

Fundamentals of Insurance

Insurance provides protection. As simple as that sounds, many individuals spend little time considering all their insurance options and making sure they have the insurance they need at the most reasonable price. To protect yourself and your belongings consider:

Homeowners and renters insurance

Insuring your home and its contents is very prudent. If disaster strikes, you want to be protected. Choose a policy that will pay for the cost of rebuilding your home if it is totally destroyed. Examine the amount regularly to take inflation into account. Also make sure the “contents” part of your policy is adequate. A policy that covers the cost of replacing items is better than one that just covers the “cash value” of an item. A six year old dishwasher may only have a \$200 cash value, but will cost \$800 to replace. Keep an up-to-date inventory of your belongings with a copy in your safe deposit box.

Renters insurance works in a similar fashion. It covers your belongings and provides some level of liability coverage if someone is injured in your apartment.

Auto insurance

Auto policies are usually comprised of three parts:

Collision coverage covers the cost of repairs to your car after an accident. Choose an amount of collision coverage that reflects the value of your car. If your car is old or has little value, you may even want to drop the collision part of your policy.

Comprehensive coverage covers damage to your car from random acts like fire, theft, hail and vandalism. This part of the policy is usually the cheapest and should be based on the value of the car. However, insurance companies will not pay more than the car is worth.

Auto liability coverage is absolutely essential. This covers damages caused by your car. If you cause an accident with your car and injure someone or damage their property, your auto liability insurance will pay the injured person’s medical and repair expenses. This is usually the most expensive part of the policy and most states require it.

Deductibles

Choosing a homeowners, renters, or auto policy will usually involve deciding on a level of deductible. The deductible is what you pay before the insurance starts paying. The higher the deductible, the lower the premium. Before buying, ask for the premium levels at different levels of deductibles. Then evaluate the level of “risk” you are willing to assume. You may find that your premium can be up to 25% less.

Here is a chart that can help you evaluate your deductibles:

Insurance Policy	Current deductible	Current premium	Premium with deductible of \$500	Premium with deductible of \$1000
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Homeowners or renters policy	\$	\$	\$	\$
Auto - Collision coverage	\$	\$	\$	\$
Auto - Comprehensive coverage	\$	\$	\$	\$

Umbrella liability insurance

Most homeowners, renters and auto policies provide some level of coverage for damages caused to others and their property. In an era of large jury awards and rising medical costs, you may want to consider an umbrella policy for additional protection. These policies are usually inexpensive (a few hundred dollars for over a million dollars coverage) and are available from most insurance companies.

Health insurance

Be sure you have adequate health insurance. Most large employers provide it as part of their benefits program. While you may be required to share in the cost, a company provided plan is usually cheaper and has fewer restrictions than a policy bought individually. Choose the levels coverage you need, but make sure you are covered for major medical expenses.

Disability insurance

Most employee benefit programs provide some form of disability coverage. Check your program to make sure the amount is adequate for your needs. Also, look at the details (definition of disability, waiting period and any total limits) to ensure your policy will provide all that you need. If you need more coverage, talk to an insurance professional or consider policies offered by any professional organization you belong to.

Long-term care insurance

Some estimate that over one half of individuals will spend some time in a nursing home or other care facility before they die. The costs of this type of care can be very high and the federal Medicaid program will not cover all the expenses you may incur. Usually, age 50 is about when to consider a long-term care insurance policy. Premiums will be higher for older buyers. Examine any policy before buying to fully understand what will be covered and for how long.

Life insurance

Three questions – how much do you need, what type of policy, where should you buy it?

For most people, life insurance is simply a way to ensure that a surviving spouse and children can continue to have a decent lifestyle. If you have no dependents, you may not need life insurance at all. If you want or need coverage, many experts suggest that a primary breadwinner should have insurance equal to 6 to 10 times their annual income. In most cases, this will provide enough money for the survivors to be at least comfortable. If you have young children or other special needs, additional amounts should be considered.

Deciding whether to buy a term policy or a cash value whole life policy should be carefully considered. Term policies are usually much cheaper, but whole life policies provide for a “cash

build up” for the duration of the policy. Reviewing the options with a qualified advisor is essential.

Luckily, life insurance is available from many sources. Start with your employer. Many employee benefit programs provide inexpensive coverage. Term and whole life policies are available from hundreds of companies.

The insurance company

Be sure to investigate the company offering any policy you are considering. Quality customer service and financial stability are essential. When you end up needing the insurance, the last thing you want to discover is that the company is hard to deal with or that their financial condition prevents them from providing the benefits you paid for. Check with the Better Business Bureau and examine the insurance rating reports found in many libraries and on the Internet.