

Insurance



Pittsburgh IAP/ARS
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Brought to You by Your Family Support Office

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Introduction

The purpose of this hand out is to explore insurance and risk protection instruments. It is not to sell you an insurance policy, or to advocate that you choose one insurance company over the other.

In several instances, if you are a reservist, you are either covered or potentially covered by subsidized insurance in the area of health, and life. If you are a GS employee your health insurance is subsidized. Life insurance is available.

There are several philosophical points to consider in looking at insurance. On one hand life is to be lived while you are alive is one way of looking at things. In our lives we gather assets, we develop relationships, and while death remains a certainty, the time and place of death or illness is not known until it happens.

If insurance was marketed for what it does it would not be called life or health insurance. It would be called death insurance, and illness insurance. Since these two inevitable circumstances are hard to accept, we have to call these insurances by other names. For some people, the name change does entice them to step forward and buy.

When it comes to life insurance, some people believe that when they are gone, they have nothing to worry about, and therefore they do not make provisions to help their survivors. Same goes with health insurance, if I get sick, I get sick, so why should I worry?

Some people may find themselves in circumstances where they do not think they have or do not have the funds to afford the luxury of getting sick, having an accident, or dying. Therefore they spend what money they earn on survival for today. Sometimes they do have that accident, and you may be victimized by their lack of auto insurance coverage. In some states the likelihood of driving without a license or insurance is moiré heavily enforced then in others.

There are those on the other hand that can become insurance poor, buying insurance they do not need, that is unlikely to ever benefit anyone, i.e. flight insurances, and that detracts from other investment options.

Striking the right balance and understanding opportunity costs for decisions is one of the areas this handout will focus on.

Records show that insurance coverage goes all the way back 4,000 years ago in Mesopotamia when an enterprising family set up offices along the Euphrates River, since clay tablets was the methodology for keeping records we are aware of this. There may have been other earlier efforts we remain ignorant of.

In modern times, commercial insurance for cargoes were underwritten by wealthy investors and established in the company of Lloyds of London Today this tradition still exists and so does Lloyds, but their portfolio of clients and issues is much wider. They in effect often act as an insurance company for insurance companies by underwriting insurance company policies. Today there are many underwriters who often guide the risk tolerance insurance companies engage in.

The following story epitomizes the importance of coverage and is in effect the tale of two widows. Both were shocked by the sudden loss of their spouses. Their spouses left them before they “should have”. It was unexpected; tears were only covered by a small veneer of self control that wavered when they talked. Both had children at home that survived. In the midst of their grief they were expected to deal with various bureaucracies in order to financially survive.

One spouse was not eligible for SGLI the other was. In the first case there was no life insurance option provided by the employer, and none was purchased, even though the breadwinner could have easily purchased insurance based on income, but did not.

In the second instance, the person was automatically covered by SGLI. Despite earlier attempts to cancel, this person had not gotten around to doing so, or for some reason chose not to discontinue coverage. The effects were dramatically different in terms of the prospects of the two families. Both were grieving, but one had the opportunity to care for the children without living in a survival mode which required moving and help from relatives to survive. The other person had much support from relatives, but adequate funds to take care of all obligations and to even invest for the future for the benefit of the children and spouse.

It is up to you to decide how to balance the desire to live for today and to provide for tomorrow. So when the wolf comes to your house will it be made of straw, wood, or brick, it is your choice.

The Insurance Company is the insurer who assumes the risk or responsibility. Peril is the cause of possible loss (i.e., fire, explosion, theft, etc.). A hazard increases the likelihood of loss through some peril (Example: faulty house wiring constitutes a fire peril).

It is important that we evaluate the types of insurance available to us, to select that insurance that best serve our needs in the most cost-effective manner possible.

In short, we are looking at insurance as a protection against some type of risk.

Types of Risks

Risks fall into four major categories and cover the gamut of the areas where insurance is normally available. These are:

- Personal risk includes death, illness, disability, and unemployment situations.
- Property risks consist of fire, wind, accident, theft and other associated hazards
- Liability Risk would be possible loss due to negligence by automobile, professional misconduct, injury occurring on one's property, etc.
- Speculative is when there is a change of loss or gain. Starting a business is an example. This type of risk is generally uninsurable.

Risk Management Strategies

Risk avoidance: If this is practiced it generally can be achieved at a very high cost. One example would be to avoid auto accidents by not driving or driving in a vehicle. Some risk avoidance is practical. Not walking through a high crime area or not smoking is good practice that reduces medical and death insurance needs.

Risk Reduction: Examples of this include installing smoke alarms in your home or wearing seat belts in your car.

Risk Assumption: Assuming the risk oneself as opposed to insuring the risk by not for example obtaining collision insurance because it is too expensive.

Risk Shifting: Transfer risk to an insurance company by taking out a policy

Types of Life Insurance

Term Insurance

Term is a straightforward and easy to understand type of life insurance. You pay a premium and in exchange, the policy pays a sum of money to your beneficiaries if you die while covered.

There is no savings or investment component and the policy is in effect for a period of time. Time periods are often of one to five years. Most of these policies are renewable.

There are several variations that typically apply to this type of insurance:

Level Term: Insurance costs are a fixed face amount and there is a fixed annual premium throughout the term of the policy.

Decreasing Term: face value gradually decreases, but the annual premium remains fixed.

Cash Value Insurance

With this type of insurance you are paying for more than the face value of the policy. You are being enrolled into a forced savings program that later yields a face value for the policy which will be added to the death benefit, or which may be refunded if the policy is cashed in prior to death.

This insurance is more costly than term insurance for the same level of coverage. It usually features a level premium throughout the course of the policy coverage.

There are various types of cash value insurance:

Whole Life: this is the most widely sold type of insurance. You accumulate a cash value but can only take the money out when you cancel, thereby giving up your insurance protection.

Universal Life: this is similar to whole life, but cost of protection rises as you get older.

Variable Life: Differs from the universal policy in that the money in your cash value is invested and you get to choose where your money is invested.

Recommendations When Purchasing Life Insurance

For most buyers, term insurance is a simple, economical way to meet life insurance needs; however at a minimum, keep the following points in mind:

- Look for a policy that offers good value whether you hold it for 5, 10, or 20 years; policies that are low priced only for a year or two are not necessarily a bargain.
- Put the sales force to work for you to give you the skinny on the rate per thousand dollars of face value of the insurance you are purchasing. Term insurance is easy enough to figure for yourself, but cash value insurance may have deceptive costs disguised by the amounts of your premium that are going into their coffers for the cash value portion of your insurance.
- Realize that the yield you will receive for your cash value policy is likely to be less than you can achieve through stock market investments and purchasing the right type of term policy.
- Check the company's stability by looking up their rating in Best's (AM) Insurance Reports, which can be found at www.ambest.com, Standard & Poor's www.standardandpoors.com, Moody's Investor Services www.moodys.com and Weiss Ratings, Inc. at www.weissratings.com
- Consider purchasing a policy that gives you the option to carry it until at least 65 years of age. This recommendation may need to be amended as more and more Americans are living beyond that time, and the insurance agency may be more responsive.
- If permitted, pay your premium annually, usually reduces the cost of the insurance.
- Do not be swayed by an agent's comments regarding term insurance. They earn more money when they sell cash value policies.
- Check customer complaint rates for the company by contacting www.naic.com the website for the National Association of Insurance Commissioners.
- If you suspect fraud contact the National Insurance Crime Bureau's hotline at 1-800-835-6422 or their website at www.insurancefraud.org

Auto Insurance

Liability: Insurance that protects others against damage you may cause by driving negligently.

Bodily Injury: Pays for losses resulting from death or injury in an accident in which you are at fault. States that mandate automobile insurance specify minimum levels of liability coverage. These minimums are typically expressed in a form of industry shorthand: 25/50/10 would indicate that an insurer will pay a maximum of \$25,000 to each person injured in an accident, a maximum of \$50,000 for everyone injured, and \$10,000 to cover property damage caused by the accident. Most experts recommend carrying 100/300/50 liability limits.

Property: The most common type of damage is to another party's vehicle, but damage to buildings, telephone poles, and fences is not unusual. Generally, increasing property damage liability to a more adequate level will not add much to your premium and is probably worth the additional expense.

Medical Payments: Medical payments insurance will pay medical expenses resulting from an automobile accident without regard to who was at fault. If you bought \$10,000 worth of medical payments coverage, it will pay that amount for each person injured.

Uninsured Motorist Protection: This insurance is designed to protect you from damages by such motorist. You can purchase the uninsured motorist coverage which activates your own policy to pay for damages to your vehicle incurred as a result of the uninsured motorist.

Collision: Pays for damage to your car if it is in a collision or roll over, regardless of who was responsible for the accident. Collision is always limited by the deductible. If you have a new or expensive car, you should probably have collision insurance. Financed vehicles are required to carry collision insurance

No Fault Insurance: Developed to rid the need for suing the other driver to gain compensation for economic cost of injuries. A policy holder's own insurance would pay him or her for injuries and lost income regardless of who was at fault in an accident.

Vehicle Insurance Requirements By State	Personal Injury one person	Personal Injury more then one person	Property
Pennsylvania	\$15,000	\$30,000	\$5,000
Ohio	\$12,500	\$25,000	\$7,500
West Virginia	\$20,000	\$40,000	\$10,000

How Premiums Are Established

Base Rate: Your residence contributes greatly to your base rate and is dictated in part by the combined driving records of the community. Your personal record of accidents and traffic violations are a major factor. The type of vehicle you purchase influences things because collectively certain vehicles are associated with accidents and traffic violations.

Additional Factors:

Age is a factor that generally works in your favor the older you are. If you retain ownership of vehicles your children drive, it can mitigate against some of the costs associated with vehicular use.

Marital Status: Generally being married is considered a safety factor that reduces premiums, especially if your spouse is an excellent driver will result in lower premiums.

Vehicle Usage: The more you use or drive your vehicle, the more likely you will have an increase in premium due to greater exposure of risk to your insurer.

Insurance Claims: The number of insurance claims you have had will affect rates, obviously higher numbers of claims will result in higher rates for premiums.

Attending Driver Training Classes: You can receive premium discounts if you attend driver safety classes.

Installation of Anti-Theft Devices: Installation results in lower premiums.

Multiple Vehicle Coverage: Generally companies will afford a vehicle discount for multiple vehicle coverage.

Tips for Buying Auto Insurance

- Shop diligently and inquire about premium quote for each of several companies in your states.
- Consult surveys of customer satisfaction with insurance companies,
- Select the company that offers the best combination of price and service.
- Review customer satisfaction surveys on the web or in publications such as Consumer Reports.

Health Insurance

Determine your needs: It is just as possible to over insure as it is to under insure. Always assess the types and magnitude of losses that can occur. Make sure you protect while avoiding becoming insurance poor.

Health Related Losses: (1) Directed Medical Care Expenses - hospital stay, physician fees, etc. (2) Recuperative Care Expenses that are needed after discharge from the hospital. (3) Rehabilitation Expenses. Injuries or illnesses may result in partial or total disability. This coverage provides for the retraining of the disabled person.

Comprehensive Health Insurance: Combines the protection provided by hospital insurance, surgical insurance, medical expense insurance, and major medical insurance into one policy. They usually have a deductible and a 20% to 25% coinsurance requirement.

Major Medical: Provides reimbursement for a broad range of medical expenses including hospital, surgical, and medical expenses. It is often used as a supplement to hospital, surgical, and medical expense insurance. Most have a coinsurance clause, which requires you to pay a percentage of the expenses once the deductible is met.

GS and WG Employees: There are many government subsidized health insurance options open to federal employees. To not be medically insured is paramount to inviting financial suicide. Each of these programs can be compared during open season and looked at for cost as compared with benefits offered.

Activated Reservists: Military reservists receive free TRICARE medical coverage during a period of extended active duty. This medical coverage continues for 180 days after deactivation as a transitional benefit. A new option allows members to purchase individual and family coverage for periods of one year for each 90 days they have been activated. This option is subsidized by the government and represents a savings that may not be matched in other employment plans.

Tricare: The following website is a starting point for enrollment and benefit information: <http://www.tricare.osd.mil/>

Disability Insurance

Cost is high. When determining your needs don't forget the "free" coverage you might have through Worker's Compensation, the company or union health plan. Also Social Security, Veterans Insurance and moneys available through the State Disability Funds.

Evaluating Your Insurance Policy

Look for the following features on you policy:

Cancellation: Look for this in the front of your policy. It guarantees you the right to renew each year.

Benefits and Coverage to Age 65: Policies that pay for just one or two years are relatively inexpensive but may not be within your best interest. It is best to get protection against the worst that can happen, which means steady income to age 65.

Residual Benefits: Physicians and other professionals whose income depends on the amount of time they work may need these. You are paid a percentage of what you were insured for, depending on how much you can earn in your profession. Many insurers require period of total disability before residual benefits can be paid.

Other Insurance

Travel Insurance: Most travel insurance coverage consists of insurance to cover flying. It comes in two forms, flight and baggage insurance.

Flight - Sold at airports; pays a specific amount if you are killed or injured in a plane crash during your trip. It is very expensive for the risk involved, even with terrorist attacks flying is the safest form of transportation. Not recommended.

Baggage - Reimburses you for loss or theft of your baggage during your travels. Premiums are high and this also might duplicate your homeowner's coverage.

Renters Insurance: This insurance protects the contents of your rental, coverage that is important, as most policies do not cover the belongings of renters.

Title Insurance: When purchasing a property, if you obtain a loan, you will be required to ensure the accuracy or veracity of the title. If not, this insurance protects you against any claim that may come against the property.

Legal Insurance: Legal coverage and costs vary considerably from policy to policy; may offer a minimum amount of legal consults to offering court assistance in disputes. This coverage does not eliminate the need for broad coverage in your homeowner's and automobile insurance.

Making Informed Decisions on Changing Needs

Changes in Family Structure: Families change their composition over time. Children leaving home, completing education and starting their own lives will not or should not depend upon your largess in supporting their lifestyles. This may mean it is time to reduce life insurance benefits and increase investment.

Reassessing Needs for Older Couples: As you grow older the cost of life insurance goes up, your needs frequently drop as you may be living off of your retirement or social security income. Ideally your debt load has dropped, though studies seem to indicate that older Americans still are carrying large consumer debt into their retirement years, which is not a wise situation, but may make the necessity of life insurance an issue.

Floater: Certain policies will limit the amount of money you may receive for art, jewelry, furs and other high dollar items, be sure and check these provisions.

Homeowners/Renters Insurance:

Be certain to read your policies carefully, anyone obtaining a loan for a house may wish to choose carefully between the replacement costs of the structure versus the value of it. Some companies are only allowing purchase cost for homes located in high risk coastal areas. The cost of doing otherwise is too high. In the case of rental insurance read the coverage carefully to determine the full amount of liability that is covered. See if there are any exceptions to coverage listed in the policy.

It should be noted that natural disasters or war may be an exceptional clause some companies will use.

Flood insurance is often separately required to cover massive water damage. Some policies in some states offer to exclude water damage of any type from insurance as there has been a lot of litigation surrounding mold, and many companies will not offer insurance in certain states because of generous settlements on mold (caused by moisture).

Insurance Websites

DISCLAIMER: NONE OF THESE SITES ARE RECOMMENDED, RATHER THEY ARE LISTED FOR YOUR CONVENIENCE

<http://www.insure.com/>

<http://allstate.com>

<Http://www.geico.com>

<http://www.usaa.com>

<http://www.aigonline.com>

<http://progressive.com>

<http://statefarm.com>

<http://www.ssa.gov>

<http://www.quotesmith.com>

<http://insquote.com>

<http://www.naic.org>

<http://www.life-line.org>

<http://www.quicken.com/insurance/>

<http://www.ambest.com>

<http://www.insure.com>

<http://www.standardandpoors.com>

<http://www.naic.org>

<http://www.quotesmith.com>

<http://www.insquote.com>

<http://www.carsafety.org>

<http://www.quicken.com/insurance/>

<http://www.ssa.gov/top10.html>

<http://www.healthchoices.org>

<http://www.insure.com>

<http://www.insweb.com>

<http://www.quotesmith.com>

<http://www.hiaa.org>

<http://www.Medicare.gov>

<http://www.mib.com>