



MIND YOUR FINANCES

UNDERSTANDING INSURANCE
Participant Guide



AN OLD STORY.

It was a common practice for ancient caravans to split up goods and take different routes to the delivery point. In this way, the risk of losing the full cargo to thieves was lessened.

During the 12th and 13th centuries, artisans in Europe worked in guilds. They'd pay money into the guilds and if their shop burned down (common because most dwellings were made of wood), the guild would help them rebuild. If they were injured or killed, the guilds would pay for the care of their widows and children.



A NEW STORY.

Gloria was a 65-year old widow. She worked hard all her life in the tourism industry. She started as a waitress at the age of 15, and for the next fifty years worked many jobs, with very little time off. She worked as a waitress, a maid, and a hostess in a large hotel. Gloria had just retired. With a paid off home, she was looking forward to a mortgage-free retirement.

One January morning, the wiring in her walls caught fire. When she returned from running errands, her home was nearly gone. She didn't know it at the time, but her dog had escaped into a neighbor's backyard.

At 65, Gloria didn't have the time or the strength to start over.

QUESTIONS: What can Gloria do?
Do you agree with this statement?
Insurance is great to have, if you can afford it.

LIFE IS RISKY. WHAT CAN WE DO ABOUT IT?

Hurricanes. Car crashes. Illness. Fire. Earthquakes. Tornadoes.



1. Insurance helps you pay for and/or replace what you cannot afford to lose.
2. People with few resources need it more.

A wealthy person can afford to lose much, because she knows she can replace what is lost. A person with limited resources can afford to lose little.

Types of Insurance

There are many different kinds of insurance including: car insurance, homeowner's insurance, health insurance, life insurance, and renter's insurance. There's also insurance for many common products like cell phone insurance, computer insurance and insurance for major appliances.

Think about your experience with insurance. List the kinds of insurance policies you've had over your lifetime:

What do these insurance policies protect?

AUTOMOBILE INSURANCE

Automobile insurance is the most common form of insurance. Most states require that you have proof of insurance if you operate any motor vehicle. Auto insurance protects you if your car is damaged or if you are injured in a car accident. Auto insurance also protects others who suffer injury or whose car or property is damaged by you in a car accident.

Protecting Others: Liability Coverage Liability coverage is associated with damage or injuries done to someone else or to someone else's property. Liability coverage does not cover damage to your car or injuries to you. There are two kinds of Liability Coverage. They are:

- **Damage to Property:** *This provides coverage for damage done by your car to someone else's auto or property. Property can include a building, home, telephone pole, fence, and other similar types of property.*
- **Harm to Another Person:** *This provides coverage if someone other than you is injured in a car accident that you are a part of. The person can be in your car, can be in another car, or can be someone who is not in a car but you injured with your car.*
- **Protecting Yourself: Physical Damage Coverage** *Physical Damage coverage is associated with damage to your car only.*

There are two kinds of Physical Damage coverage. They are:

- **Collision Damage Coverage:** *This provides payment for damages to your car, no matter who is at fault.*

When you sign up for auto insurance, you and the insurer agree on a deductible, which is an amount of money you will pay before the insurance pays anything. This amount is deducted from the payment you receive from the insurance company. For example, if you have \$2,000 in damages to your car and your deductible is \$500, then you must pay \$500 and the Insurance Company pays \$1,500.

Total Damages – Deductible = Total Paid By Insurance Company (\$2000 - \$500 = \$1500)

Sometimes, the cost of fixing the damage to your car will be more than the value of your car. If this is the case, then the insurance company will only pay the full fair market value of your car. For example, if your car is six years old and is valued at \$2,000, but the damage caused will cost \$4,000 to repair, then the insurance company will only pay you \$2,000 (excluding your deductible).

- **Comprehensive Coverage:** *This provides payment for damage to your car caused by most hazards other than collisions. This includes fire, hailstorms, floods, vandalism, theft, and so on.*



UNINSURED AND UNDERINSURED MOTORIST COVERAGE

There are thousands of people driving without insurance. They either have no insurance which is breaking the law, or they have limited coverage. You need to be protected if you are ever in an accident with someone who does not have insurance or does not have enough insurance.

- **Uninsured and Underinsured Property Damage Coverage:** This provides coverage when the person who is insured sustains property damage but the other driver does not have insurance or the insurance he has is insufficient to cover the damage.
- **Uninsured and Underinsured Motorist Coverage:** This provides coverage when the insured person or passengers are injured or die in an accident where the other driver is at fault and does not have insurance, or the insurance he has is insufficient to cover the expenses.



Auto Insurance: Other Coverage

Other types of auto insurance coverage are typically optional. You may or may not choose to have these as part of your auto insurance policy. These are two of the more popular options:

- **Travel Protection:** This reimburses you for emergency repair and towing costs if you need to get your car towed due to either an accident or mechanical breakdown.
- **Rental Car Protection:** this provides coverage for when you need to rent a car if your car isn't drivable or if your car is being repaired because of a covered accident.

HOMEOWNER'S INSURANCE

If you own a home, or are about to, you will want to purchase homeowner's insurance. This will protect your home and possessions against major damage and theft. If you are a renter, you can purchase renter's insurance to protect your personal property. It also protects you if someone gets hurt in your apartment or home and incurs medical costs.

You should purchase homeowner's insurance to protect yourself against financial risk, however if you have a mortgage your mortgage lender will require you to open a homeowner's policy.

Homeowners insurance provides the following types of coverage:

- **The Physical Structure of your Home:** *This provides coverage to repair or rebuild your home if it is damaged or destroyed by disasters. Make sure to read your policy carefully to see what types of natural disasters are in your policy.*
- **Personal Items:** *This provides coverage for your personal belongings that are stolen, destroyed, or damaged during disasters. Each policy has a formula that tells you how much is covered. Also, it's a good idea to have pictures and receipts of items in case you need to show proof.*
- **Liability Coverage:** *This provides protection if someone sues you or a family member for personal injury or damage to their property. For example, a neighbor could sue you for slipping and falling on a skateboard left on the sidewalk in front of your home. You could also be sued if one of your child's friends were to fall down the stairs at your house.*
- **Other Coverage:** *Many homeowner policies provide for additional living expenses if you are unable to live in your home for an extended period due to a disaster.*

How to save money on homeowner's insurance:

1. Often, you can save money by consolidating your home and auto insurance. Compare insurance rates between those offered by your auto company.
2. Don't over-insure. For example, if you only have \$30,000 in personal property (or less), make sure that you are not paying for a policy with 3x that limit.
3. If you have an emergency savings fund, you can afford a policy with a higher deductible.

THE JONES FAMILY

Maria Jones just purchased a home for \$100,000. Her mortgage is \$90,000. After reviewing all of her personal items, she believes that she has \$20,000 in furniture, appliances, clothing, jewelry, and electronics. She met with an insurance broker who quoted her \$900/year for the following policy. Based on her neighborhood and speaking to a local builder, it would cost around \$80,000 to rebuild Maria's home if it were to burn down or be severely damaged by a storm. Maria maintains an emergency fund of \$3000. Additionally, it would cost about \$1000 per month to rent a similar sized apartment in the same neighborhood.

What kinds of policy changes should Maria ask her agent for?

SAMPLE HOME OWNERSHIP POLICY MARIA JONES

XYZ Casualty Insurance Company Homeowner's Policy Declarations

Dwelling:	\$120,000
Personal Property:	\$100,000
Loss of Use (up to 12 months):	\$6000
Personal Liability (each occurrence):	\$50,000

Deductibles:

Wind and Hail:	\$100
All other Perils:	\$100

Hints:

Is Maria overpaying for Dwelling?

Is Maria overpaying for personal property?

Loss of Use is the amount Maria would receive if she needed to rent for 12 months while her home is being rebuilt. Is \$6000 enough based on the information above?

Personal Liability should be enough to protect your assets in the event of a lawsuit. Is \$50,000 enough for Maria?

What about the deductibles? Are they too high or too low?

HEALTH & WEALTH

the costs of a cared-for nation

THE MOST EXPENSIVE MEDICAL PROCEDURES

#1 Intestine Transplant



\$1,121,800

#2 Heart Transplant



\$787,700

#3 Bone Marrow Transplant



\$676,800

#4 Lung Transplant



\$657,800

#5 Liver Transplant



\$523,400

#6 Open Heart Surgery



\$324,000

#7 Pancreas Transplant



\$275,500

#8 Kidney Transplant



\$259,000

#9 Tracheotomy



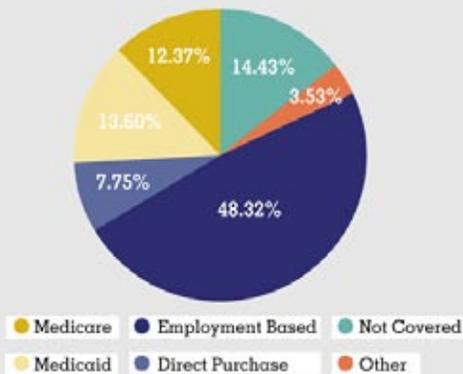
\$205,000

#10 Destruction of Lesion of Retina



\$153,000

THE HAVES vs THE HAVE NOTS



*Chart based off percentages of number of people surveyed by the U.S. Census Bureau, not percentages; some plans overlap.



50.6 million people are uninsured

That's about the population of Washington, Oregon, California, Nevada, and Idaho combined.



HEALTH INSURANCE

Living without health insurance can be financial suicide. Did you know that more than 50% of bankruptcy filers cite high medical bills as a major contributing factor to bankruptcy?

Most people get health insurance through their employer (group policies). Others sign up for individual policies.

- **Group Health Insurance:** *Each company or organization has its own guidelines for what qualifies you to participate in their group plan. You may be required to work a certain number of hours each month. Or, you may be asked to pay a certain portion of the monthly payment as your contribution to the plan. Many companies today only pay for the employee. If the employee wants to include his or her spouse or children, he or she must pay the full monthly payment for the coverage. This will still be less expensive than purchasing similar coverage under an individual health plan.*
- **Individual Health Insurance:** *There are many uninsured Americans. Some work for employers who do not provide plans. Some have been unable to afford independent plans, while others do not qualify for Medicaid or Medicare. For these individuals, the Affordable Care Act of 2010, also known as Obama Care, provides a path to affordable coverage.*

Every citizen is required to have insurance or face a penalty. However, you can choose how to get coverage. If you already have a plan, whether through your employer, Medicaid, Medicare, or privately, you can keep it. If you don't have access through any of these sources, you have additional options. You can purchase it from a health insurance exchange where you may qualify for a subsidy, or you may be eligible under expanded Medicare guidelines. For more information go to www.healthcare.gov

Employers typically offer three types of Managed Health Care Plans plus a Dental plan. They are:

Preferred Provider Organization (PPO): This type of health insurance consists of a group, collection of doctors, hospitals, clinics, and other types of health care providers. You can go to anyone within the system but must pay a co-pay for each visit. A typical co-pay may be \$20-\$50. The rest of the payment is based on what your policy will pay, less any deductible you may have.

Point of Service Plan (POS): This type of health insurance asks that you choose a primary care physician who refers you to other doctors, hospitals, and clinics within the plan. If you do not want to stay within the guidelines of the plan, you are welcome to go to your own doctor; but the percentage amount of the bill you will be required to pay will be much greater.

Health Maintenance Organizations (HMO): This type of health insurance provides you with a group of doctors, hospitals, clinics, and other health care providers that are a part of the plan. You must have a primary care physician who must make all referrals to other doctors and other health care services within the plan. You are restricted to doctors and health care services provided within the plan and can't choose doctors or services outside of the plan.

Dental Insurance Plans: Companies and organizations may also offer dental insurance as part of their group plan coverage. Most offer a managed care plan where you must use a primary dentist from a list of approved dentists.

LIFE INSURANCE

Life insurance provides for long-term security for you and your family. If something happens to you, your family has the comfort in knowing they will be taken care of financially. There are two basic types of life insurance: Term Life and Whole Life.

With both, it is important to determine the amount of life insurance you will need. This typically is based on your income and on the number of financial dependents you have (e.g., your spouse, children, aging parent).

Term Life Insurance: Term Life insurance provides for a certain amount of coverage for a yearly fee. The term life policy is in effect as long as you pay the premiums. With term insurance, there is no cash value to the policy. The benefits to a term life policy are that you can get a large amount of coverage and pay very low premiums. The drawback to a term life policy is that you are betting against yourself.

Whole Life Insurance: Whole life insurance provides for a certain amount of life insurance coverage. The amount of coverage is typically smaller than what you would get with term life, and the premiums are higher. There usually is no time limit on the length of the coverage. The policy will provide coverage for you for the rest of your life, as long as you make premium payments. You pay more for whole life insurance, but you are able to build cash value with your policy.

The benefit of a whole life insurance policy is its use as an investment option while providing insurance coverage. Drawbacks include the higher cost for the same level of coverage as with term life.

With all life insurance plans, make sure that you completely understand the conditions of your policy. With some policies, you will be asked to have periodic physicals. Other policies award discounts to non-smokers.



IDENTIFYING INSURANCE NEEDS

The amount and type of insurance needed will be different for everyone. The four types listed are those that are the most important to you in your everyday lives. Buying the maximum amount of coverage in each of the four areas may be too expensive, so you have to look at your health and lifestyle and make choices about how much insurance you really need. Chris has a savings account with a \$10,000 balance.

Chris

Chris is single and 27 years old. He is in perfect health, drives a 10-year old car, and lives in an apartment. What will Chris need for insurance? Where do you think he can save money?

Auto Insurance: Chris is male and under thirty so his premiums are very high. How can he save money on his auto insurance premiums?

Home Insurance: Chris just moved into his first apartment and does not have anything of real value. In fact, his sofa is his bed. Should he purchase a renter's insurance policy?

Health Insurance: Chris is very healthy and does not have a need to visit a doctor on a regular basis. Should he purchase health insurance?

Life Insurance: Chris is 27 and does not have a family. His best friend is trying to sell him life insurance. Should he buy a life insurance policy?

Mattie

Mattie is married with three children and is 41 years old. She has high blood pressure and one of her children has asthma. She drives a new car and has lived in her house for the past six years. Her husband is an independent contractor who works from home.

Auto Insurance: Mattie's family has two cars so they qualify for a multi-car discount. She still would like to pay less. What can she do?

Home Insurance: Mattie was required to get homeowners insurance by the bank that holds her mortgage. She has never had to use her policy. Should she get rid of it?

Health Insurance: Mattie goes to a special doctor who is out-of-state. Which plan would be best for her?

Life Insurance: Mattie has term life insurance on herself, and her husband has a term life policy. They shopped around to find the lowest rates and both have \$50,000 in coverage. Is this enough coverage?

WARRANTIES, “PROTECTION PLANS” AND PRODUCT INSURANCE

You’ve probably been offered insurance policies on appliances, electronics and other goods over the years. These plans are another form of insurance.

What kind of insurance consumer are you? Do you:

1. Buy every protection plan that crosses your path
2. Pick & choose, depending on the product, price & coverage
3. Avoid protection plans like the plague... if something happens, you’ll deal with it.

Why or why not?

Please share personal stories where protection plans & product insurance (cell phone insurance, for example) came in handy or seemed like a waste of money.

SOME ADVICE.

Examine your personal history.

You know yourself better than anyone else. If you’ve had a cell phone for 10 years and never needed to replace it, \$5/month insurance charge is probably not worth it. However, if you tend to break/lose a phone regularly, this may be something to consider.

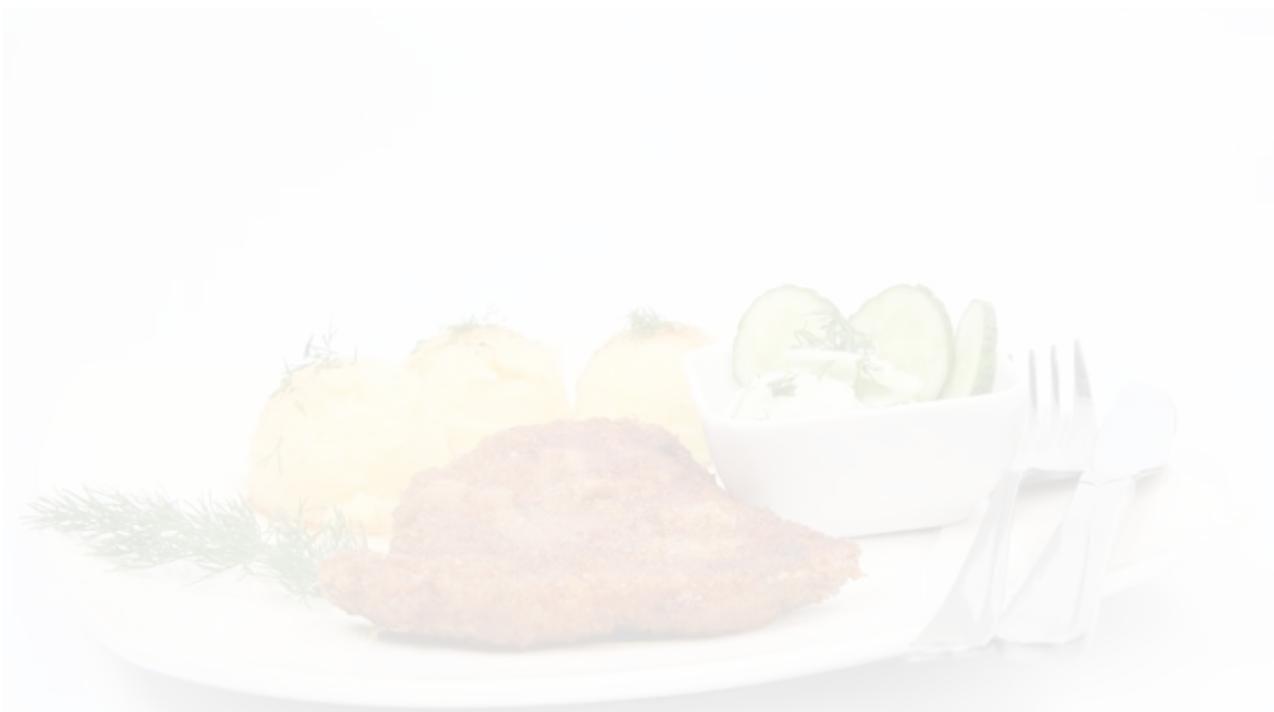
Self Insure.

Having a healthy savings account is a way to ‘self insure.’ You know that you can replace essential items in life, if necessary. Sometimes having a savings is the most cost-effective protection plan you could ever have – and it is free.



AN INSURANCE WORKSHEET

Insurance Type	Annual Coverage Cost	Deductible	TIPS
 Home Owner's Insurance/ Renter's Insurance			You should have Replacement Value Home Owner's Insurance – an amount sufficient to rebuild your home
 Car Insurance			Find out what your deductible is and ALWAYS have AT LEAST that much in your emergency fund.
 Health Insurance			Maintain insurance between jobs through COBRA.
 Life Insurance			Rule of Thumb: Life insurance should cover 10X your annual salary. If you make \$30K, get insured for \$300,000.
TOTAL INSURANCE BUDGET			



THE FRUGAL KITCHEN COCA-COLA® PORK CHOPS

2 tablespoons oil

6 pork chops

1 cup ketchup

1 cup Coca Cola®

In skillet add oil and brown pork chops on both sides. Add ketchup and Coca Cola®. Cook on low heat for 35 minutes. Makes 6 servings.

