term insurance quotes are available online through www.insure.com, www.accuquote.com, and www.iquote.com. Some of these Web sites also have online calculators to determine the amount of insurance you should have.

Permanent life insurance combines protection for the life of the insured person with a savings component known as the **cash value**. Annual premiums are fixed for the life of the policy and are based on assumptions about interest and mortality rates. They may be payable

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EXERCISE II-1

Life Insurance Needs

Name(s)____________________ Date: __________

Item	Example		Your Amount
1. *Income Replacement*			
Enter 75% of your current income.	$30,000		$________
2. *Years Income Will Be Needed*			

Years	10	15	20	25	30	40
Factor	8.98	12.84	16.35	19.52	22.39	31.42

Enter the factor number.	x 22.39	x	$________
3. *Subtotal (#1 x #2)*	= 671,700	=	$________
4. *Funeral Expenses*			
Enter the amount for funeral expenses and other final-expense needs.	+ 10,000	+	$________
5. *Debt*			
Enter the total amount of all debt owed.	+ 140,000	+	$________
6. *Other*			
Consider other needs such as college expenses, a readjustment period for a spouse, or day care.	+ 0	+	$________
7. *Total Expenses*			
Add lines 3, 4, 5, and 6.	= 821,700	=	$________
8. *Government Benefits*			
Take the monthly amount of Social Security survivor benefits and other benefits and multiply by 12, and then multiply by the number of years they will be received. Subtract that amount from line 7 (e.g., $1,237 x 12 mos. x 14 yrs).	– 207,816	–	$________
9. *Other*			
Subtract other items such as current assets or income from other family members for the same time period as above (e.g., 14 years).	– 300,000	–	$________
10. *Total*			
This is an estimate of how much insurance is needed to cover the needs of your survivors.	= $313,884	=	$________

for life or for a limited period and are generally higher than term insurance premiums.

Common forms of cash value life insurance include **whole life**, **variable life**, and **universal life**. The main difference among these different forms is in the method of cash value buildup. These policies are often sold more for their investment returns than for death protection. However, you'll generally get a higher return and more flexibility with noninsurance investments (e.g., stocks and mutual funds). Thus, many financial experts advise buying 20- or 30-year level premium term life insurance and "investing the difference" between premiums for term and cash value policies.

Over time, your need for life insurance will change. For example, if you leave a job to start a business, you will probably lose company life insurance benefits and need to purchase an individual policy. If you get married or have a baby, you may need to buy your first policy or increase existing coverage. Once your children are grown and/or you've accumulated invested assets over several decades, your need for life insurance coverage should decrease. Below are some general tips for purchasing life insurance.

- Avoid simplistic formulas (e.g., four or five times your income) for determining how much life insurance you need. Instead, use a worksheet or online financial calculator and do an analysis based on your family's personal needs.
- Never cancel an existing policy until you've been approved for a new one and have the new policy in hand. Otherwise, you run the risk of lapsed coverage and/or difficulty obtaining a new policy.
- Compare administrative costs and evaluate fees and agents' commissions before switching policies. The costs might outweigh the benefits.
- Review your beneficiary and contingent beneficiary designations periodically and adjust as needed.
- Buy credit life insurance (to repay debts if a borrower dies) only if you cannot obtain life insurance elsewhere.
- Ask your agent about the interest-adjusted net cost. This is the most widely accepted method of comparing cash value life insurance policies. Cost comparisons should be made only between similar types of policies, however (e.g., universal life).

Health Insurance

An unexpected health crisis can easily wipe out a family's savings. Staying in a hospital for only 2 or 3 days can cost thousands of dollars. Many people rely on an employer group policy (theirs or their spouse's) to pay at least part of their medical expenses. Because of rising health care costs, however, many employers are shifting more of the cost to their employees by requiring higher deductibles, copayments, and payroll deductions for insurance premiums. In addition, increasing numbers of employers have adopted **managed care health insurance** plans, such as health maintenance organizations (HMOs) and preferred provider organizations (PPOs), which require using doctors and hospitals within the plan's network. If you choose to go "out of network," you'll be responsible for all or part of the cost.

With a few specific exemptions, health insurance is required by law or you will pay a penalty via your tax return. Government-facilitated marketplaces (or exchanges) are available to purchase insurance from if coverage is not available from an employer or government program (e.g., Medicare and Medicaid). More information about health insurance exchanges can be found at www.healthcare.gov. Plans must offer "first-dollar coverage" (e.g., no copayment or deductible) for certain preventive services required by law.

If you are self-employed or have an employer that does not provide health benefits, shop around for coverage. Contact an insurance agent that represents many companies. You may also be eligible for group coverage through a trade or professional association, fraternal or civic organization, or state heath insurance program. Another option is to shop for coverage at a government-facilitated exchange under the Affordable Care Act.

If you're under age 65, you should have a comprehensive health insurance policy that includes both basic protection (hospital, surgical, and medical benefits) and major medical coverage for large expenses. If you are over 65, you'll want to purchase a Medicare supplement (a.k.a., Medigap) policy for expenses not covered by Medicare. A good source of information about Medigap policies is the State Health Insurance Assistance Program (SHIP), affiliated with state and county aging/senior services offices, which provides free counseling and/or Medigap policy shopping guides (see www.shiptalk.org).

Below are some general tips for purchasing health insurance.

- Look for a policy that is **guaranteed renewable** or **noncancelable**. Both terms mean that a policy will continue for life or until a certain specified age, assuming no lapse in premium payments. Guaranteed renewable policy premiums will not increase unless they are raised for everyone with the same type of policy. Noncancelable policy premiums will not increase, period.
- Find out if your health care coverage, or your spouse's, can be continued after you retire (as a supplement to Medicare) and, if so, at what cost and with what conditions (e.g., you may need to work for an employer for a minimum of 20 or 25 years to receive retiree health benefits).
- Learn the major provisions of the Affordable Care Act, especially if you need this coverage. For example, all policies must cover a set of essential health benefits, there are four levels of health coverage (bronze, silver, gold, and platinum), and lifetime maximums on coverage and denial of coverage for pre-existing conditions are illegal.
- Understand what your health insurance policy covers in addition to the essential health benefits mandated by the Affordable Care Act. If a service is not covered (e.g., elective surgery), you are

responsible for the total cost. Also, generally, the lower the premium charged for health insurance, the higher the out-of-pocket costs for deductibles, coinsurance, and/or copayments will be. This is the cost-coverage trade-off.

- If you lose your job and, along with it, your health benefits, you may be able to extend group coverage through a federal law called **COBRA**. The law requires employers with 20 or more workers to offer continued coverage to departing workers for up to 18 months. Employees are responsible for paying the full cost of coverage, plus a 2% administrative fee.
- Another option that will often be less expensive than COBRA is to purchase health insurance through a government-facilitated exchange. If you qualify according to income, you may receive government subsidies. These include ***cost-sharing reductions*** which can lower out-of-pocket costs and ***advanced premium tax credits*** which lower monthly premiums.

Below are some tips for dealing with a family medical crisis.

Keep good records. Save every document related to your medical condition, including diagnostic reports, medical bills, "explanation of benefits" statements from health insurers, and receipts or canceled checks for out-of-pocket expenses. If you belong to an HMO, save a copy of each referral form and note the expiration date and number of authorized visits to avoid a denial of claims. If you're scheduled for surgery or diagnostic tests, always ask if the procedure has been precertified.

Don't pay medical bills automatically. Several recent published articles have reported that about 90% of hospital bills contain at least one error and that the majority of mistakes are made in the hospital's favor. Check all bills for medical services and ask for explanations about questionable items. Also beware of medical providers who agree to accept a contracted rate from a managed care plan and then bill patients for an additional amount. Some people pay bills for which they are actually not responsible. Review your health insurance and/or employee benefit documents. If certain expenses are supposed to be covered, call the medical provider and/or your insurance company and ask why you received a bill.

Consider family and medical leave. For employees of companies with 50 or more workers (within a 75-mile radius of each other) who lack employer-paid "sick days," family and medical leave can be used during a medical crisis to care for a family member or for oneself. Eligible employees can receive up to 12 weeks of unpaid leave per year and return to their previous (or a similar) job and maintain health coverage while they're away. This leave can be taken in small increments. For example, cancer patients can take a few days or a week off after each chemotherapy treatment. You do not need to use the 12 weeks all at once. Employees must generally provide their employers with 30 days' advance notice when their leave is "foreseeable."

Disability Insurance

Disability insurance, or rather, the lack of it, is the biggest gap in family insurance coverage. Many people have life insurance to protect their family if they were to die and health insurance to pay their medical bills. Relatively few people, however, have disability insurance, which helps to cover the loss of income due to an inability to work.

Disability insurance provides a source of income to people who are unable to work because of an accident or illness. The maximum amount of coverage is usually limited to about two-thirds (60–70%) of a worker's gross income to encourage him or her to return to work instead of living on disability payments. Disability insurance is especially critical for single people whose paycheck provides their only means of support. It is also important for self-employed persons and employees who are not able to accrue employer-paid sick leave.

Some employers provide disability insurance, but it is generally short-term (2 years or less) and may replace only a small portion of a worker's salary. Social Security also provides disability benefits to qualified individuals, but there are strict guidelines and at least a 6-month waiting period. Worker's compensation provides benefits, but only for job-related disabilities. Since all of these disability income resources have limited benefits and restrictions, an individual policy is recommended.

A key feature of disability insurance is the definition of disability. **Own-occupation ("Own-Occ") policies** define disability as the inability to work in the particular field or trade for which you were trained. For example, bus drivers and flight attendants and surgeons all need to use their hands and sight to work. If they have difficulty seeing or lose the use of an arm, they cannot perform their job duties. **Any-occupation ("Any-Occ")** policies define disability as the inability to engage in any type of employment. It is a much more restrictive definition because you are not considered disabled unless there is no type of work that you can do. Social Security uses the Any-Occ definition of disability to qualify people for benefits. Naturally, Own-Occ policies are more expensive than Any-Occ because they allow people to collect benefits when they could do a different type of job. Policies are also available with a split definition of disability (i.e., a certain number of years of Own-Occ, followed by a switch to Any-Occ) to keep premiums more affordable.

Another key feature of disability policies is the elimination period (a.k.a., "waiting period"). This is the number of days after a disability begins before benefits are paid. The longer the elimination period (e.g., 90 days versus 30 days), the lower the premium will be for a given amount (e.g., $1,000 per month) of disability insurance. Disability policy costs and features vary, however. Like life and health insurance, it is advisable to follow "The Rule of Three" and compare at least three competing policies before making a purchase.

Two key factors to consider when selecting an elimination period are the adequacy of emergency savings to replace lost income and the availability and accrual of employer-paid sick leave. For example, if you have a secure job, with no plans to leave, and have worked for 6 years and accumulated 60 sick days, you could easily choose a 60-day elimination period. On the other hand, if you have no savings or sick leave, you may want a shorter waiting period if you can afford it.

Below are some general tips for purchasing disability insurance.

- Look for a policy that provides protection until age 65 and is noncancelable. A noncancelable provision, as the name implies, guarantees continuation of a disability insurance policy until a specified age (e.g., 60 or 65). Of course, this assumes that premiums are paid in a timely manner. A noncancelable provision is better than a “guaranteed renewable” feature because it prevents premiums from being raised. Guaranteed renewable policies, on the other hand, can increase premiums for designated groups of policyholders (e.g., blue-collar workers or professionals and executives). The trade-off, of course, is that noncancelable policies are more costly than guaranteed renewable policies.

- Require that an ex-spouse purchase disability insurance if you are dependent upon his income for child support and/or alimony. Request this in your divorce decree.
- Try to purchase coverage equal to 100% of your after-tax income to avoid a reduction in lifestyle.
- Look for a policy that pays residual benefits to make up for income lost when the insured is unable to work at full capacity. In other words, your benefit is prorated to make up for the actual amount of income that is lost.
- Consider the costs and benefits of a cost-of-living rider to protect the purchasing power of your monthly benefit. Sometimes, the additional cost results in only a small allowable increase in coverage.
- Women should look for a policy that charges the same premium for both sexes. Gender-based policies generally charge women more.
- If you don’t qualify for disability insurance (e.g., if you recently had a heart attack or treatment for depression), invest the amount you would have paid monthly for premiums to build up your emergency reserves.
- Purchase a “waiver of premium” rider. This means that if an insured is disabled for 90 days, the insurance company waives further premium payments for as long as the person remains disabled.
- Look for a “recurrent disability” clause. This means that if a person recovers from a disability but becomes disabled again from the same cause within 6 months of returning to work, the company does not start the policy elimination period all over again.

Remember, your earning power is one of your greatest financial assets. Protect it with disability insurance. Not convinced? Then consider this: Mortgage lenders report that foreclosures due to disability occur 16 times as often as they do for death. Your chance of being disabled for 3 months or longer prior to age 65 is about three times your chance of dying.

Long-Term Care Insurance

With longer average life expectancies being reported for both men and women, the cost of long-term care is an increasing financial risk. The term "long-term care" refers to a wide range of services ranging from limited assistance at home with daily activities to admission to a nursing home for intensive medical care and support. The risk of long-term care can be dealt with in three ways: retain it (people with a sufficient net worth can self-insure), avoid it (staying healthy is the best method but, unfortunately, there are no guarantees), or transfer it (pay an insurance company to handle the risk).

Do you need **long-term care (LTC) insurance**? Below are some guidelines to consider.

- A good rule of thumb, according to ***Kiplinger's*** *Retirement Report,* is that no more than 8% to 10% of your annual income should be spent on long-term care premiums (e.g., $3,200 to $4,000 premium with a $40,000 income).
- Should read as follows: Many long-term care experts say that if you have more than $150,000 to $250,000 in assets per person in your household (excluding your residence) and an annual income of $35,000 to $50,000 or more per person, you are a good candidate to buy a policy. You should also be able to afford the premium without a lifestyle change, as well as a potential 20–30% future increase. If your net worth is over $1 million to $3 million, you can often self-insure.
- Couples often need long-term care insurance more than singles because, if one spouse ends up in a nursing home, it can greatly reduce the amount of assets left for the well spouse.
- The best time to purchase a policy is generally around age 60. If you wait too long, premiums increase significantly and/or you could become uninsurable through a medical diagnosis or pre-existing condition. If you buy in your 40s or 50s, however, you could pay premiums for a long time before coverage is actually needed.

Below are some additional tips for purchasing long-term care insurance.

- Understand how you qualify for benefits. Coverage generally begins when a person is unable to perform a certain number of "activities of daily living" (e.g., bathing, dressing, toileting, continence, moving to and from a bed or chair, and eating).
- Insist on inflation protection to increase the amount of benefits over time. A "compound" inflation rider results in a larger benefit increase than a "simple" inflation rider, but it also costs more. The difference is that a simple inflation rider is calculated on the original benefit amount, while the compound inflation rider is based on the inflation-adjusted amount paid the previous year.
- Choose an appropriate elimination period (the amount of time between when care begins and when benefits are paid) based on the number of days of care you can afford to pay for out-of-pocket. Elimination periods can range from zero to 90 to 365 days for people who can afford to pay for a full year of care themselves in exchange for a lower premium.
- Two additional key decisions are the length of time you'll receive benefits (the range is 1 year to an insured's lifetime) and the benefit amount (often a specific number of dollars per day). The longer the benefit period and the higher the policy benefit, the higher the cost.
- Contact your county SHIP office for information and counseling about available LTC policies.

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Auto Insurance

One of the largest items in many household budgets is auto insurance. The premium you pay for auto insurance depends upon a number of personal factors, including your state of residence, your driving record, where you live (e.g., city versus rural area), your marital status, and your credit history. That's right, some insurers are now checking credit reports as a factor to determine insurance premiums. In addition, driving an expensive, high-performance car, putting a lot of miles on your car, and having a young driver at home will run up your insurance bill.

Automobile insurance has two parts:

Liability coverage. This covers liability for bodily injuries, property damage, and medical expenses to others when you are at fault and coverage to pay for injuries caused by an unidentified "hit and run" driver or a motorist who is uninsured or underinsured (i.e., someone with liability limits less than the cost of damages).

Physical damage coverage (collision and comprehensive). This covers damage done to your vehicle from a collision (e.g., with another car or a telephone pole) or by fire, theft, flood, falling objects, or hitting an animal.

Liability coverage can be stated as either a single-limit or a split-limit. A single limit (e.g., $300,000) means that an insurance company will pay up to that amount for damages and injuries from a single accident. More commonly, though, liability limits are expressed as split limits (e.g., 100/300/50). This means that in a single accident the insurance company will pay up to $100,000 for each person injured, $300,000 for the total accident, and $50,000 for property damage. In light of today's high medical costs and the tendency of accident victims to sue, liability limits of 100/300/50 or higher are recommended. You can also increase your liability coverage further with an umbrella liability policy.

Umbrella liability insurance. Excess liability insurance that supplements the liability limits of a homeowner's or renter's policy and an automobile insurance policy (see Lesson 9, Umbrella Liability Insurance, for more information).

Liability coverage is the most important part of an auto insurance policy. It is important to remember that there is no upper limit on a potential liability judgment. It can be whatever the results of a lawsuit are if you are in an auto accident and a court decides that you are at fault. Awards in the millions of dollars are not unheard of. On the other hand, the cost of fixing physical damage to a car is limited to its replacement value. If you total a car valued at $8,000, for example, that is the maximum amount that you can lose. Although this loss is high, it isn't anywhere near the cost of court-ordered damages.

The minimum required amount of liability coverage is set by individual states and is generally much lower than 100/300/50. If someone had only $5,000 of minimum property coverage, for example, and was held responsible for totaling a $40,000 luxury car, their coverage would not even begin to cover the damages. Ditto for liability for an injured person's medical bills (e.g., $60,000 of expenses – $30,000 of coverage = $30,000 for which an underinsured motorist is responsible).

Below are some general tips for purchasing automobile insurance.

Increase liability coverage to at least 100/300/50. Limits of $200,000 per person and $500,000 per accident are even better (unless you carry an umbrella liability policy). In addition, raise your "uninsured motorist" coverage (which covers you if a driver with no liability insurance or inadequate liability insurance hits you) to 100/300/50 or higher. The extra cost is usually minimal.

Raise the deductibles on your policy (e.g., collision) to the highest level that you can afford to pay in case of an accident. Make sure that you have this amount (e.g., $1,000) saved in your emergency fund.

If you drive an older (7+ years) car, evaluate the cost and payoff for collision and comprehensive coverage on that vehicle. Check the Kelly Blue Book web site (www.kbb.com) to find out what your car is worth. If it got totaled, that is approximately how much you would get from your insurance company, after the deductible. Canceling collision and comprehensive coverage for older cars is a way to keep premiums down.

Buy a make and model of car that is less costly to insure and equip it with money-saving features such as air bags and alarms. High-performance sports cars are naturals for high-priced coverage. Standard sedans are usually the cheapest to insure.

Take advantage of available discounts. For example, combine two or more cars on one policy or purchase homeowners and auto insurance from the same insurance company. Discounts may also be available for short-distance drivers, part-time drivers (e.g., students away at school), drivers with a clean driving record (i.e., no "at fault" accidents), cars with antitheft devices, female drivers age 30–60, and students with a B average or better.

Keep your driving record clean and consider taking a defensive driving course. Make sure that teen divers in your family take driver's education training and maintain a good academic record.

Avoid duplication of insurance. An example is coverage for auto-related medical expenses if you already have a good comprehensive health insurance policy. However, if you drive a lot of nonfamily members around (e.g., carpooling), you may want to keep medical payments coverage. Otherwise, an injured passenger who does not have health insurance must sue you for negligence to get coverage under your liability.

Shop around. Get information about rates, coverage, and claims service from a number of companies or agents. A few phone calls could save $50–$100 per year (or more).

Notify your insurance company if you or an insured household member substantially increase or decrease your driving; move to a different city or state; buy or sell a car; or marry.

Homeowner's Insurance

For many people, their home is the single largest purchase they will ever make. Household furnishings and personal possessions represent another sizable investment. A lawsuit for a dwelling-related injury could seriously jeopardize the average homeowner's financial future. The risk of damage to a home and/or personal possessions and the possibility of home-related liability are covered in a single package called a homeowner's policy, which protects against the following specific risks:

- damages to a house or other structures (e.g., a freestanding shed or garage)
- loss of personal property
- living expenses while your home is being repaired
- personal liability
- medical payments to others injured on your property.

Specific types of homeowner's insurance policies are often referred to with an "HO" number. HO-1, HO-2, and HO-3 policies are specifically for homeowners. HO-4 policies are for renters and provide personal property and liability coverage. HO-6 policies are for condominium owners and insure the interior of a condo owner's unit, personal possessions, and liability to others. A special type of homeowners coverage, called HO-8, covers owners of older homes.

Take the time to photograph or videotape the contents of your home or apartment. For major items (e.g., electronic equipment), make a list of the brands and serial numbers as well. Store this documentation away from home, preferably in a safe deposit box at a bank. You could also use a digital camera to produce pictures for proof of ownership. Store the computer files and/or printed photos with a written inventory of major possessions. Documenting personal property shouldn't take a lot of time and is good "insurance" in the event of fire, flood, or theft.

Another wise move is to check the adequacy of your homeowner's insurance policy. The most important figure is the amount of insurance carried on a dwelling because other property loss limits are usually stated as percentages of it. Most insurers require that a home be insured for at least 80% of its full replacement cost to be considered fully insured. Replacement cost is the amount that you would have to spend today to rebuild a home, excluding the value of its land and foundation.

The 80% rule applies to losses on a home (dwelling) only, not to personal property. There are restrictions, however. Like all insurance, losses will be covered only up to the limits of the policy. Here is a specific example. A homeowner with a house having a replacement cost of $200,000 should carry at least $160,000 (80%) of coverage. If a fire caused $50,000 of damage (floods and mudslides are generally excluded), the insured would be paid the full $50,000 with no deduction for depreciation. However, if the house were totally destroyed, the insured would be able to collect up to $160,000, which is the face value of the policy. Covering the risk of loss of the full replacement value would require buying $200,000 of dwelling coverage.

If you have less than 80% replacement coverage and a partial loss, you will receive only partial payment to repair the damage. Insurance companies use a formula to determine prorated benefits for homes that are not fully insured. If your home is insured for less than 80% of its replacement value, you'll receive the greater of the actual cash value of the portion of the house that was destroyed (actual cash value = replacement cost minus depreciation) or a prorated amount as a result of the following formula:

$$\frac{\text{amount of insurance purchased}}{\text{80\% of replacement cost}} \times \text{amount of loss}$$

To use the same example as before, if a homeowner had $150,000 of coverage on a $200,000 home (75%), instead of $160,000 (80%), their coverage for a $50,000 loss would be prorated to $46,875 (150,000 ÷ 160,000 or 0.9375 x $50,000 = $46,875).

It is a big mistake not to insure your home for at least 80% of replacement cost. Having 80% coverage means that repairs are fully funded up to the policy limit. Ideally, dwelling coverage should increase periodically for inflation when your policy is renewed. If not, check with your property and casualty insurance agent to make sure that the amount of coverage is still adequate.

As a general rule, the contents of a home are insured for no more than half of the coverage on the home. A much better choice is to add a **guaranteed replacement cost** endorsement to your policy to cover both the home (if available; many insurers no longer offer this option) and its contents.

For personal property, buy coverage that will replace items at current prices, up to a specified limit, rather than at their actual cash value (after depreciation). Often, the extra premium for replacement-cost coverage is very moderate (e.g., 10–15% more than the amount charged for actual cash-value coverage). Renters should purchase replacement cost coverage also. If you own expensive items, such as jewelry or silver coins, floater policies to insure their full value are also advisable.

Below are some additional tips for purchasing homeowner's insurance.

Pay your premium annually to reduce the cost. Generally speaking, the less bookkeeping for an insurance company, the lower the premium.

Installing safety devices, such as a burglar alarm and smoke detectors, might also reduce your insurance premium. Check with your agent to see what devices qualify for discounts.

Don't overinsure for small losses by selecting a low (e.g., $250) deductible. In addition to raising your premium, several low deductible claims within a few years could result in cancellation of your policy.

Consider purchasing flood insurance, even if you're in a low-risk area. According to the Federal Emergency Management Agency, the average premium is approximately $500 per year for $100,000 worth of coverage, depending on where you live and what coverage you choose. Federally backed flood insurance is the only kind of policy that is available. Check to see if your insurance company sells it. For additional information about flood insurance, visit www.floodsmart.gov.

If your home is damaged, let your insurance company know that you've suffered damages, make a list of all damaged or destroyed personal property, take photographs of damages, and make temporary repairs (if necessary) to prevent further damage.

Umbrella Liability Insurance

What if one of the neighborhood children fell while climbing a tree in your yard and suffered a severe, permanent injury? Or your dog bit a neighborhood child? Or you accidentally hit a swimmer with your motorboat? Or a houseguest fell and broke a hip near your pool? Or your neighbor took offense at a joke and sued you? Harsh examples, yes, but so are the realities of today's legal environment. Too often, people are involved in lawsuits for events beyond their control. People injured on your property or by your actions may be able to prove that you were negligent and collect damages.

Dollar amounts and the frequency of settlements for all sorts of liability cases have skyrocketed in recent years. Thus, one of the biggest financial risks that people face is the risk of being brought before a jury and sued for hundreds of thousands, even millions, of dollars. Fortunately, there is insurance to protect against this risk and it is relatively inexpensive.

Umbrella liability (a.k.a., "excess liability") insurance supplements the liability limits (e.g., $300,000) of a homeowner's or renter's policy and an automobile insurance policy. In addition, it covers situations excluded by other insurance, such as lawsuits for libel and slander, defamation of character, false arrest or false imprisonment, liability due to boat or aircraft accidents, and damages you cause while on someone else's property. Activities related to an insured's business or business property are not covered, however. Umbrella liability policies provide at least $1 million in additional liability protection over and above what policyowners already have with their existing home and auto policies.

Here's an example of how umbrella liability insurance works. Assume an accident takes place on your property and you are successfully sued for $650,000. You carry $300,000 of underlying liability on your homeowner's insurance, along with a $1 million umbrella policy. The first $300,000 of the settlement would be paid under the homeowner's policy and the umbrella policy would pick up the $350,000 difference. If you were held liable for $1,300,000, you would be covered for the full amount—a combination of $300,000 from the homeowner's coverage and the $1 million umbrella liability limit.

Relatively few people file large liability claims so the cost of umbrella coverage is reasonable. An estimated 80% of suits against individuals are settled for less than $300,000. Policies generally cost between $250 and $300 annually for the first $1 million of coverage and just under $500 for $2 million of coverage. Large amounts of coverage can also be purchased for increasingly higher premiums.

Below are some tips for purchasing umbrella liability insurance.

- Be sure to purchase the underlying amounts (e.g., $300,000) of auto and homeowner's insurance required by the policy issuer. Otherwise, there will be a gap in coverage because umbrella liability policies pay only damages that exceed this amount. Some insurers will also require that you purchase both your homeowners and auto policy from them before they will issue an umbrella policy.

- If you are active in the community, check to see if protection from liability for service on nonprofit boards is covered.

- Check at least three competing umbrella policies and compare coverage and exclusions (e.g., damages by pets, overseas coverage, definition of covered family members).

EXERCISE II-2

Insurance Checklist

Check "yes" or "no" for each question. Items for which "no" is checked indicate actions that should be taken in the future to improve your household insurance coverage.

	Yes	No
Can you locate your insurance policies, such as life, health, homeowner's or renter's, automotive, and disability?	☐	☐
Do you know the type and amount of life insurance protection you have?	☐	☐
Is your life insurance coverage adequate to protect dependents and assets?	☐	☐
Do you know the names of the beneficiaries and contingent beneficiaries of your life insurance policies?	☐	☐
Do you know the type of health insurance protection you have and the provisions of the policy?	☐	☐
Do you have major medical insurance with high lifetime limits?	☐	☐
Do you have adequate disability insurance?	☐	☐
Is your automobile liability insurance sufficient?	☐	☐
Is your automobile adequately insured for collision, yet not overinsured?	☐	☐
Are your home and personal property insured for today's replacement values?	☐	☐
Do you know the limits in your homeowner's policy on loss of silver, furs, collectibles, computers, and stereo equipment?	☐	☐
Have you appraised and insured valuables such as jewelry, silver, and collectibles?	☐	☐
Have you made a personal property inventory?	☐	☐
If you are not a homeowner, do you have renter's insurance that will cover your personal belongings?	☐	☐

Adapted from: Cude, Brenda. 1989. "Insurance Decisions." University of Illinois Cooperative Extension. © Board of Trustees of the University of Illinois.

EXERCISE II-3

Insurance Evaluation and Goals

Today's date ______/______/______ Review in 6 months on ______/______/______

To help you evaluate insurance coverage and plan for future needs, complete the forms on the following pages using your current policies as the source of the information. You may wish to confirm your findings with your agent(s).

Homeowner's Insurance

Name of insurance agency____ Telephone ________________________

Address____

Agent______________________________ Name of company insuring your property________________________

Date of policy________________ Annual premium $______________ Policy number______________________

Type of policy: ☐ HO-1 ☐ HO-2 ☐ HO-3 ☐ Home business

☐ HO-4 (renters) ☐ HO-6 (condominium) ☐ HO-8 (older home)

Estimated replacement value of your home: $______________

Estimated value of home's contents: $______________

Building is insured for: $______________

Contents are insured for: $______________

Is your home insured for at least 80% of its replacement cost: ☐ yes ☐ no

What is the deductible amount you must pay? $______________

Medical coverage per person is: $______________

Check the type of insurance, amount of coverage, and special riders or floaters.

Yes	Amount	Cost/year ($/yr)
☐ full replacement value	$______________	$______________
☐ actual cash value	$______________	$______________
☐ flood damage	$______________	$______________
☐ earthquake damage	$______________	$______________
☐ loss of use limits	$______________	$______________
☐ credit card protection	$______________	$______________
☐ sewer backup	$______________	$______________
☐ other riders	$______________	$______________

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EXERCISE II-3

Insurance Evaluation and Goals

(continued)

What are your insured dollar limits, by category, on the following:

- money, gold, silver, coins, bank notes, medals $______________
- securities, deeds, manuscripts, stamps, valuable financial papers $______________
- watercraft and their trailers, furnishings, equipment, and outboard motors $______________
- trailers not used with watercraft $______________
- jewelry, precious and semiprecious stones, watches, and furs $______________
- silverware, silver plate, gold-ware, gold-plated ware, pewter-ware $______________
- guns and firearms $______________
- computers, special stereo equipment $______________

Disability Insurance

I have disability insurance ☐ through my employer ☐ purchased by me.

Name of company that insures me ____

Yearly premium $______________ Agent__________________________ Telephone ____________________

Amount I would receive per month if unable to work $___________________

Length of time I must wait before receiving benefits ___________________________

Can the policy be renewed? ☐ yes ☐ no Can it be canceled? ☐ yes ☐ no

How is disability defined and what does it include? ____

____

____

How long can I receive benefits? ______________________

Health Insurance

My health insurance is provided ☐ through my employer ☐ by me ☐ by spouse

Monthly or yearly premium is $______________

The amount of copayment for each is $______________ for office visits, $______________ for prescription drugs, and/or a $______________ annual deductible.

The policy ☐ can ☐ cannot be canceled. It contains ☐ vision ☐ dental coverage.

The policy contains a stop-loss limit of $______________ and a lifetime limit of $______________.

EXERCISE II-3

Insurance Evaluation and Goals

(continued)

Automobile Insurance

Name of insurance agency__________ Telephone__________

Address __________ Agent__________

Name of company insuring your vehicles__________

Policy number__________

What are your liability limits? (written, e.g., 100/300/50) __________

Each person in the accident $__________

Total bodily injury per accident $__________

Total property damage per accident $__________

What is your uninsured motorist coverage? $__________

Each person per accident $__________ Total bodily injury per accident $__________

What is your comprehensive coverage limit? $__________ Your deductible $__________

What is your collision limit? $__________ What is your deductible? $__________

Does your policy cover a rental car ☐ when on vacation? ☐ due to an accident?

Life Insurance

I have the following term life insurance ☐ from my employer ☐ purchased on my own.

☐ Individual term $__________ (amount) from __________ (company)

☐ Group term $__________ (amount) from __________ (company)

☐ Other $__________ (amount) from __________ (company)

I have the following cash value life insurance (whole life, variable life, etc.):

Agency purchased from__________ Company insuring me__________

Type of insurance__________ Policy number__________

Amount $__________

The current cash value of all my life insurance as of today _____/_____/_____ is $__________

The total amount of life insurance listing me as a beneficiary from my spouse or partner is $__________

EXERCISE II-3

Insurance Evaluation and Goals

(continued)

To Do List

To be fully aware of the insurance coverage that I have and to ensure adequate coverage at the most reasonable cost, I should (check all that apply):

- ☐ prepare an inventory and take photographs or make a video of personal property.
- ☐ add smoke alarm(s), radon detector(s), and fire extinguisher(s) to my home.
- ☐ increase/decrease amount of dwelling cost coverage to at least 80% of replacement value.
- ☐ increase/decrease the deductible on homeowner's policy.
- ☐ increase/decrease coverage of personal property on homeowner's policy.
- ☐ add a rider to my homeowner's policy to cover special items.
- ☐ insure my home/apartment and automobile(s) with the same company.
- ☐ increase the deductible on my automobile policy for comprehensive and collision.
- ☐ increase/decrease medical coverage on automobile policy.
- ☐ increase/decrease liability coverage on automobile policy.
- ☐ increase/decrease collision coverage on automobile(s).
- ☐ increase/decrease comprehensive coverage for automobile(s).
- ☐ increase/decrease uninsured/underinsured motorist coverage.
- ☐ investigate term life insurance.
- ☐ increase/decrease amount of life insurance on my life and that of my spouse/companion.
- ☐ review life insurance beneficiary designations to ensure they reflect my current situation.
- ☐ investigate cost and coverage for disability insurance.
- ☐ investigate the following changes in health insurance coverage (list).

____

____

- ☐ investigate cost and advantages of an umbrella policy.
- ☐ other (list).

____

____

Exercise II-3 adapted with permission from: Dahl, B. (1996). *A Working Woman's Guide to Financial Security*. Urbana, Ill.: University of Illinois Cooperative Extension. ©Board of Trustees of the University of Illinois.

Your Minimum "Need To Knows" about Insurance

- A periodic review of insurance coverage is necessary to determine if present coverage is adequate. Use the questions on the *Insurance Checklist* (Exercise II-2) on page 64 to assess your present coverage and the *Insurance Evaluation and Goals* worksheet (Exercise II-3) on pages 65–68 to record key details about your current policies. Review the "to do list" for improved insurance coverage at the end of Exercise II-3.
- There are five ways to manage life's financial risks: do nothing and hope for the best, risk avoidance, risk reduction, risk acceptance, and risk transfer (insurance).
- The size (amount) of a potential loss—rather than its frequency—should be the determining factor in purchasing insurance. This is called the "large-loss principle."
- Major large-loss risks are disability, liability, large medical bills, loss of a household earner's income, and destruction of one's home.
- Some insurance is unnecessary for most people, including credit insurance, life insurance for children and people without dependents, cancer insurance, flight insurance, hospital indemnity policies, and "double indemnity" clauses in life insurance for accidental deaths.
- Consumers should check the financial stability of an insurance company before purchasing a policy.
- All insurance policies have features that limit coverage, including benefit coordination clauses, deductibles, copayments, coinsurance, elimination periods, and policy limits.
- Life insurance makes sense if you have dependents that would suffer financially in the event of your death. This includes both family earners and full-time homemakers.
- Term life insurance provides protection only for a specific period; cash value life insurance contains a savings component.
- Disability insurance provides a source of income to people who are unable to work because of an accident or illness.
- The longer the elimination (waiting) period on an insurance policy, the lower the premium for a specific amount of coverage will be.
- Liability coverage is the most important part of an auto insurance policy and should be at least 100/300/50.
- A home should be insured for at least 80% of its replacement cost, and a "guaranteed replacement cost" rider should be purchased for both a home (if available) and its contents.
- Umbrella liability insurance provides coverage above underlying auto and home liability limits.

Money Talk: A Financial Guide For Women

Action Steps

SESSION II: **Insurance Basics**

- ☐ Review existing insurance policies and identify weaknesses, such as low liability limits.
- ☐ Identify "big ticket" insurance gaps (e.g., lack of disability and LTC coverage).
- ☐ Use the *Life Insurance Needs* worksheet (page 52) or ask an agent to determine policy needs.
- ☐ Read the coverage limits and exclusions of your health insurance policy.
- ☐ Determine if you receive any disability insurance (DI) through your employer.
- ☐ Contact an insurance agent for three price quotes for an individual DI policy.
- ☐ If you have an individual DI policy, read the coverage limits and exclusions.
- ☐ Read the coverage limits of your auto and homeowner's policy.
- ☐ Ask your property/casualty agent for ideas to reduce premiums and improve coverage.
- ☐ Get a price quote for umbrella liability coverage from your auto or homeowner's agent.
- ☐ Get three price quotes for long-term care coverage and consider buying a policy if you are about age 60.

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