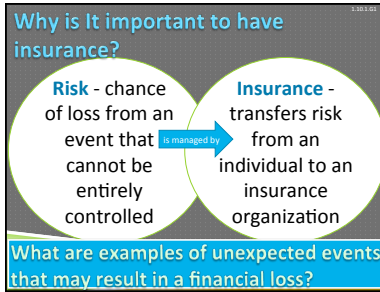


Honors Personal Finance 1.103.1.01

THEME 4

Managing Insurance



Risk

The insurance companies also face risk. Some people are more risky to insure than others. This leads them to:

Underwriting – the process used by insurers to decide who can be insured and to determine applicable rates that be charged for premiums

Insurance Policy

Policy - A contract that specifies what risks are covered and how much will be paid for losses

Coverage – The risks covered and amount of money paid for losses under an insurance policy

Policyholder -person who owns the policy and can utilize the policy by filing a claim

Insurance Policy

For a policy to remain effective, a payment is made annually, bi-annually, or monthly.

Premium – Money paid to purchase the policy

Experts say that buying insurance is buying financial security. Do you think this is true? Why or why not?

Insurance Policy

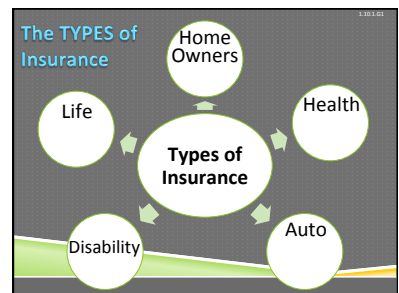
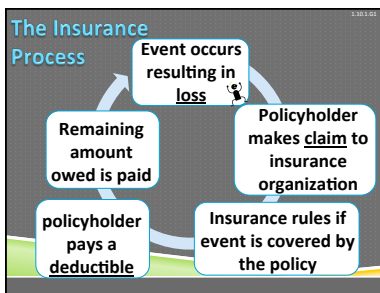
Before the insurer begins making payments on a claim, the policyholder must first reach their:

Deductible – the amount paid out of pocket by the policyholder for the initial portion of a loss before the insurance coverage begins

Insurance Policy

Before the insurer begins making payments on a claim, the policyholder must first reach their:

Claim - paperwork submitted to insurance organization describing the accident, illness or injury



Types of Property & liability Insurance

- Automobile insurance** - payment for liability and property insurance on a vehicle
- Homeowners insurance** - payment to cover damage/loss of home and its contents
- Renters insurance** - payment for damage/loss of property in a rental unit

liability Insurance

Principle of Indemnity

- Is a central, regulatory principle in insurance that applies to most policies, except personal accident, life insurance, and other similar policies. This basic tenet ensures the policyholder receives an amount in benefits equivalent to their actual losses so they don't profit.

Automobile Insurance

Automobile Insurance

This is an arrangement between an individual (consumer) and insurer (insurance company) to protect the individual against risk from automobile accidents.

Automobile Insurance

Auto insurance can be broken down into types of coverage. Each policy can contain up to four different types of coverage. Each type added increases the premium, but also increases what is covered.

Automobile Insurance

Liability covers the insured if injuries or damages are caused to other people or their property.

It is the minimum amount of insurance required by law for automobiles.

Automobile Insurance

Medical Payment covers injuries sustained by the **driver** of the insured vehicle or any passenger regardless of fault

It also covers family members injured as passengers or if injured as a pedestrian.

Automobile Insurance

Uninsured or Underinsured Motorists covers injury/damage to the driver, passengers, or the vehicle caused by a driver with insufficient insurance.

Automobile Insurance

- Physical Damage** - covers damages caused to the vehicle.
- Collision** - covers a collision with another object, car, or from a rollover.
- Comprehensive** - covers loss to an insured auto caused by any peril other than collision.

Automobile Insurance

Factors Affecting Premiums

- ✓ **Rating Territory** – rates increase if the primary location and use of the auto has a high rate of accidents, claims filed, average cost of claim paid, theft & vandalism, etc.
- ✓ **Use of the Auto** – the fewer the miles driven (less than 3 to 5 a day) premiums are lower.

Automobile Insurance

Factors Affecting Premiums

- ✓ **Drivers' Personal Characteristics** – Age, gender, marital status can alter rates.

Ex: **Highest Rates** (teenage males), **Lowest Rates** (teenage females)

Automobile Insurance

Factors Affecting Premiums

- ✓ **Type of Auto** – Higher rates are charged for vehicles classified as: Intermediate-Performance, High-Performance, & Sports Vehicles.

Color can also make a difference:

Black **Red**

Automobile Insurance

Factors Affecting Premiums

- ✓ **Driving Record** – rates increase based on the type of driver you are. Things that increase rates: Cited moving violations & Accidents, Even higher premiums or denied insurance: Driving Under the Influence, Vehicular Assault or Homicide

You do the Math!

Carlos was involved in an automobile accident that resulted in \$3,788 worth of damage to his car.

How much does Carlos pay and how much does the insurance organization pay?

Carlos has a property and liability insurance policy with a \$500 deductible and 0% co-insurance	How much does Carlos pay?	\$500
	How much does his insurance organization pay?	\$3,288

Homeowners/Renters Insurance

Homeowners Insurance

Homeowners Insurance a binding legal contract between the policyholder and the insurance company to protect their home and belongings if they are damaged, destroyed, or stolen

What's Included in Homeowners Insurance?

Basic homeowners insurance includes coverage against the following risks: Theft, Fire and lightning, Smoke, Frozen pipes, Ice and snow. Liability coverage is for cases when someone is injured in your house. Court fees. Cover your costs in case it's impossible to live in the house due to fire or any other damage.

Homeowners Insurance

Things not covered by standard policies vary from one company to another, but most likely they will include:

Types of Coverage

- Earthquake
- Flood
- Tornado
- Volcano
- Terrorism

Homeowners Insurance

Factors affecting home insurance costs:

- Type of Structure** – Age, style, Construction materials of home.
- Location of Home** – Crime rates, weather, fire hydrant proximity.
- Credit Score** – People with lower credit scores file more claims.
- Other Factors** – Swimming pool, trampoline, large dog = higher cost

Homeowners Insurance

One way to lower cost is raising your deductible. Deductibles on homeowners policies typically start at \$250.

- \$500 save up to 12%
- \$1000 save up to 24%
- \$2500 save up to 30%
- \$5000 save up to 37%

Renter's Insurance

- ✓ If you rent a house or an apartment, you might think you don't need insurance because you don't own the building. After all, your landlord probably has coverage. But your landlord's insurance covers only the building, not the contents.
- ✓ Without insurance of your own, you could be left with nothing in the event of a fire or burglary.

Renter's Insurance

- ✓ That's why you need renters insurance (HO-4), a special kind of homeowners insurance.
- ✓ It provides no coverage for the building itself.
- ✓ Instead, it covers your personal possessions and protects you against liability claims if you rent a house or apartment.

Renter's Insurance

- ✓ Keep in mind that most renters insurance policies specifically exclude certain perils (e.g., earthquakes, flooding).
- ✓ As a result, you may need to purchase a separate policy to insure your possessions against damage caused by these hazards.

Renter's Insurance

Replacement Cost

VS

Actual Cash Value

- ▶ These terms are actually very important in determining how much money you will get if you ever have to file a claim. When you get a quote from your insurance agent, make sure you know which type of coverage is described.

Renter's Insurance

Replacement Cost

- ▶ Replacement cost coverage, by comparison, reimburses you for the amount that it will cost to replace your property. If you bought a \$2000 TV two years ago, you'll receive enough money to go out and buy another television just like the old one.

Renter's Insurance

Actual Cash Value

- ▶ Actual cash value coverage reimburses you for only the amount that your property was worth at the time it was stolen, damaged, or destroyed.
- ▶ That \$2000 TV bought 5 years ago might be worth \$700 today.

Renter's Insurance

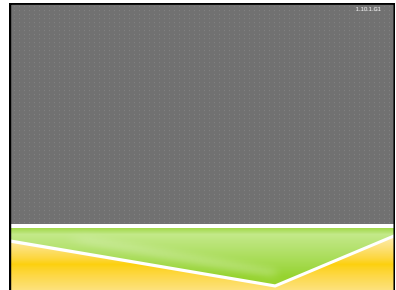
- ▶ You will probably have to replace the lost property with your own money and submit the receipt before you receive compensation.
- ▶ Nevertheless, replacement cost coverage typically pays significantly more than actual cash value coverage.

Renter's Insurance

- ▶ Renters insurance also provides liability coverage.
- ▶ A typical renters insurance policy covers you for accidents and injuries that occur in your home, as well as accidents outside of your home that are caused by you or your property. (This does not include automobile accidents.)

Renter's Insurance

- ▶ On average, you will pay somewhere between \$100 and \$300 annually for a basic policy providing about \$30,000 worth of coverage for your property.
- ▶ Replacement cost coverage is somewhat more expensive than actual cash value coverage, but it is usually worth the extra money.



Health Insurance

Health Insurance provides protection against financial losses resulting from injury, illness, and disability.

Health Insurance

Health Insurance Plans
Private companies sell a variety of health plans. Most commonly offered is:

Group Health Insurance consists of contracts written between a group (employer, union, etc.) & the health care provider.

Health Insurance

Private insurance plans come in one of two categories:

Indemnity Plan the health care provider is separate from the insurer, who pays the provider or reimburses you for part of the expenses.

Typically these plans pay 80%, while you pay the remaining 20%. These plans are now rare in the United States.

Health Insurance

The second category is:

Managed Care Plans subscribers/users contract with the provider organization, which uses a defined group of providers who have agreed to provide services at a set cost.

Health Insurance

Under Managed Care Plans the insured pays no deductibles and only a small fee or co-payment, for office visits and medications.

Most medical services including preventative and routine care, which indemnity plans may not cover, are fully covered when obtained from plan providers.

Health Insurance

Managed Care Plans include:

- HMOs** – Health Maintenance Organization
- PPOs** – Preferred Provider Organizations
- EPOs** – Exclusive Provider Organizations

Health Insurance

Health Maintenance Org.
a group of hospitals, physicians, & other health care providers who have joined to provide health care services to its' members.

Health Insurance

Preferred Provider Org.
A health provider who combines characteristics of an HMO with an indemnity plan to provide comprehensive health services to its' subscribers in a set network.

Health Insurance

Exclusive Provider Org.
A managed care plan similar to a PPO, but reimburses members only when affiliated providers are used.

Health Insurance

In addition to private insurance, there are government provided plans.

- Medicare** – to help persons 65 and older, who are collecting Social Security, cover health care costs.
- Medicaid** – state run program that provides health insurance benefits to one's who can't pay.

Health Insurance

Both state and federal governments require a health benefit, paid almost in full by employers, to cover employee's injured on the job.

- Worker's Compensation** – this compensates workers for job-related illness or injury.

Health Insurance

Health insurance - provides money to pay for health care

Some things covered are:

Long-Term-Care Insurance

What is Long-Term-Care?

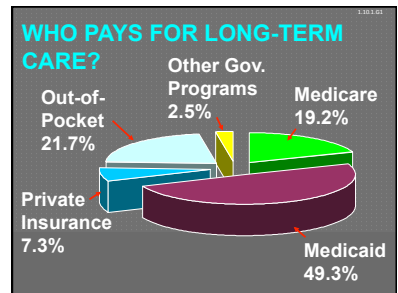
- Long-Term-Care** – the providing of medical and personal care, other than hospital care, to persons with chronic medical conditions resulting from either illness or frailty.

Table 1. WC across states for permanent and temporary injuries in 2003

Maximum Indemnity Benefits Paid to Selected Types of Work Injuries, 2003

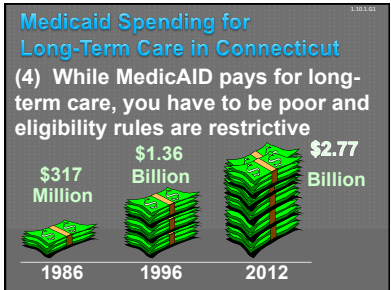
Yet there are dramatic differences in generosity across states.

State	Type of permanent impairment				Temporary Injury (10 weeks)
	10%	20%	30%	40%	
Hawaii	180,960	141,520	26,800	167,040	5,900
Illinois	301,323	190,838	40,176	276,213	155,684
Indiana	86,500	62,500	10,400	74,500	50,500
Michigan	175,657	140,395	24,814	140,395	105,786
Missouri	78,908	59,521	15,305	70,405	52,719
New Jersey	154,440	92,365	8,500	147,420	78,200
New York	124,800	97,600	18,400	115,200	82,000



WHY LONG-TERM CARE INSURANCE?

- ### Long-Term-Care Insurance
- (1) Risk is high
 - (2) Cost is high
 - (3) MediCARE and health insurance do not pay for long-term care



Disability Insurance

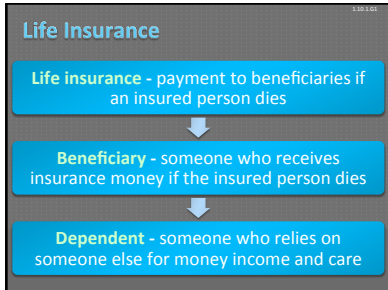
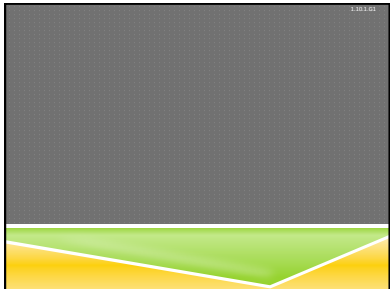
Disability Insurance – is a federal program in which a portion of the Social Security payroll tax is used to pay benefits to workers who have suffered a medical impairment that leaves them unable to work.

Current expenditures are roughly \$71 billion per year.

Disability Insurance

Benefits are federally uniform, but the initial decision on qualification is made at the state level.

- ✓ Unlike many other programs, there is a waiting period of 5 months before an individual can collect DI.
- ✓ The initial acceptance rate for DI is roughly 33%; after appeals to higher levels, the acceptance rate is roughly 50%.



Life Insurance

- ▶ Life insurance is most often purchased to help offset the cost of a loved one's death.
- ▶ Today, the average North American traditional funeral costs between \$7,000 and \$10,000.

Life Insurance

▶ Here is a reasonable "ballpark" estimate of the main funeral costs.

- fee for the funeral director's services: \$1,500
- cost for a casket: \$2,300
- embalming: \$500
- cost for using the funeral home for the actual funeral service: \$500

Life Insurance

- cost of a grave site: \$1,000
- cost to dig the grave: \$600
- cost of a grave liner or outer burial container: \$1,000
- cost of a headstone: \$1,500

In this example, total costs would approximate \$9,000....and that's just for the "main" items.

Life Insurance

There are three main types of life insurance:

- Term Life Insurance
- Whole Life Insurance
- Universal Life Insurance

Term Life Insurance

- Provides protection against loss of life for a specified period of time.
- Only pays benefits if an individual dies during the period in which the policy are covered.

Whole Life Insurance

- Is a permanent policy in which the policyholder pays a specified premium each year for the duration of entire life.
- Premium depends on age at the time of purchase.
- Pays the beneficiary the sum total of the policy.

Universal Life Insurance

- Has a flexible premium
- Is an adjustable-benefit life insurance policy which accumulates account value
- Allows policyholders to change the amount of insurance as their needs for insurance changes

Personal liability Umbrella policy

Personal liability umbrella policy

- When your local weather forecaster tells you that it's going to rain, what do you do?
- You reach for your umbrella.
- So why not purchase an umbrella that can protect you in stormy financial weather? Umbrella liability insurance (ULI) can do just that.

Personal liability umbrella policy

- By providing liability protection above and beyond the basic coverage that homeowners/renters and auto insurance policies offer, ULI can protect you against the catastrophic losses that can occur if you are sued.

Personal liability umbrella policy

- ULI is often referred to as excess coverage. If you are found to be legally responsible for injuring someone or damaging someone's property, the umbrella policy will either pay for the part of the claim in excess of the limits of your basic liability policy, or pay for certain losses that are not covered.

Personal liability umbrella policy

- ▶ Why now? It's not even raining
- ▶ These days, it's not unusual to hear of \$2 million, \$10 million, and even \$20 million court judgments against individuals.
- ▶ If someone is injured in your home, or if you cause a serious auto accident, you could have to pay such a judgment.

Buying Insurance & Settling Claims



Buying Insurance

- ▶ You're ready to buy an insurance policy, but you feel a bit uneasy. After all, the language can be technical, and you're wary of insurance agents throwing sales pitches at you.
- ▶ Whether you're buying an auto policy, a homeowners policy, a life insurance policy, or some other type of policy, here are some general tips to help you.

Buying Insurance

- ▶ **Comparison Shop**
- ▶ Perhaps the single most important thing you can do when buying insurance is to shop around. You don't want to rely on a quote from just one company. Compare the policies and prices of several different insurance companies

Buying Insurance

- ▶ **Don't buy features you don't need**
- ▶ If you discover policies that offer slightly different features, make sure you understand what these features are and whether you need them. Don't buy any benefits you don't need--additional benefits can increase the cost of your policy.

Buying Insurance

- ▶ **Don't automatically settle for the cheapest policy**
- ▶ It's easy to select the cheapest policy. However, unless such a policy offers the same benefits as a more expensive policy, think twice. You get what you pay for.

Buying Insurance

- ▶ **Know the company's financial-strength rating**
- ▶ All insurance companies are rated by the major rating agencies: Standard & Poor's, Moody's, A. M. Best, Fitch, and Weiss. This rating reflects the company's ability to meet its obligations (pay its claims).

Buying Insurance

- ▶ **Understand a policy before you sign it**
- ▶ An insurance policy is a legal contract that can be full of legal jargon and technical terms. Before you sign on the dotted line, make sure you understand the details of each policy provision and the coverage you're buying.

Buying Insurance

- ▶ **Consumers Should Know:**
- ▶ Who or what is protected?
- ▶ When does coverage begin?
- ▶ How much coverage is provided?
- ▶ How should a loss be reported?

Buying Insurance

- ▶ **Consumers Should Know cont.:**
- ▶ What happens if there's a disagreement over whether coverage exists for a particular loss or event?
- ▶ What isn't covered (exclusions and limitations)?
- ▶ Contact your insurance agent and ask them to walk you through the contract.

Buying Insurance

- ▶ **Don't succumb to sales pressure**
- ▶ In some cases, you may feel pressured to buy a policy. The worst thing you can do is make a hasty decision. If you have any doubts, take a day or two to think about it.

Buying Insurance

- ▶ **Speak up about any problems**
- ▶ If you have any complaints about your insurance agent or company, don't hesitate to contact the customer service department of your insurance company.
- ▶ Keep notes of telephone conversations (including the name of the person you spoke with), along with written copies.

Buying Insurance

- ▶ **Evaluate your insurance needs periodically**
- ▶ Just because you've purchased a particular type of policy doesn't mean that you're done with it forever. From time to time, you should evaluate your current situation and make sure that your original policy still fits your needs.

Filing a claim

- ▶ **Procedure to file a Claim**

In the event of an accident or potential injury, it is important to carefully follow the next steps:

1. It is important to document all facts that have encountered in regards to the accident.

Filing a claim

- ▶ **Procedure to file a Claim**
- ▶ 2. Contact an agent at the insurance provider to start the claim process on their end.
 - ▶ Remember that you contact your insurance provider regardless of fault (i.e. car accident)
 - ▶ Also, many medical procedures will need to be pre-approved.

Filing a claim

- ▶ **Procedure to file a Claim**
- ▶ 3. Your insurance provider will then review the claim, and decide what if anything will be covered.
- ▶ 4. If you disagree with their findings, you can then file an appeal.

IN REVIEW...

- Insurance is an important part of a financial plan
- Insurance is not intended to make an individual better off than before the event
- Insurance may be acquired from multiple sources
- Even with insurance, an individual should still have funds to pay the deductible and co-insurance
- There are several types of insurance for specific purposes

WHAT COVERS THIS RISK?

You are having a baby and need medical care

Health Insurance

WHAT COVERS THIS RISK?

After back surgery, you are unable to work for six months

Disability Insurance

WHAT COVERS THIS RISK?

You are elderly and need assistance to continue living at home

Long-term Care Insurance

WHAT COVERS THIS RISK?

Your home is destroyed by a tornado and you need to rebuild

Property Insurance
Specifically Homeowners

WHAT COVERS THIS RISK?

The car you are driving causes an accident that injures someone else

Automobile Insurance
Specifically Liability

WHAT COVERS THIS RISK?

A sudden death of a family member results in loss of income

Life Insurance