

Fundamentals of PERSONAL FINANCE



**Making
informed
financial
choices**

**Your
Insurance
Options**



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What Is Insurance?

Two of three Americans think they have the right amount of insurance, yet fewer than one of three understands the details of their insurance coverage very well.



How much is security worth to you? That's the question you have to ask when you consider buying any type of insurance coverage. You see, insurance is a tool to reduce risk—both yours and the company that provides the insurance.

Insurance pools your resources with resources of a larger group of people to minimize everyone's risk. When you buy insurance, you pool your risk with other people in the hopes of reducing your potential for financial loss. Insurers are relying on this fact—as more people participate, the ability to predict the group's behavior becomes more accurate.

And despite the widespread availability of insurance, few people really understand the purchases they make. In fact, most people's eyes glaze over when they discuss the topic. They think it's too complicated.

It's not too complicated. But it isn't

simple either. Insurance and its terms and conditions are not part of people's normal lexicon, so it does take some effort on your part to understand what you are buying and whether you are

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making a good buying decision. Insurance is no different than any other product you buy: Investigate before you invest or you're likely to be sold something you don't want or need.

Where Should You Start?

First, assemble some useful resources. Your goal is to educate yourself about insurance products and alternatives so you can buy only what you need at a fair price. Keep in mind that you also must evaluate your insurance purchase on a regular basis—annually—to ensure it meets your needs.

Stated simply, buy insurance to protect yourself and your family from losses you cannot afford to pay. In other words, buy insurance to protect against catastrophic losses that would play havoc on your finances. Don't buy insurance to protect yourself against normal expenses.

Let's start with some basic terminology.

■ Insurance policy

This is a conditional contract between the insurance buyer and seller that spells out the rights and responsibilities of both parties. A conditional contract means policyholders have certain responsibilities to meet if a loss covered by the contract occurs. Not completing these can result in nonpayment. These responsibilities may include notifying the insurance company or agent of a loss in a timely manner; protecting your property from further damage; preparing a detailed list of items

Who Sells Insurance?

Essentially there are three types of insurance companies—stock insurance companies, mutual insurance companies, and privately owned companies.

While an insurer is any individual or organization that provides insurance coverage, stock insurance companies are stockholder owned and designed to return a profit for the owners. Mutual insurance companies are policyholder owned and operate on a not-for-profit basis. Travelers Insurance is an example of a stockholder-owned company. The CUNA Mutual Group in Madison, Wis., is an example of a mutual insurance company.

Individuals who sell insurance are called agents. They can enter into, change, and cancel insurance policies on behalf of the companies they represent. There are two types of agents:

Independent agents—As their name suggests, they are independent agents working to link insurance policy buyers and sellers. Typically, they work for a number of companies. They offer more selectivity, but not necessarily the lowest price option.

Exclusive agents—They represent one company and sell specific lines of insurance for that company. While exclusive agents are limited to the policies their companies offer, their fees may be lower because their sales commissions tend to be lower.

Many insurance agents may have received professional designations such as Chartered Life Underwriter for life insurance or Chartered Property and Casualty Underwriter for auto and homeowner's insurance. Such designations may indicate a higher level of expertise.