

## **Automobile Insurance**

Automobile insurance or any motor vehicle insurance such as truck or motorcycle insurance, provides coverage in several areas.

**Liability** coverage provides protection to others when you injure or damage them while operating your vehicle. This includes injuries to pedestrians, injuries to passengers in another car, damages to other cars and damages to buildings.

It protects you in suits or claims by others up to the full limits of your policy thereby safeguarding your home, savings, and income should your insured car injure or kill someone or damage the property of another.

It pays for all costs for which you are legally liable up to the limits of your policy, plus court costs and attorney fees. It also pays your wages or salary up to \$100 per day in loss of wages if attendance in court is required in connection with a liability suit.

**Personal Injury Protection** covers medical payments, work loss, and accidental death.

It pays the bills for you and your passengers for reasonable medical, hospital and funeral services as a result of injuries while in your insured vehicle. It also protects you and your family members living in your household if struck by a car as a pedestrian or while occupying a non-owned auto.

With some policies it pays part of the loss of income from work, or for a non-income earner pays the limited expenses for substitute services, resulting from a covered injury.

It pays a death benefit if injury, sickness or disease resulting from an auto accident causes death within one year of the accident.

**Uninsured & Underinsured Motorist** covers bodily injuries from a hit and run driver or uninsured or underinsured motorist. Uninsured motorist property damage is limited coverage for damage to your auto caused by an uninsured motorist.

**Collision** pays for damages to your vehicle (less the deductible) when it collides with other objects - such as another car, a tree or building. It pays regardless of who is at fault.

Collision coverage is not required, and if the vehicle is older and has a small replacement cost, you may choose not to carry it. *However, if you have a loan against your vehicle, the bank or Loan Company may require you to carry collision coverage through the life of the loan.*

**Comprehensive** pays for damages not caused by collision (less the deductible). For example, broken glass, theft, vandalism, fire, flood, hail, or falling objects.

Like collision coverage, comprehensive coverage is not required, and if the vehicle is older and has a small replacement cost, you may choose not to carry it. *However, if you have a loan against your vehicle, the bank or Loan Company may require comprehensive coverage through the life of the loan.*

**Rental Reimbursement** some auto insurance policies provide coverage to pay a reimbursement for the cost of renting a car as a substitute when your covered auto is being repaired after a loss covered by the policy.

Automobile insurance coverage varies greatly from one policy to the next and the cost of the same coverage can vary greatly from one insurance company to the next. **It pays to shop around!**

Your car insurance premiums can go up if you have had an accident that was paid by your insurance carrier, but again it pays to shop around if

your premium increases. Your premium will probably be higher if you have had very many moving traffic violations, and it will certainly be higher if you are insuring a teenage driver. But in all cases, you can probably save on the cost of your auto insurance coverage if you call several agents representing several companies and compare the cost on like coverage.

You may also be eligible for cost reductions on your auto insurance coverage if:

- ☺ you have more than one vehicle to insure, you could qualify for a multiple car discount.
- ☺ you insure your home and car with the same company, you should receive a discount on both your homeowners and auto coverage.
- ☺ your teenage driver is a good student, you may be able to receive the good student discount.

Raising the deductible on your collision and comprehensive coverage can also lower your premium cost. However, you need to determine how much you can pay out of pocket if you have damage that is covered by the collision or comprehensive.

You are required to have liability coverage on any vehicle you own. If you do not owe on the vehicle and the vehicle is old enough to have little cash value left, consider just carrying the required coverage.

## Homeowners Insurance

Homeowners insurance provides coverage for:

- ☞ Fire and lightning damage
  - ☞ Tornado, hail windstorm
  - ☞ Damage from snow and ice
  - ☞ Explosion
  - ☞ Theft
  - ☞ Falling objects
  - ☞ Frozen plumbing
  - ☞ Glass breakage or vandalism
  - ☞ Sudden smoke damage
  - ☞ Damage by vehicle, aircraft or falling objects
  - ☞ Damage to appliances or building by short circuit or overheating
  - ☞ Accidental overflow of plumbing fixtures
  - ☞ Riot and civil commotion
  - ☞ Legal defense for personal liability
  - ☞ Liability and medical payments to others
- And with increased coverage:*
- ☞ Refrigerator goods coverage
  - ☞ Theft of jewelry, furs, artwork

If you have a loan against your home, your lender will probably require you to have insurance coverage to replace the value of your dwelling. Priced in the insurance on the dwelling and other buildings on your property (called appurtenant structures in insurance). This insurance will cover the replacement of personal property that is lost or destroyed.

If you have expensive jewelry, furs, artwork or other valuable possessions, you may purchase additional coverage with your homeowners insurance to provide additional protection for these.

Homeowners insurance isn't just for homeowners. Even if you do not own your home, you can purchase renters insurance to provide insurance coverage for your personal items such as clothing, furniture, TV, stereo, or computer.

Condo owners need a special blend of coverage. The condo's exterior structure is probably insured by the owner's association. The interior wall, floors and the owner's personal possessions aren't. So if you own a condo, you will need condo owner's insurance.

## Insurance

When you are shopping for homeowners insurance, talk with your agent about the things you can do to lower your insurance premium. If you have smoke detectors and fire extinguishers, you can frequently lower your insurance premium. Also, if you carry your auto insurance and homeowners insurance through the same company, you will usually get a discount on both policies. The cost of coverage can vary greatly from one company to another. **It pays to shop around!**

## Health Insurance Terms to Know

**Health Maintenance Organizations (HMOs):** Doctors who are prepaid by insurance companies for providing their health services. A form of “managed Health care”, HMOs include groups of doctors who work in the same practice or individual physicians who join a network.

**Preferred Provider Organizations (PPOs):** Minor medical service, which usually requires you to pay a small fee for minor health care services, such as annual checkups, and major medical insurance, which covers major health services, such as surgery and hospitalization, and requires you to pay between 10 and 30 percent of the fees for those services. Many people like PPOs because you can choose one of many doctors in a large network, provided by the PPO. HMOs tend to be more restrictive about which doctors you see and when you see them.

**Primary Care Physician (PCP):** HMOs and PPOs typically require that you have a general practitioner as your PCP. He or she is responsible for evaluating you before you seek the care of a specialist and also for recommending the specialist you seek.

**In-Network:** Benefits that apply to employees who seek the care of a physician within the managed care network of doctors. Even PPOs have a network of doctors to choose from.

**Out-of-Network:** Benefits for those who seek medical providers outside the managed care network.

**Coinsurance:** Your out-of-pocket fee for the physicians’ services after meeting your deductible.

**Deductible:** Your out-of-pocket cost before insurance is required to pay.

**Stop-loss, or out-of-pocket:** The most amount of money you have to pay out of pocket for your health insurance. If your stop-loss is \$5,000 and you are on an 80-20 coinsurance plan, you have to pay 20 percent of your health care costs of to \$5,000. After that, the insurance company pays 100 percent up to your lifetime maximum.

*Adapted from material in The Financial Peace Planner by Dave Ramsey*

## Health Insurance

There are two major types of health care insurance. The first system is **managed care**. The system tries to manage health services for its customers in return for a set annual fee. Generally, the insurance carrier makes long-term contracts with doctors and hospitals to provide health care according to a pre-determined fee plan.

There are two major types of managed care plans. The most common type is the Health Maintenance Organization (HMO). Individuals pay an annual fee to be *members*. Typically, doctors work as salaried employees, and the HMO owns hospitals directly. *Members can only use the HMO's doctors and facilities.* One important feature of HMO's is the use of a *gatekeeper*, or a doctor who helps make decisions about the use of medical services.

A second type is the Preferred Provider Organization (PPO). The insurance company will pay the entire bill if members obtain services from a list of “preferred” doctors and hospitals. If the members choose other providers they must pay a portion of the bill (typically 20 to 25%).

**Pros of managed care:** Managed care is usually oriented toward controlling health care costs. Due to the practice of charging a set annual fee, companies have an incentive to practice preventive health care, which is less expensive in the long run.

**Cons of managed care:** Because managed care plans make deals with specific providers, patients cannot always use the doctor they want. In addition, the emphasis in managed care on cost control has raised questions about whether the quality of service is being compromised.

The second major system of health insurance is **fee-for-service** or **indemnity plans**. These plans pay doctors and hospitals for their services when performed, without an annual financial arrangement.

Increasingly, health insurers offer plans that combine aspects of both major types.

**Pros of fee for service or indemnity plans:** This is the traditional type of health insurance. The choice of doctor is generally not restricted to a specific list.

**Cons of fee for service or indemnity plans:** Generally more expensive than managed care plans. Many indemnity plans include some features to limit disbursements, according to either a schedule or the normal amount charged for the service.

**Cost of health insurance:** The individual pays the cost of health care through health insurance in four ways:

- ☞ **Premium** - The premium is collected monthly, quarterly or annually and allows the individual or family to have the health insurance coverage. Many employers offer health insurance as a fringe benefit of employment and pay for a portion of the health insurance premium. The employee then pays for his or her portion out of a payroll deduction.
- ☞ **Deductible** - This is the annual out-of-pocket amount the patient must pay before the insurance company starts to pay. A deductible is usually \$500 to \$2000.
- ☞ **Co-pay** - a the small payment made each time the patient visits the doctor (generally \$5 to \$15).
- ☞ **Co-insurance** - usually around 20%. This percent is the share of the bill that is paid by the patient after the deductible and co-pay.

Many of the higher priced health insurance plans have a feature that is called **total out of pocket**. This is the maximum amount the patient will pay for his or her medical care each year including the deductible, co-pay and co-insurance. This is usually around \$2,000 to \$5,000.

## Life Insurance

Life insurance breaks down into basically four types: term life insurance, cash value life insurance, credit life insurance, and disability insurance.

*Term Life Insurance* provides a benefit to your beneficiary when you die. You personally will never see the benefit of this insurance; it will provide for your family at your death. It is usually the least expensive form of life insurance. It is also frequently provided as a part of your fringe benefit program through your employment.

Depending upon your needs and the needs of your family, the term life insurance you receive through your employer may be the only life insurance you need. This is not be true if you have a non-working spouse, dependent children, or parents who depend upon your earnings.

*Cash Value Life Insurance* provides a benefit to your beneficiary upon your death and builds up cash value for you to use at some future time. Cash value life insurance can be a good investment option for future needs such as retirement or college education for children. Common types of cash value life insurance are universal life or whole life. There are several annuity products that fall into this cash value life insurance category and are designed to provide income for retirement.

If you have dependents that would suffer from the loss of your income upon your death, you may want to contact an insurance agent and explore cash value life insurance products as a form of additional protection for them and at the same time provide for your own future needs. However, if this is your circumstance, there are other investment products such as savings accounts, mutual funds, or savings bonds that could provide similar benefits.

*Credit Life Insurance* is the insurance you have on your life that will pay off an outstanding loan at the time of your death. One type of credit life insurance is *mortgage protection term insurance*. This differs from other types of term life insurance in that the face amount decreases over time, consistent with the projected and annual decreases in the outstanding balance of a mortgage loan. Many lenders require *mortgage protection term insurance* on a person who is borrowing more than 80% of the value of a home. However, this type of term insurance is usually expensive. If your lender will agree to

your basic term insurance from work or your own personal purchase you may want to avoid this extra cost.

Another common type of credit insurance is called just that – *credit life insurance*. This insurance will probably be recommended by your lender when you take out a installment loan when purchasing expensive appliances or a new vehicle. *Credit life insurance* is frequently more expensive than traditional term life insurance. If you already own a sufficient amount of life insurance to cover your financial needs, including debt repayment, the purchase of credit life insurance is normally not advisable due to its relatively high cost. Two questions to ask yourself when you are being pressured to purchase *credit life insurance* are, “Will my dependents need the item I am borrowing against if I die? Will paying this debt be a financial burden to my dependents if I die?” If the answer to both these questions is, *no*, consider not buying the credit life insurance.

The rate you pay for life insurance is tied to your age, as you age the rates go up. Usually as you age your need for life insurance decreases because no longer have dependents relying on your income.

Life insurance can be a wise investment and can provide your dependents with needed protection. However, do not hesitate to say no to overly aggressive insurance sales persons who are trying to push you to buy more insurance than you need or can afford.

*Disability insurance* is not technically life insurance because you do not collect the benefits when you die. You collect the benefits when you become permanently or partially disabled and can no longer work or can not work full time and earn the income you are depending upon to meet your financial needs. Like term life insurance *disability income insurance* is frequently provided by your employer as part of your fringe benefit package. You can purchase *disability insurance* to protect your income for either a temporary or permanent disability.

Typically the benefits under a disability policy cover only a portion of your income, usually between 60% and 70%. You cannot begin to collect benefits until after you have been disabled for a defined period of time, generally between 30 and 90 days.