

How to Ensure Your Future with the Right Insurance

Do you have the right kind of insurance for you and your family? Do you know what kinds of insurance are really necessary? We know that for most people insurance is complicated and confusing. Whether you're a traditional family, a single person or parent, or a retiree, here's a simple guide to answer your basic questions about insurance: what you need, how much you need, and what coverage you probably don't need.



Insurance Needs

What kinds of insurance do most people need?

You should be concerned with insuring the four basic areas: your possessions, your life, your health, and your finances.

Is homeowner's insurance the most important insurance for "possessions"?

Yes, since a house is probably the single biggest investment most of us make. If you can afford it, pay a little bit extra to obtain guaranteed replacement coverage on your homeowner's insurance policy, which mandates that the insurer will replace your home if it's destroyed regardless of how much it costs.

Does guaranteed replacement coverage for my home cover everything in my home?

Probably not. Your best bet is to know what your homeowner's insurance covers and what it doesn't. Some pricey items, such as a big-screen TV and expensive stereo equipment, are often excluded from policies, or at best, inadequately covered. Same goes for antiques, jewelry, furs, and collectibles. We suggest you obtain riders that specifically cover these things in case of loss or damage.

Does homeowner's insurance cover damage caused by floods?

No, so we advise that you go to your local town or municipal office and see if your house is in a flood area. If so, contact the federal government's National Flood Insurance system to get flood policies offered by private insurers. Same goes for earthquake insurance if you live in an area that might be affected by a quake.

Does homeowner's insurance provide coverage if someone is injured at my home and sues me?

Not completely. Homeowner's insurance policies (and renter's insurance as well) have liability limits, so it's a good idea to look into an umbrella policy. This will add additional liability coverage, upwards of \$1 million and even more for a relatively cheap price (although this varies from state to state). An umbrella policy adds extra liability coverage for your home and also for your car.

Is auto insurance necessary?

Absolutely. Every state requires that every driver carry automobile insurance. Have an auto accident and your financial life could very well be ruined without the protection auto insurance.

Why is auto insurance so expensive and how can I hold down the cost?

The biggest bite of auto insurance comes from liability protection, which is divided into bodily injury protection and property protection. Look for minimum coverage of at least \$100,000 per person, another \$100,000 for property, and \$300,000 per accident. If you can manage it, add on uninsured motorist coverage, which protects you in the event you have an accident with a driver who has no insurance.

To make your auto insurance more affordable consider the following:

- Raise your deductibles. Pushing up deductibles to \$500 or more can significantly cut your premiums.
- Eliminate collision coverage, which covers damage to your car. Probably not wise if your car is new, but consider this if your car's got a few years on it and you wouldn't mind driving around with a ding or two.
- Drive safely; drivers with good records get better deals.
- Insure every car you own with the same company to take advantage of multi-car discounts.
- If you or any drivers in your household are still in school and getting good grades, let your insurer know so that you can benefit by "good student" driver savings.

Do I have to have life insurance?

The answer depends on whether or not anyone depends on you financially. Life insurance, in its most basic form, covers a person's income. So, if no one, such as a spouse, child, or parent, is depending on your income, then life insurance is optional. However, if you're married, or there is someone whose well-being depends on what you earn for a living, life insurance can be an essential form of protection. Also consider taking out insurance on your spouse, if he/she is the one who stays home with the kids. Idea being that should your spouse die, the death insurance benefit would cover the expense of childcare, which can prove rather costly.

What type of life insurance should I consider buying?

For most people, term life insurance works best. It's the most economical and simple insurance you can get. You pay the premium and you're insured. If you have the funds to do so, investigate the more expensive "whole life" insurance plan, which is a form of forced savings and carries a cash value.

Do I need health insurance?

Yes. Health insurance coverage can hold down your doctor and hospital bills. Most employers do offer health insurance to employees, usually at reasonable group rates, with several options such as HMOs, PPOs, and fee-for-service plans. If you are self-employed, or if your employer does not offer health coverage, you can purchase private health insurance. Try searching for quotes online at sites such as www.msnmoney.com.

Is disability insurance necessary?

Health insurance only helps to pay your medical expenses. To keep income coming in if you can't work for a period of time, disability insurance is the answer. This is one of the more commonly overlooked types of insurance and yet one that most working families really need. Some employers offer it, but in most cases, you'll have to pay additionally for this coverage. Aim for coverage that replaces at least 60% of your current salary.

Should I consider long-term care insurance?

That depends. Long-term care insurance helps pay for nursing care and other like expenses when you get older – and that's a good thing. The drawback is that the premiums are expensive and become all the more so the older you get. One important consideration in long-term care insurance is whether you can genuinely afford the premiums without sacrificing your lifestyle. Most financial planners don't recommend buying covering until you're in your 50s.

Insurance Don't Needs

So what kind of insurance may be a bad deal? Here's a short listing of the coverage you probably can do without:

Private mortgage insurance

When you buy a home, the mortgage company wants to make sure it won't be hurt too badly if you skip town without paying off the loan. Unless you can put down at least 20% of the home's value, you may have to get PMI. Once the outstanding balance on your mortgage drops down below 80% of the original value of the home, federal law says your lender must notify you that you can cancel the insurance.

Service contracts

These "extended warranties" are usually worth skipping. Service contracts often duplicate what's provided in the standard warranty you get with a car or an appliance. Read your regular warranty carefully. Then compare it to the service contract.

Flight insurance

This coverage is pretty cheap, but a bad bet nonetheless. Statistics indicate that you could fly on a major airline every day for 26,000 years before you'd be involved in a plane crash. Besides, you may already have flight insurance if you purchased your plane ticket with a credit card. Some credit card companies give you \$100,000 in coverage just for charging your ticket on their card.

Credit insurance

While there are several variations (including credit life insurance, credit health or disability insurance, and credit unemployment insurance), they all do the same thing: They pay the lender if you can't. So why would you want to pass? Well, for one reason, you might have enough life insurance, disability insurance, or assets to cover your debts. Credit insurance is also a big moneymaker for insurance companies. In Louisiana, for example, insurers and lenders keep 79 cents of every dollar that consumers pay in premiums. Even in the best states, (such as Maine and New York), the insurance companies keep about 40 cents of every dollar.

Short-term, cash value life insurance

If you don't hold on to them long enough, cash-value life insurance policies are a waste of money. Cash-value life insurance offers both a death benefit and a return on investment. Your equity in the policy – the cash value – builds up over the years, and you can borrow against it or simply stop paying on a policy and let the annual dividends keep the policy in force. While your survivors will still get the death benefit, these policies cost you money in big chunks for the first few years. If you're looking for life insurance coverage for a short period, term life is your best bet. The premiums are much lower, and your heirs will still get the death benefit.

Life insurance for children

This insurance offers a big death benefit, but kids don't have debts or dependents. If you're thinking that a cash-value kid's life insurance policy would be a good way to save for his or her college education, there are better investments elsewhere.

Mortgage insurance

These policies are designed to make your mortgage payments if you die or become disabled, but they are more expensive than they're worth. If you're concerned about burdening your heirs with mortgage payments, you'd be better off buying straight life insurance. Adding onto your existing life insurance policy is less expensive than mortgage life.

Cancer insurance

Look closely at what you get, and you'll realize there's a better way to protect yourself in the event you get sick: health insurance. Some cancer insurance policies promise to refund your premiums every 10 years if you've had no cancer. Not a bad deal – if you're the insurance company.

Pet insurance

If you are considering health insurance for your furry friend, ask yourself if you have the ability to cover a substantial veterinary bill (\$5,000 might be a reasonable limit for most people) at any given moment. If so, avoid buying a policy. If not, and you can afford the monthly payments, pet insurance may make sense for you. Make sure the policy meets your needs – major medical vs. wellness care, and doesn't exclude common problems with your breed and has a deductible you can live with.

Ways to slash your insurance rates

If you're going to buy life, disability, long-term care, or health insurance, your insurance company is going to want to know all about you. Depending on the type of policy, it could inquire about your habits, medical records, and family history. Based on the answers you provide, it will slot you in one of several categories that will help determine just how much you pay for coverage. What you say and how you say it can make a difference in how your insurance company sees you and what it charges.

- Tell the whole truth, the whole truth, and nothing but the truth.
- Be clear and complete in your answers.
- Find out what your health ranking is based upon and shop around. (Especially good advice for people who only occasionally smoke a cigar or pipe as some categories will automatically place you in a less-desirable category with a higher premium.)
- Alert your doctor that you're applying for insurance. A little advance notice can ensure the call isn't overlooked and give you the best chance at a good rating.
- Make sure the company gets all of your records, not just some.
- Shop quietly to avoid getting declined or rated. Choose an agent or broker who can quietly do some informal shopping to narrow your options before you do anything official.
- Cut out your vices. Want to drop 30% from your life insurance premium? Kick the cigarettes.
- Prepare for your physical exam and facilitate an accurate reading by scheduling it for first thing in the morning and getting a good night's sleep. Some experts even suggest forgoing your morning coffee.
- Follow up on the details of your medical records.
- Keep trying and keep asking questions.



For more information on this topic, call a Certified Credit Counselor at **1.800.556.1548** or visit our Learning Center at www.anewhorizon.org

