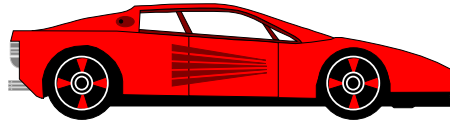


LIFE IS FULL OF RISKS...MANY HAVE FINANCIAL CONSEQUENCES

- ◉ Damage to car in accident
- ◉ Loss of home and/or possessions
- ◉ Loss of income due to disability
- ◉ Loss of a household earner's income
- ◉ Loss of a homemaker's services
- ◉ Large medical bills for disease or injury
- ◉ A court judgment of liability for damages



**Risk
Avoidance**

**Don't stop at a
convenience store in
a bad part of town
after midnight**

**Risk
Shifting**

Buy Insurance

Self Insurance

**Ways to
Manage
Risk**

**Risk
Reduction**

Wear seatbelts

**Install an
alarm system**

**Risk
Assumption**

COMMON TYPES OF RISK

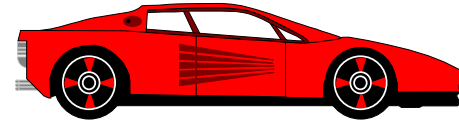
○ Personal Risks

- Loss of income or life
- Illness and disability



○ Property Risks

- Losses to property
- Caused by perils such as fire or theft



○ Liability Risks

- Losses caused by negligence
- Resulting in injury or property damage to others



HOW INSURANCE WORKS

Insurance Policy - Contract between a person buying insurance (the insured) and an insurance company (the insurer).



THE ESSENCE OF INSURANCE

○ Insurance consists of two basic elements:

- Reduction of risk
- Sharing of losses



○ Law of Large Numbers - As the number of members in a group increases, predictions about the group's behavior become increasingly more accurate

AN INSURABLE INTEREST MUST EXIST TO BUY INSURANCE

- ◉ Insurable Interest - When a person or organization stands to suffer a financial loss from a specific risk.
- ◉ Example #1: The person that lives in an house that is insured
- ◉ Example #2: The spouse of person who is covered by life insurance



INSURANCE BASICS

- Protect against risk by paying a premium
- “Large Loss Principle” (size of loss matters)

- Major “large-loss” risks:

- Loss of income due to disability
- Loss of a household earner’s income
- Destruction of one’s home (fire, flood, etc.)
- Liability losses due to a court judgment
- Large medical expenses (e.g., cancer treatment)



VIDEO: DEDUCTIBLES AND COINSURANCE

<http://www.youtube.com/watch?v=8lybFtOtXdc&feature=related>

Deductibles and Coinsurances

staysmartstayhea1thy

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25 videos ▾

LIFETIME MAXIMUM

1:34 / 2:42

FACTORS THAT AFFECT HOMEOWNER'S INSURANCE

- ◉ Location of Home (e.g., rural vs. urban)
- ◉ Type of Structure (e.g., brick vs. wood)
- ◉ Coverage Amount and Policy type
- ◉ Home Insurance Discounts
 - Alarm system
 - Smoke detectors
 - If you insure car with the same company
- ◉ Company Differences
 - Compare costs and coverage



FACTORS THAT AFFECT AUTO INSURANCE



- ◉ **Vehicle Type**
 - Year, make, model, and theft rate
- ◉ **Rating Territory**
 - Accident, auto theft, and vandalism rates in the area where you live
- ◉ **Driver Classification**
 - Age, sex, marital status, credit history, driving record, driving habits
 - Assigned risk pool for those unable to obtain insurance

Reducing Automobile Insurance Premiums

- ◉ **Compare Companies**
- ◉ **Premium Discounts**
 - Establish and maintain a good driving record
 - Install security devices such as a car alarm
 - Multiple policies with the same company
 - Larger deductibles

AUTOMOBILE LIABILITY INSURANCE POLICY LIMITS

Automobile liability insurance limits may be quoted as three figures:

100/300/50

\$100,000

Per-person bodily injury limit specifying that \$100,000 is the most that will be paid for any **one person's** bodily injury liability losses from an accident.

\$300,000

Per-accident bodily injury limit specifying that \$300,000 is the most that will be paid for **all** bodily injury liability losses from an accident.

\$50,000

Per-accident property damage liability limit specifying that \$50,000 is the most that will be paid for **all** property damage liability losses from an accident.

OR

They may be quoted as a single figure:

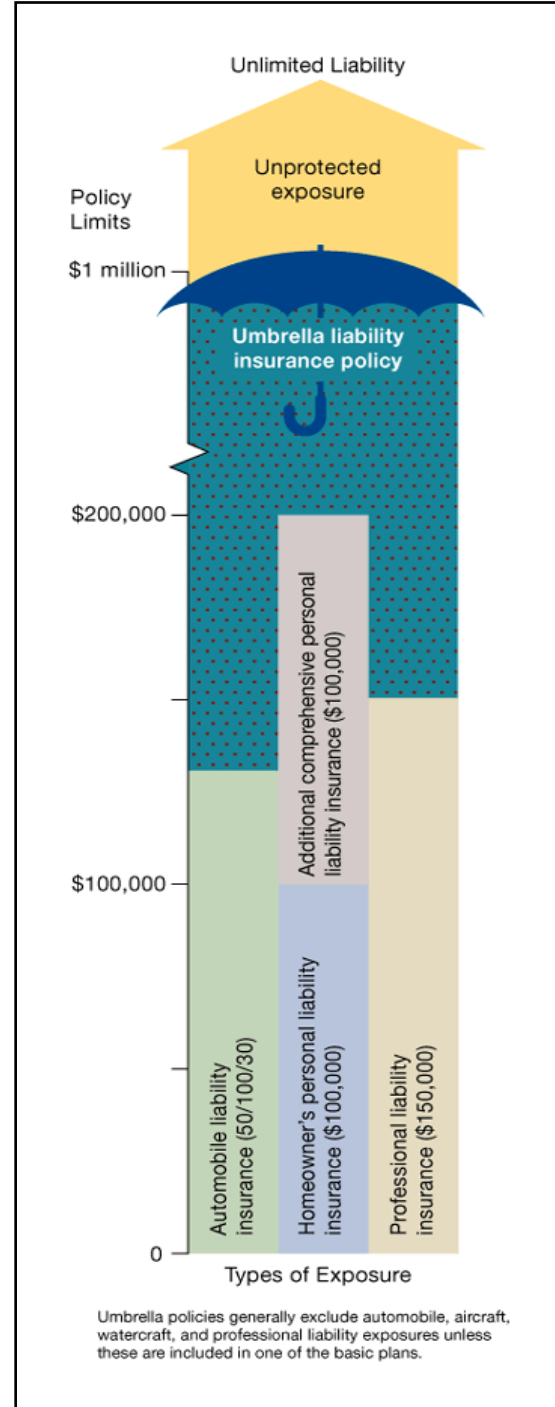
\$250,000

Per-accident limit for all liability losses specifying \$250,000 as the most that will be paid in liability losses arising out of one accident.

Source: *Personal Finance* by Garman and Forgue, Houghton-Mifflin

HOW UMBRELLA INSURANCE POLICIES WORK

Source: *Personal Finance* by Garman and Forgue, Houghton-Mifflin



WHY DO PEOPLE NEED LIFE INSURANCE?



- ◉ **Income-Replacement Needs** - The financial losses resulting from premature death are lost income and employee benefits
- ◉ **Major Expenses**- Two examples are a mortgage and children's college expenses
- ◉ **Final Expenses** - One-time medical and funeral expenses occurring just prior to or after a death.
- ◉ **Readjustment-Period Needs** - Allows surviving spouse/family members to pay ongoing expenses

BUY TERM LIFE INSURANCE AND INVEST THE DIFFERENCE?

Cash-Value Policy

Premium to pay for insurance protection, sales commissions, and company expenses



Premium to provide for the building of cash value plus related company expenses

Term Policy

Premium to pay for insurance protection, sales commissions, and company expenses



Dollars not spent on life insurance and available to spend, save, or invest

CALCULATING YOUR NEED FOR LIFE INSURANCE

- Multiple-of-Earnings Approach is an inaccurate method
 - Multiplies one's income by some factor (e.g., 7x or 10 x) to derive a rough estimate of needed insurance
- Needs Approach is a Better Method
 - Considers individual factors that affect life insurance needs (personalized calculation)
- Resource:
<http://www.bankrate.com/calculators/insurance/life-insurance-calculator.aspx>

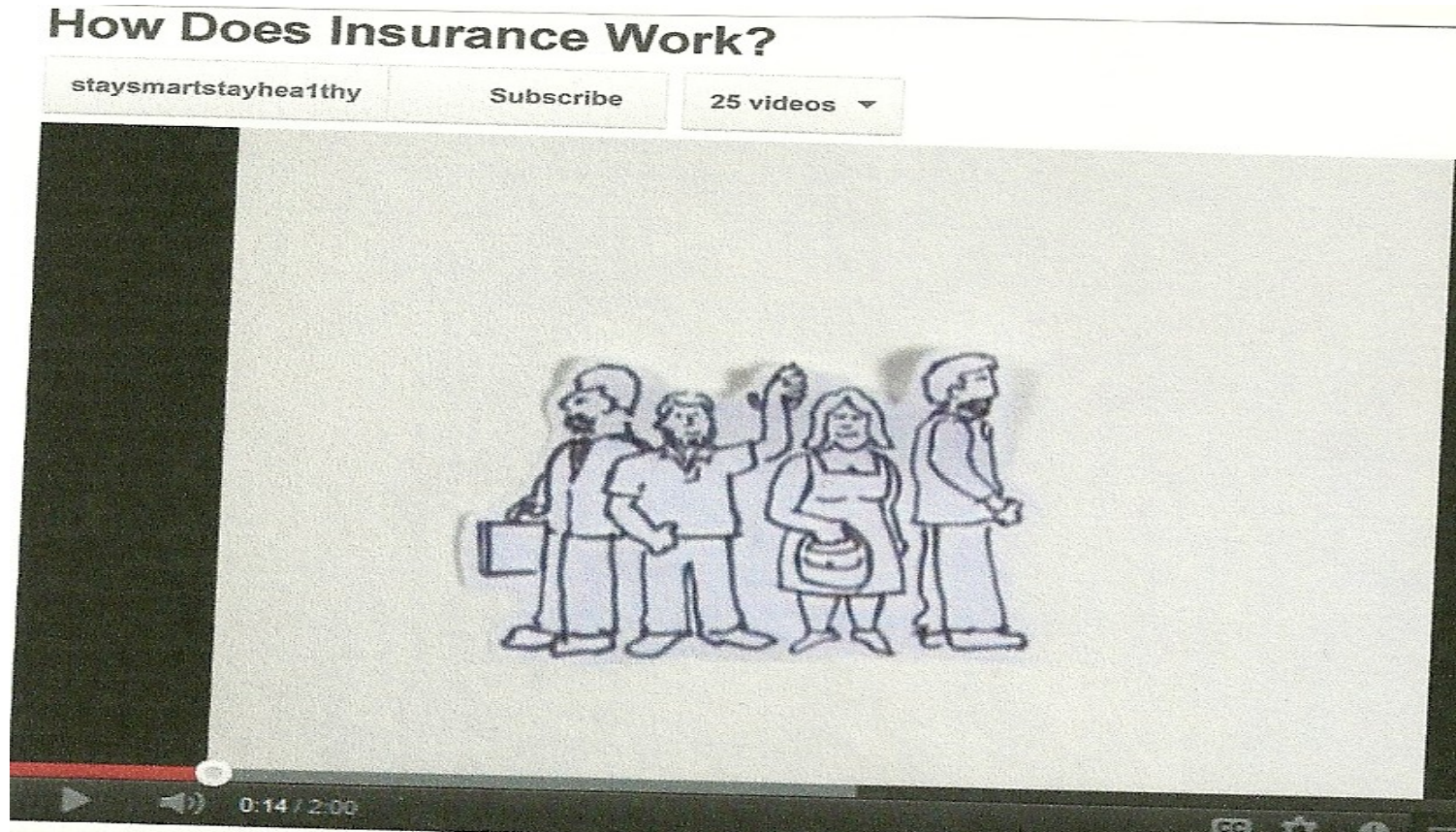
BUYING LIFE INSURANCE

- Research insurance company ratings by major rating firms:
 - A. M. Best
 - Standard and Poor's
 - Duff & Phelps
 - Moody's
 - Weiss Research
- Talk to friends, colleagues, or advisors
- Online premium quote services



VIDEO: HOW DOES [HEALTH] INSURANCE WORK?

<http://www.youtube.com/watch?v=nXfGeMNnBsM>



COMPARE AVAILABLE OPTIONS

Benefits	Premier Plan	Standard Plan
In Network Deductible	\$500 / \$1,000	\$1,000 / \$2,000
Out of Network Deductible	\$1,000 / \$2,000	\$1,500 / \$3,000
In – Network Co-Pay per Office Visit Co-insurance	\$20 PCP/ \$40 Specialist 90% after deductible	\$30 PCP /\$50 Specialist 80% after deductible
Out of Network Co-insurance	70% after deductible	60% after deductible

COMPARE AVAILABLE OPTIONS

	RETAIL	MAIL ORDER
Tier 1	\$10 Co-pay 30 Day Supply	\$20 Co-pay 90 Day Supply
Tier 2	\$30 Co-pay 30 Day Supply	\$60 Co-pay 90 Day Supply
Tier 3	\$50 Co-pay 30 Day Supply	\$100 Co-pay 90 Day Supply

HEALTH INSURANCE MUST-HAVES

A health insurance plan should:

- Offer basic coverage for hospital and doctor bills
- Provide at least 120 days' hospital room and board in full
- Provide at least a \$1 million lifetime maximum for each family member
- Pay at least 80 percent for out-of-hospital expenses after a yearly deductible of \$500 per person or \$1,000 per family
- Impose no unreasonable exclusions
- Limit your out-of-pocket expenses to no more than \$3,000 to \$5,000 a year, excluding dental, vision care, and prescription costs

Although health insurance plans vary greatly, all plans should have the same basic features. *Would you add anything to this list of must-haves?*

HEALTH CARE SAVINGS ACCOUNTS

○ Health Spending Accounts (HSA)

- Money contributed to pre-tax dollar account
- Must have a high-deductible policy

○ Health Reimbursement Accounts (HRA)

- Also tied to high-deductible policies
- Funded solely by employer
- Unused funds carried over to next year



○ Flexible Spending Accounts (FSA)

- Workers contribute pre-tax dollars
- Funds managed by employer
- Unused funds forfeited at year end

WAYS TO REDUCE PERSONAL HEALTH CARE COSTS

- ◉ Eat a balanced diet
- ◉ Keep weight under control
- ◉ Avoid smoking
- ◉ Don't drink excessively
- ◉ Get sufficient rest, relaxation, and exercise
- ◉ Drive carefully
- ◉ Protect yourself from medical ID theft
- ◉ Use free public health programs



GENERAL INSURANCE TIPS

- ◉ Insure for major losses
- ◉ Choose a highly rated insurance company
- ◉ Select the highest deductible you can afford
- ◉ Pay premiums annually or semi-annually
- ◉ Avoid duplicating coverage
- ◉ Ask about available discounts
- ◉ Follow “The Rule of Three”

CONTENT SESSION 3

ACTIVITIES

