Other articles and publications by <<Jerry Whitaker>>

The Consumer's Guide to Insurance
Changes in Today's Insurance Coverages
How to Advise and Protect the Consumer
The Agent's Role in Educating the Consumer

The Circle of Safety:

How to Protect Yourself and Your Family with Today's Insurance

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Dedicated to Joyce, Aaron, Seth and Kai Whitaker

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FOREWORD

Our studies consistently show the unfortunate fact that the average consumer doesn't really understand their own insurance. Further, they're not really aware of the many different options they have for protection.

Perhaps the industry is to blame. We tend to talk in our language. Our policies are difficult to understand. And we don't spend enough time educating the consumer on this important area of their lives.

Consumers are often left with nagging doubts. Do they have enough protection? Are there gaps in their coverage? Are they paying too much? What are they really paying for? Will their claims get paid?

This book is revolutionary. Jerry Whitaker has taken a complex subject, stripped it of the pretentiousness of our own industry – and given it back to the consumer – where it belongs.

On behalf of the Society and its mission, I congratulate the author on a magnificent accomplishment.

Michael Jans, CAE
Executive Vice President
The National Society of Agents for Consumer Education

INSURANCE: HOW TO REDUCE THE RISK, PROTECT YOURSELF AND YOUR FAMILY

Do you like to gamble? No, not on sports, on the stock market or with your friends on who will win an election.

Do you like to gamble with your future? Risk your most prized possessions? Your home or homes? Your car or cars?

The financial well being of yourself and your family?

No, of course you don't. But . . . how do you know, truly know, you aren't?

Let's go back to "regular" gambling for a moment. At that weekly poker game, you have a pretty good idea what you have to lose. The money in your pocket, mainly. Maybe a friend will float you a loan if you're broke and want to keep playing. But it's nickel-ante, for crying out loud! How much could you lose?

And that time you went to Vegas. You budgeted $500 for gambling. You hoped you'd come home in the black, but you were prepared for the alternative. After all, those giant casinos weren't built on the winnings of people like you.

"Regular" gambling -- you have a handle on that. The risks. The potential rewards. But what about that other kind of gambling? Losing your house? All of your assets? Everything you've worked for all these years? What about that?

With "regular" gambling, you probably played a mental game that could be called "How much?" How much can I afford to lose tonight, this weekend, whenever? You were comfortable with that.

Maybe your answer changed in the process and maybe your losses were a bit more than you were initially willing to accept, but you survived the experience and probably learned from it.

What Can Go Wrong? Imagining Worst-Case Scenarios...

Let's talk about your *real* life now.

Yours and your family's...and the "other kind" of gambling that people do.

This other kind of gambling is more than just about "How much?" It's also about "What if?"

"What if?" is a game that involves imagining worst-case scenarios. Hardly a pleasant thought, but how can you know what you're gambling if you don't consider all the risks?

Could something happen today that would cause you to lose your house? Maybe. It happens to people every day.

Could something happen tomorrow that would rob you of your ability to make a living? Possibly. It happens to people every day.

For some of our readers, the answers to the two previous questions are either "No" or "Almost certainly not." But how do you know? Let's play "What if?"

This could happen... You're driving your car. You lose your concentration on the road and go through an intersection, not seeing that the light has turned red. Could happen to anybody.

Unfortunately, as you go through the intersection, you encounter another car that is proceeding across your path because the light for this vehicle is green.

You broadside the other car. Later, you find out that the driver or a passenger (it doesn't matter which) is a famous person who has been seriously hurt. This famous person makes millions and millions of dollars a year, and because of this accident, this person will not be able to earn that living, at least for a while.

This person has suffered an economic loss and also probably will endure pain and suffering because of his or her injuries, the recovery period and the inability to work. So this person sues you.

How much can he or she get from you? Everything you have.

This could happen... Look at this example another way. Say *you* are the one hit by something proceeding through a red light. Say you are unable to work for months, even years. What kind of a hardship would this cause you and your family? What could you lose? For some, the unfortunate answer is . . .

Everything you have.

Do you like to gamble?

Everyone Takes Some Risks with What They Own...the Question Is: How Can You Best Protect Your Family and What You Own

Before we start discussing insurance, which is designed to protect your assets and your future, there's something you should know. All of us take some risks with our assets.

There's really no way insurance can protect us from all the "What ifs?" and, even if it could, few of us could afford the cost to buy insurance for every possible calamity. Some of us are willing to accept a lot more risk than others are.

∗ **Example.** California was basically ground zero in the United States for earthquakes in the latter part of the 20th century. A major one hit the Bay Area in 1989 and an even more major one struck the San Fernando Valley in 1994.

Yet, most Californians, even those in and around San Francisco and Los Angeles, don't have earthquake insurance. (The standard homeowners policy does not cover damages caused by quakes.) Most Californians, about 80%, have decided to take the risk that their residences will not be damaged or destroyed by an earthquake.

Most people who live on hills or cliffs elect to take the risk that their homes won't slide down the hill, cliff or embankment. The standard homeowner's policy doesn't cover such losses, either. Landslide insurance -- it usually is called "difference in conditions" -- is very costly and few insurers are willing to provide such coverage.

In the last two paragraphs, there were references to homeowners deciding or electing to take the risk of damage to their residences caused by earthquakes or landslides.

∗ But how did these people come to these decisions? (And how should you make your decisions?)

Did they determine that the insurance was too expensive? Did they reach the conclusion that the likelihood of either disaster was too low to justify paying for insurance?

Or, more likely, did they even know that they don't have coverage for earthquake and landslides? It's a "homeowners" insurance policy, after all. Why wouldn't it provide coverage for any disaster?

How many of these people actually knew they were "assuming the risk" for earthquake and landslide losses to their homes?

∗ TIP. THE BEST WAYS TO KNOW WHAT KINDS OF AND HOW MUCH PROTECTION YOU SHOULD HAVE ARE:

Be a SMART consumer. This book is designed to help you do just that.

Routinely consult the advice of a professional property & casualty insurance agent.

How Much Protection is Enough Protection for Yourself & Your Family? Ask an Expert

How do you know if you have enough insurance? Sure, there are certain risks you're willing to assume -- earthquake might be one, landslide another -- but how can you be sure that you're not facing risks you don't want to assume?

You talk to a professional, someone who understands risk and can assess your willingness to assume it. Someone who can tell you whether you have enough insurance, based on your aversion to risk, or too much.

You talk to an insurance agent, someone who understands what coverage is out there and what is right for you. You talk to an insurance agent who has expertise in the specific coverages you need and the risks you face.

∗ **Tip.** Just like you don't go to a foot doctor for a severe headache, you don't go to an agent who doesn't specialize in the coverages you need -- homeowners, auto, umbrella, disability, life and long-term care.

This guide will explain each of these types of insurance in detail, what they cover, what they don't cover, who they are appropriate for, etc. But before determining if you need these coverages -- some, like homeowners and auto, are often required -- you must understand what you have to lose and what risks you are willing to accept. However, before you can do this, you need to be aware of every -- every! -- risk you face.

OK, maybe not every risk, but certainly every risk that has even a remote chance of occurring. Your current insurance provides coverage for many risks, but not all of them. Do you know what you don't have coverage for? An insurance agent can tell you.

How Much Is Enough? It Depends

While it’s one thing to have insurance for specific risks, it’s quite another matter to have ***enough*** insurance. How much is enough? The answer is different for everybody. It depends on what you want to protect and how much risk you’re willing to assume yourself.

Let’s say you have a net worth of $1 million. (Congratulations, by the way.) That’s the total value of your various possessions: home(s), car(s), furniture, art, stock and bond holdings, mutual funds, etc. One million dollars is also how much you have to lose.

∗ **Imagine this.** Say that famous person you hit in the intersection sues you for loss of income, pain and suffering, etc. Basically, the most this person can get from you is . . . $1 million.

Let’s say your current auto insurance policy has a limit of liability that will pay a maximum of $100,000 to any one person involved in an accident with you. (That’s a pretty common limit, by the way, although not for people with seven-figure net worth.) If you’re sued for $1 million, your auto insurance will pay a maximum of $100,000, which leaves you holding the bag for $900,000.

Ideally, your liability insurance limits should come close to matching your net worth. After all, someone can’t sue for something you don’t have. You may be willing to assume some risk here, believing that you’re very, very unlikely to ever be sued for anywhere near you’re net worth.

∗ **Tip.** Remember that your net worth is basically a target for attorneys representing someone who has suffered injuries, lost wages, and had pain and suffering as a result of something you did. In addition**, it can cost only a few hundred dollars more a year to have a liability limit of $1 million as opposed to $100,000.**

In deciding how much insurance to buy, you must consider what you have and what it costs to provide the level of coverage you're comfortable with.

Keep in mind that most people who have significant assets and decent incomes can afford to purchase liability limits high enough to equal their net worth. Whether they choose to is another matter.

How Do You Find the Right Insurance Company For the Right Price?

Even if you know exactly how much insurance you want or need, there's another crucial element in this process. You have to find an insurance company that will provide the coverage you want at the best price.

An insurance agent can be invaluable in helping find the right company.

∗ **Note.** There are thousands of insurance companies in this country that sell auto, homeowners and other coverages individuals need. No two companies offer all of the exact same policies. Some companies want only certain types of drivers or homeowners. Some offer higher limits. Some offer what might be described as bare-bones coverage.

∗ **Note.** There are at least six different coverages that are part of auto insurance!

∗ **Note.** Homeowner's insurance policies have limits on what they will cover in terms of possessions, particularly jewelry, fine art and computer equipment. Many insurers offer substantial discounts (10%, even 20%) if you have both your auto and homeowners policies with them.

Does the insurance company offer so-called umbrella policies, which provide additional liability coverage over the limits of your homeowners and auto policies? Do you even need an umbrella policy?

How do you find what's best for you? You could shop on the Internet for insurance. There are numerous sites that have price quotes for auto, homeowners and life insurance policies. But what coverage is available under these policies? And how can you be sure that you're buying enough coverage?

You could look in the telephone book and find dozens of companies that sell auto, homeowners and life insurance policies. You can call each of these companies and talk to one of their employees.

But does this person know your insurance needs? Can he or she assess how risk-averse you are based on a fairly short phone conversation? Does this person even have a license to sell insurance? And how can this person work for you when he or she is working for the company? Can you imagine a sales representative saying to you, "Frankly, I don't think we have the kind of coverage you need?"

You could call an insurance agent who represents one insurance company. These companies -- State Farm, GEICO, USAA, Farmers, the Auto Club, etc. -- are fine, financially sound insurers, but what if they don't have the coverage you need at the price you want to pay? The agent doesn't have any options for you. He or she represents just that one company.

∗ Tip. Best Option: Select an independent agent who is not bound to just one, single company.

If you want the best in terms of coverage options and prices, you should call an **independent insurance agent**. Independent agents represent numerous companies, each of which has a broad range of product offerings. These agents do derive their income from their companies, but they are not employees of any insurer. Independent agents are just that.

Once they assess your insurance needs, they can then find the company they represent that has the coverage that best suits you, at the price you are willing to pay.

About price -- it's not everything. Cheap doesn't equate to good. Unless you have few assets to protect, the lowest-priced policy is rarely the best deal for you. This doesn't mean you need to buy the highest-price policy, either. **Think Value**. How much are you getting for what you're paying?

∗ **Tip.** Also, be aware that insurance companies are always hungry for policyholders who drive safely, have safe cars, live in new or refurbished homes, and are health-conscious. Insurers offer a variety of discounts.

Does your car have airbags, antilock brakes? Discount. Is your teenage son or daughter who drives your car(s) a good student? Discount. Does your home have an alarm system? Discount. Are you a nonsmoker? In good shape? Discounts for life insurance. Your agent can make sure you are getting all the discounts you are entitled to.

∗ **Note.** Your overall insurance program for you, your family, your home(s), your car(s), your assets, your career, even your life, will probably have several components. Most states require you to have auto insurance with at least minimum liability limits. Your mortgage lender will require a homeowner's policy. Everything else is basically optional.

Ultimately, you will decide what to protect with insurance and what risks to assume yourself. In the next few chapters, we will examine the various personal insurance policies, including what they cover and what they don't.

CIRCLE OF SAFETY: HOW TO PROTECT YOURSELF WITH AUTOMOBILE INSURANCE

There are several ways you can purchase insurance for your car(s). You can buy it over the Internet at literally hundreds of different web sites. You can call an 800 number and buy it over the phone directly from an auto insurance company. You can call an insurance agent. In some cases, you can buy it at your bank or credit union.

It's not surprising you can buy it so many ways. After all, there are hundreds of insurance companies that sell auto coverage in your area. How do these companies differentiate themselves? Some brag about their superior service when you have a claim. Some tout how easy it is to buy from them. But, often, auto insurance companies try to compete on price, just as if you were buying a plane ticket, a radio or soda pop.

∗ **Tip.** Some people believe auto insurance is just a commodity. It's not.

You're not buying a soda. You're protecting your financial well being...and the choices you make could affect you for the rest of your life.

But before explaining how complex auto insurance products are, let's talk about price. It's pretty complex, too.

No Insurance Company Has the Lowest Price for Everyone

∗ **Note.** No auto insurance company -- no matter what it says in its ads -- offers the lowest price for every driver in every location. There are companies that are often among the lowest. And there are companies that are usually among the highest. But no company is the lowest for everybody.

∗ **Tip.** Also, be aware that prices fluctuate. Sometimes companies "buy the market" with low prices to gain new consumers...then their prices gradually – or not so gradually – sneak up.

They also have to change prices based on their profitability, losses and other factors.

Every company has a slightly different appetite for the risks it wants to take on. Some insurers want only very good drivers who have no tickets and no accidents. Some companies, believe it or not, actually want bad drivers. In fact, these companies specialize in insuring people with lousy driving records.

Some companies target drivers who live in certain areas. There are insurers that really like to do business in big cities, and there are others that would prefer to stay away from highly populated areas.

∗ **Tip.** Remember that sometimes "you get what you pay for." The cheapest option may not provide you or your family with the best protection. The saying goes, "you don't need insurance until you have a claim." When you *do* have a claim – something that goes wrong – that's a terrible time to discover you don't have adequate protection!

If you think auto insurance is a commodity, consider this:

A person with a good driving record will pay three, five, even 10 times ***less*** than a driver with a couple of tickets, an accident or who has been cited for and convicted of driving under the influence.

A person who lives in a major city -- say Los Angeles, Chicago, Houston or Denver -- will pay three, four, even five times ***more*** than someone who lives in a rural area or small town, even though the two have the same driving records.

∗ **Example.** The last two paragraphs are average differences. Auto insurers are all over the map on prices in a given area. Say you live in Everywhere, U.S.A. (don't we all)? Say you have a good driving record. One insurance company might charge you $500 a year for a policy that provides most every coverage available. Another insurer might charge you $1,500.

As you can see, it can pay to shop around. Just be sure:

- You really understand the different coverages in your policy, or,
- You have an agent you really trust who can examine coverages and prices for you.

Auto Insurance: How Much Should You Buy?

So far, we've been talking about "auto insurance" as if it were, well, a commodity. The fact is, you can buy a lot of auto insurance, or a little. Most states, more than 40, require you to have auto insurance.

But they don't require you to have much. In states that have so-called mandatory auto insurance laws, all you are required to buy is a little bit of liability coverage. This is so you can pay for some of the damage your car does to *other* cars and *other* people not in your car.

How much are you required to buy? In most states with mandatory auto insurance laws, the minimum needed is liability that provides 1) $20,000 for ***any*** person involved in an accident with you, 2) a maximum of $40,000 for ***all*** persons in the accident, and 3) $5,000 for damage to the other vehicle(s) involved. That's not much. In fact, it's next to nothing.

∗ **Tip.** The minimum amount of insurance required by most states is not much. Seriously consider getting more protection in order to protect your financial health.

∗ **Note.** Notice that mandatory auto insurance laws do not require you to buy coverage for your own car. Or coverage for your injuries. Or coverage if you are hit by someone who doesn't have insurance.

If you buy just the minimum coverage required by law, you are leaving your assets at considerable risk. Your car, obviously. And your home, if you are at fault in an accident that causes serious injuries to the other parties.

And how far do you think $5,000 will go if you total somebody's Lexus? Not far enough!

Little Known Fact: There Are Six Distinct Coverages in an Auto Policy

The auto insurance "commodity" is actually a product with *six* distinct coverages:

Let's look at them here.

1. **Bodily Injury Liability --** It pays the medical and other expenses of those people injured or even killed in accidents you cause. This is required by most states, usually with a minimum coverage of $20,000 for any person involved in an accident with you and no more than $40,000 for all the persons in the accident.

2. **Property Damage Liability --** It covers the damage your car causes to property. Usually, that's the other car or cars involved in the accident, but it also covers damage you do to any object you hit. Garages, buildings, lampposts, fences, whatever. This is also required in most states, usually with a minimum coverage of $5,000.

3. **Collision --** This is for damage done to your car when it collides with other vehicles (your fault) or other objects (again, your fault).

4. **Comprehensive --** This covers damage to your car that results from something other than a collision with another vehicle. An example is damage caused by

vandals or a wind-blown tree hitting your car. It also includes coverage for theft.

5. **Medical Payments --** It pays medical, and even funeral, expenses for you as well as members of your family and passengers in your car if it is involved in a collision, regardless of who caused the accident. It also covers you as a pedestrian if you are hit by a vehicle.

6. **Uninsured/Underinsured Motorist --** This pays for injuries to you and, in some policies, damage to your car if you are hit by a driver who doesn't have insurance **--** or by someone who doesn't have enough insurance to cover your losses. In most states, more than 10% of motorists don't have any insurance. In some states, as many as three out of 10 drivers don't have coverage.

Many of those who do have insurance don't have enough to cover the damages and injuries that would result in a major collision. If you don't have this coverage, which is often referred to as UM/UIM, you are taking a risk. UM/UIM also provides coverage for any injuries you suffer if you are hit while walking or riding a bicycle by a driver with inadequate or no insurance.

There Are Even More Coverages Available...

There are additional coverages you can buy. You can purchase towing coverage, which will pay the costs if your car needs to be transported after an accident. If you're a member of an auto club, you don't need this coverage.

You can buy rental reimbursement, which will pay for a rental car you use while your vehicle is being repaired. (If the accident was not your fault, the cost of the rental car is automatically picked up by the other person's insurance company.)

What Are the Various <u>Options</u> for These Different Coverages?

While there are six main coverages in an auto insurance policy, there are numerous options to consider for each coverage.

How much insurance do you need?

Bodily Injury Liability -- You can buy the minimum required by law, say $20,000 per person, $40,000 per accident. Or you can buy limits as high as $500,000, even $1 million. Remember that someone you hit can sue you for everything you have.

∗ **Tip.** If you have a home, own stock and have a decent income, you should probably buy, at *minimum*, limits of $100,000 per person, $300,000 per accident. If you have more than $300,000 in assets, you should buy higher limits or an umbrella policy (see chapter on Umbrella Insurance). *Consult with your professional agent about this!*

Many auto insurance companies now sell what are called combined single limit (CSL) coverages, which have no per-person limit. If you buy, say, $300,000 CSL, that means your policy will pay a maximum of $300,000. All of that could go to one person, if needed.

Some companies include property damage liability in the CSL, which means that if you total someone's antique car, your policy could pay up to $300,000 for property damage. CSL coverage costs more than traditional limits, but it can be worth it if you have any significant assets.

∗ **Tip.** Many insurance agents believe CSL is so important to have, they strongly urge their clients to buy it if it is available.

Property Damage Liability -- Several years ago, $25,000 was considered the maximum most people needed for this coverage. Not anymore. There's a lot of $50,000, $60,000, even $70,000 cars and sport utility vehicles on the road these days.

∗ **Tip.** Because of all the super-expensive cars on the road today, you should seriously consider at least $50,000 of coverage, assuming you don't have CSL coverage; $75,000 might be preferred.

Collision -- Consider how much you can afford to pay to have your car fixed if you have an accident. Auto policies have several deductible options.

∗ **Note.** Deductible? That's the part *you* pay <u>before</u> the insurance kicks in. You can buy deductibles of $100, $250, $500, even $1,000. Obviously, the lower the deductible, the more this coverage will cost.

Unless you're planning to have a lot of accidents, it's probably a good idea to have a deductible of at least a couple of hundred dollars. (By the way, the deductible does not apply if you are hit by someone else and that person's insurance is used to pay for your car's damages.)

Comprehensive -- Like collision, there's a deductible with comprehensive, although it is often lower. For example, if you have a $250 deductible for collision, your comprehensive deductible will be, say, $100.

∗ **Note.**: While collision and comprehensive will pay for the damage or loss to your car, neither coverage will pay for everything *on* or *in* your vehicle. Most policies exclude things like CB radios, two-way radios, car phones, cassettes and CDs.

Further, if you add special features to pickups, vans or SUVS, these things probably will be excluded as well. In fact, it's a good idea for you to talk to your insurance agent about any high-tech equipment or special features you have added to your vehicle.

Many, perhaps even most, of these features aren't covered in the standard policy. It is possible, however, to obtain special coverage for the high-tech equipment or special features in your vehicle. Your agent can advise you of the options.

Medical Payments (also called Personal Injury Protection) **--** Some people elect not to buy this coverage because they believe their health insurance is enough in this regard. That's true -- to an extent.

∗ **Note.** Unlike your health insurance, medical payment coverage can reimburse you for income lost as a result of injuries suffered in an auto accident. However, medical payments coverage is not nearly as comprehensive as most health insurance plans. Still, medical payments coverage, which usually costs less than $100 a year, is probably a good buy for most people.

In addition, medical payments coverage provides protection for passengers in your vehicle for medical expenses incurred and income lost. In some states, medical payments coverage is not relevant. These are states that have so-called no-fault auto insurance systems. Basically, regardless of who's at fault, your insurance company pays for damage to your car and/or injuries you incur. Personal injury protection is included as part of your coverage.

Uninsured/Underinsured Motorist -- For most people, it's a good idea to have the same limits for UM/UIM as they have for bodily injury liability. But remember, UM/UIM coverage is for *you*. It pays for your injuries and, in some policies, damage to your car if the person at fault in an accident with you cannot. Since you based your liability limit on what you have to lose, you should do the same with UM/UIM.

Who Is Covered When You Buy Auto Insurance?

All the coverages in your auto policy apply when you are driving, but *they also apply when other people are driving* *your vehicle*. The coverages are actually for the car, not the person.

* **Note.** However, if someone is going to be a regular user of your car, that person's name needs to be added to the policy.

Your insurance company wants to know who's going to be using the car. That stands to reason. After all, you could be a great driver, with no tickets or accidents. But your spouse, your teenage child, your reckless cousin could be a lousy driver.

If you let these people drive your car without telling your insurer and these people keep getting in accidents, your insurance company isn't going to be very happy. In fact, *the company will probably cancel your policy*.

* **Tip.** It's not wise to risk losing your policy by failing to disclose who's driving the insured vehicle. Keep in mind, however, that if you add drivers with lousy records or who haven't had much driving experience, your premiums will definitely go up.

Any parent of a driving teenager can tell you this. Teenagers are notorious for getting tickets and having accidents. They are also very inexperienced drivers. As such, when your child gets his or her license, your insurance premiums will go up when you add your child to the policy.

If you buy all six of the major auto insurance coverages, your policy will cover you in most every instance in which you cause damage or injury to your car, yourself, your passengers, or drivers and passengers in other vehicles.

But not all.

* **Note.** The standard auto insurance policy has some "exclusions," which is insurance-ese for, "We won't cover that." Here are some examples where your auto policy won't provide coverage:

- If you intentionally try to cause damage to your car or another vehicle. This includes liability coverage.
- If you are using the vehicle to transport other people for a fee. (This does not apply to car pools where the expenses are shared.)
- If you are using the vehicle for certain business activities. This does not include traveling to see clients or taking a standard business trip.
- For damage caused by normal wear and tear, freezing, mechanical or electrical breakdown, or road damage to tires.
- If your car is damaged because of radioactive contamination, intentional or accidental discharge of nuclear weapons, war, insurrection, rebellion or revolution.

Important Question: What Are You Using Your Vehicle For?

You can get sideways with your insurance company because you haven't been upfront about how you are using your vehicle. For example, do you drive your car to work? If so, you will pay more for auto insurance than if you take mass transit. In fact, the further you have to drive to work, the more you will pay.

∗ **Tip. I**f you drive to work and tell your insurance company you don't, you have basically committed fraud. Resist this common temptation, even if it will save you a few dollars.

∗ **Example.** Say you have an accident on the way to work. Say, also, that you have told your insurance company you don't drive to work. Your insurer could technically argue that it is not obligated to provide coverage. It is unlikely, however, that this will happen.

Why? Because the insurer would have a difficult time proving that you drove every day. Perhaps this was a one-time thing, or a fairly rare event. In any case, by lying about driving to work, you've given your insurance company a good reason to cancel your policy.

Honesty is the best policy when it comes to insurance. Insurance fraud is a huge problem in this country. Claims are frequently padded with nonexistent damages. Accidents are staged. Injuries are faked.

∗ **Fact.** It is estimated that fraud accounts for as much as 25 cents to 30 cents of ***every*** auto insurance premium dollar. Think about that. If even half the auto insurance fraud in this country were wiped out in the next year, you would pay 12% to 15% less for your next policy.

Personal Car for Business, Company Car for Personal Use

Do you use your personal car for business? Do you have access to a company car? If the answer to either question is yes, you could have potential coverage gaps.

∗ **Example.** Let's say you use your personal car for business. It's possible your employer is providing some coverage for you through your employer's commercial auto policy. ***Some*** coverage. For the most part, the coverage is for liability only, and often this commercial auto policy doesn't even apply until the limits on your personal auto policy are exhausted. (This is what insurance people call "excess" coverage.)

∗ **Tip.** You should talk to your employer about what, if any, coverage is available to you through the company's commercial auto policy. That way, if you have an accident while on company business, you know who (or which insurance company) to call.

If you use your personal car for regular business purposes -- trips, visiting clients, etc. -- your personal auto policy probably provides enough coverage for these activities. (Assuming you have "enough" coverage to begin with.)

But what if your car is actually a source of revenue? You make deliveries, for example. In that case, you likely need a commercial auto policy as well.

∗ **Note.** In fact, if you have an accident while delivering a product or using your car as a taxi, your personal auto insurer may well deny your claim. Talk to your agent to make sure you have coverage for all the business activities for which you use your car.

What about company cars? Well, they can be an insurance problem, if you use the company car for business and pleasure, and particularly if you don't have a car of your own. If you don't have a car, you probably don't have a personal auto policy. If you don't have a car (or personal auto coverage), but use a company vehicle for pleasure, you are inviting disaster if you have an accident during a pleasure trip.

∗ **Tip.** If you are in this situation, you should have what is called a non-owned personal auto policy.

Such a policy can also come in handy if you don't have a car and you rent a vehicle on a trip. Your non-owned auto policy will cover you and your rental car if you have an accident. Otherwise, you would probably need to buy coverage from the rental car company, coverage that is very, very expensive.

∗ **Tip.** You can have coverage gaps even if you have a personal auto policy and use a company car for pleasure. Or if your spouse and/or children use the company car for pleasure. Find out from your employer the extent of coverage that is available for your corporate car. Once you know the extent, talk to your insurance agent about what additional coverage you might need.

How Do You Get the Most for Your Money? 11 Ways to Save Money on Your Car Insurance...

So you’re shopping around for auto insurance. What do you need to know? Well, there are lots of ways -- *at least 11* -- that you can save money. Many of these money-saving ideas may apply to you.

1. **<u>One Insurer, Multiple Policies</u>** -- Do you have a homeowners or renters insurance policy? If so, is it with the same insurance company that provides your auto insurance? If the answer is no, ***you’re paying too much -- for both policies.*** Almost every insurance company that sells auto insurance wants its policyholders to also buy homeowners or renters insurance from that company.

   These insurers offer so-called multi-policy discounts. Usually, these discounts are at least 10% -- and some insurers apply the discounts to both the auto and the homeowners/renters policy.

   ∗ **Tip.** Talk to your agent about multi-policy discounts.

2. **<u>Good Driver, Good Price?</u>** -- It’s no secret that the better you’re driving record, the less you will pay for auto insurance. But did you know that most people qualify as “good drivers” and are eligible for discounted premiums? Some good drivers pay a lot more than others, however.

   Many auto insurers are actually a collection of several insurance companies in which each caters to a certain type of driver. The worst drivers go in one company, the best in another, and a lot of people wind up in one of the middle companies.

These middle people pay less than the worst drivers, but more than the best. The thing is, many of these middle people have driving records that are just as good as those who are insured by the companies that offer the lowest rates. Yet these middle people are paying more. Why?

The usual reason is that they don't know any better. No one told them which insurance company in the group had the best prices. And, probably, no one told them there was even a group of insurance companies**.** If you have a spotless driving record, there's no reason you shouldn't be paying the lowest price a group of insurance companies has to offer**.**

∗ **Tip.** Make sure you're getting the best discount for your driving record. Talk to your agent. And remember, be a safe driver. It will save you money.

3. **<u>The Beauty of the Bus (or Other Mass Transit)</u> --** Do you drive to and from work? If you do, you are literally paying a premium to do so. Insurance companies charge you significantly higher premiums if you drive to work**.** And, the longer your commute (in miles, not minutes), the higher the premium.

   ∗ **Tip.** Some drivers should consider mass transit. Yes, there's a price there, too. But you will reap the savings of gas and lower insurance costs.

4. **<u>Low Mileage, Low Price</u> --** On average, people drive 1,000 to 1,250 miles a month. That is what insurance companies consider average use.

∗ **Tip.** If you drive less than the average, you could be eligible for low-mileage discounts, which some insurers offer.

5. **High-Profile, High-Cost** -- The type of car you drive is a major factor in what you pay for insurance. Is your vehicle a magnet for thieves? Is it more expensive to repair than most cars? If the answer to either of the last two questions is yes, you're paying more than the average car owner for insurance.

   ∗ **Note.** To get detailed information on your vehicle(s) -- or a vehicle you're thinking of buying -- write to the Insurance Institute for Highway Safety at 1005 North Glebe Rd., Arlington, VA 22201 and ask for the "Highway Loss Data Chart."

6. **Raise Your Deductible** -- The deductible is the amount you pay before insurance kicks in if you have a claim. For example, if you have a $250 deductible and you have an accident in which your car sustains $1,000 in damage, you pay the first $250 and your insurer pays the balance, $750. The lower the deductible you choose, the more you pay. If you have assets, you can probably afford to absorb at least $250 and probably $500 if you have a claim.

   ∗ **Tip.** If it's been years since you've had an accident, you may be better off raising your deductible and paying less each year for insurance.

7. **Drop Unnecessary Coverages** -- Let's say you have an older car, one not worth very much. There's really little point in having collision and comprehensive coverages. You don't have much to protect. Remember, too, that

you have to subtract your deductible from any potential payout you might get.

∗ **Tip.** As a general rule, any car worth less than $1,000 shouldn't have collision and comprehensive coverage**.** Between the deductible and the extra expense of these coverages, the cost is probably greater than the benefit. How much is your car worth? An auto dealer can tell you, or there are plenty of books that have values of vehicles going back many, many years.

8. **Discounts, Discounts, Discounts --** Auto insurance companies offer several discounts for a variety of reasons. The car has automatic seat beats, air bags, anti-lock brakes, anti-theft devices, etc. The driver is a good student, which is especially valuable if you have teenage children who will be on your policy.

   ∗ **Tip.** Make sure you are taking advantage of all the discounts available to you!

9. **Taking the Defensive --** Many insurance companies also offer discounts to those who have taken defensive driving courses recently.

10. **Low-Cost and High-Cost Areas --** Are you planning to move? If you are, you should take into account the cost of insurance. Generally, the more urban the area, the higher the premium. The costs can vary even within a community**.**

    ∗ **Fact.** Rates can really vary from state to state. If you're living in New Jersey, Massachusetts or Hawaii, you're paying several times more, on average, than you would in North Dakota, South Dakota or Idaho.

11. **<u>Credit Where It Is (Or Is Not) Due</u> --** Is your credit record better than your driving record? If you have a good credit record, you could be eligible for discounted premiums from several auto insurance companies.

    ∗ **Fact.** Many insurers now use your credit history as a major factor in determining what to charge you for auto insurance. In some cases, with some companies, you could save money by shifting your business to an insurer that uses credit as a rating factor **--** even if you have a so-so or poor driving record. There is another side to this coin. If you have a poor credit history, you could save money by moving your auto insurance to a company that does not use credit as a rating factor. Many insurers do not use credit as a factor.

    ∗ **Tip.** Regardless of your credit status, you should talk to your agent to make sure you have the best situation given your credit record, good or bad.

Whatever your driving record or coverage needs, you should shop around, or let an experienced insurance professional shop around, for the best deal for you. There are literally thousands and thousands of coverage options from hundreds and hundreds of insurance companies.

In addition, not only should you try to get the best deal you can, you also need to make sure you have all the coverage you want/need. Using an Independent Insurance Agent is usually your best bet to get the most value for your auto insurance dollar.

STRAIGHT ANSWERS TO THE NAGGING QUESTIONS ABOUT RENTAL CAR INSURANCE

∗ **Example.** You've just started your vacation. You've arrived at your destination, collected your luggage, and are in the process of renting a car. You've given the person behind the counter your driver's license and credit card, and now you are being asked if you want to buy "coverage" from the rental car company**.**

Do you need it?

Probably not, but how can you be sure? The best way is to be prepared and know the answer to this question before you leave on your vacation.

So why shouldn't you buy insurance from a rental car company? The person behind the counter is (usually) not a licensed insurance professional. He or she is not conversant with insurance laws and whether your own personal auto policy covers you when you rent a vehicle (in most circumstances, it does).

Some rental car company personnel may say you are required to buy the coverage (not true) or you will be personally liable for any damage to the car while you're renting it (most likely, not true).

This Coverage Is Incredibly Expensive

∗ **Fact.** While it's true you could be making a costly mistake if you need the rental car coverage and don't buy it, you're also making a costly mistake if you buy it when you don't need it.

Rental car insurance is incredibly expensive. On a daily basis, which is how it is sold, the rental car coverage can cost 10 to 20 times more than your personal auto policy**.** If you buy all the coverages offered by the rental car companies, you could easily double the daily cost of your rental vehicle.

So who needs to buy the rental car coverage? Well, here's who doesn't. If you have insurance for your own cars, including collision and comprehensive coverages, you don't need the rental car insurance -- provided you are not renting the vehicle for business purposes.

If you're on vacation, no problem. Just say no. If you're on vacation but planning to do some business, you're probably OK. But you should talk to your auto insurance agent if you mix business and pleasure on the trips where you rent cars.

∗ **Note.** One thing to keep in mind: Your collision and comprehensive coverages on your personal auto policy have deductibles (the amount you must pay before the insurance kicks in). Those deductibles apply to damage to rental cars as well.

What If You Don't Carry Collision Coverage?

So what happens if you don't carry collision and comprehensive coverages on your own cars? Many people don't, particularly if they have vehicles that are at least 10 years old.

∗ **Note.** If you don't have collision and comprehensive, your personal auto policy won't cover damages to the rental car if it is in an accident, stolen, vandalized, collides with an animal or burns.

So what should you do?

You can risk it, not buy the rental car company's collision damage waiver (CDW) or loss damage waiver (LDW), and hope you don't have an accident or encounter anything that damages the vehicle. You'll save money, but it might not do much for your peace of mind, particularly if you're driving in a strange city or area.

∗ **Tip.** If you're averse to risk, you probably should buy the CDW or LDW. Some rental car companies offer some options with their CDWs or LDWs. Some come with deductibles, like regular collision and comprehensive coverages, while others provide first-dollar coverage**.**

Obviously, though, first-dollar coverage comes at a higher price. And some options limit the coverage. In other words, after a certain amount of damage to the vehicle, say $5,000, you would be on the hook.

What If You Damage another Vehicle when you're Renting a Car?

What about damage or injuries you cause to other vehicles and people while you're driving the rental car? If your personal auto policy includes liability insurance (most states require some level of such coverage), your policy will pay for any damage or injuries you cause to other cars or people -- up to the limits of the policy, of course.

∗ **Note.** If you are comfortable with the amount of liability coverage you have for your own cars, you don't need to buy additional liability insurance for vehicles you rent.

If you don't have liability coverage -- if you don't have a car, you're probably not going to carry auto insurance -- you actually may not need to buy the rental car company's liability policy, either.

Most states require rental car companies to provide some liability coverage to you at no charge. The limit of the free liability coverage is equal to the state's minimum liability limits.

Is this enough? Probably not, and certainly not if you cause a serious accident.

The minimum liability limit requirements are something like no more than $15,000 for injuries to any one person, no more than $30,000 for injuries to all persons, and no more than $5,000 for damage to the vehicle(s) you hit. That’s not much at all.

∗ **Tip.** If you have any assets to protect, you should strongly consider purchasing the rental car company’s liability coverage, which costs $7 to $15 a day depending on the state and level of coverage you choose. Higher liability limits mean higher daily costs.

If you have any concerns about whether you need to buy the coverages offered by rental car companies, **you should talk to your auto insurance agent**. The rental car coverages can double your daily rate. That’s a lot to pay for something you don’t need.

HOW TO PROTECT YOURSELF AND YOUR FAMILY WITH HOMEOWNERS INSURANCE

Fire insurance -- that's what this used to be called.

∗ **Fact.** Now, a homeowner's insurance policy covers a lot more than just losses resulting from fires. The policy covers theft and burglaries. If a high wind blows off your roof, you have coverage. If someone comes to your home and slips on your hardwood floor, or anywhere else in the house, you have coverage if this person decides to sue you.

Unlike your auto, your home is not as susceptible to losses stemming from reckless human behavior. Drunk or negligent drivers aren't as much of a menace.

But your home is susceptible to Mother Nature.

∗ **Note.** Unfortunately, the standard homeowners policy does not provide coverage for some of Mother Nature's, uh, mood swings.

∗ **Example.** Let's say steady rains cause that nearby river to rise over its banks, sending water throughout your community, including into your basement. Your homeowner's policy doesn't cover flooding, so if this water causes damage, you'll have to pay for any repairs that are needed, unless you have a separate flood insurance policy.

∗ **Example.** Let's say the land on which your residence sits starts to move, for one reason or another. Your foundation cracks, even collapses. Again, your homeowner's policy won't cover this. You need a separate policy, usually called "difference in conditions," that covers landslides and certain other earth movement.

∗ **Example.** Let's say you live in a region prone to seismic activity. An earthquake hits your community, badly damaging your house. Again, this is not something covered by your homeowners insurance. You need a separate earthquake insurance policy.

Dangerous Assumption? You Must Decide...

Flooding? Landslides? Earthquakes? Most people don't buy these coverages, preferring to believe that 100-year floods truly happen every century or so. In California, which has been hit by two major quakes since 1989, about three-quarters of homeowners in the state don't carry earthquake insurance. Landslide coverage is often hard to get, particularly if you live on a hill.

Most homeowners choose to gamble on Mother Nature. Perhaps they do so because they aren't aware that their homeowners policy doesn't cover certain catastrophes. Perhaps they do because of the price of flood, landslide and earthquake policies.

Flood and quake policies are usually a few hundred dollars a year. Or perhaps they like the odds that nothing will happen that isn't covered by their homeowners policy. The consequences can be devastating, however.

∗ **Tip.** Whatever their reasons, make sure *you* are comfortable with the risks you are assuming. Insurance is available for flooding, earthquake and landslides. Ask your agent to find out how much these policies would cost you.

There Are Limitations on the Coverage for Your Jewelry, Art, Computer Equipment

There are other limitations in the homeowner's insurance policy. While there is coverage for the contents in your home, this coverage is limited for certain valuables: jewelry, art, computer equipment.

∗ **Note.** Frankly, if you have a valuable collection, anything ranging from fine art to baseball cards, your homeowners policy probably won't provide full coverage if the collection is damaged, destroyed or lost. For example, the standard policy will provide a maximum of $1,000 coverage for your jewelry if it is lost or stolen.

∗ **Tip.** When you buy or renew your homeowner's policy, talk to your agent about the coverage limitations for personal property. As a rule, if you have a collection or an individual item worth at least $2,500, you should discuss with your agent additional coverage options, because your homeowners policy may not reimburse you fully if the collection or item is damaged or stolen.

Fortunately, you can obtain adequate coverage for your collections, your computer equipment, your art and your jewelry.

∗ **Tip.** If you have lots of jewelry, fine art or computer equipment, or any valuable collection, you should consider purchasing a special personal property endorsement, or "floater," that is attached to your homeowner's policy and provides the coverage you need.

On these endorsements or floaters, you provide a list of items you have. The higher the value of your items, the more the added-on coverage will cost. Your agent can recommend endorsements or floaters that can provide the coverage you need.

How to Insure the Structure of Your Home Itself

∗ **Note.** Homeowner's coverage insures both the structure of your residence and your personal property, including personal property that is not located in your home.

∗ **Tip.** In insuring the structure, you want to make sure you have enough coverage to rebuild your home if it is destroyed. In other words, the limit on your policy should be equal to the cost to replace your home.

How do you find out what it would cost to totally rebuild your house? Your insurance agent can have an answer for you in no time. If you don't have an insurance agent -- and you should -- you can contact your local builders association.

∗ **Tip.** In the home construction world, building costs are calculated on a square foot basis. As such, to determine the cost to rebuild your home, take the square footage of your house and multiply by the average square foot building rate in your area.

How to Insure the Things You Care about That Are <u>Inside</u> Your Home

There are two types of coverage for your possessions: replacement cost and actual cash value. Replacement cost is better for you, the homeowner.

- Under **replacement cost** coverage, the insurance will cover the cost of replacing property that is damaged or stolen, up to a maximum dollar amount.
- Under **actual cash value**, the insurance will cover the cost of replacing the property minus an allowance for depreciation. If you have, say, older furniture, that allowance could be quite significant. Unless your policy

specifically says it provides replacement cost coverage, the coverage is for actual cash value.

∗ **Note.** Remember, homeowner's policies also have limits on coverage for such items as jewelry, fine art and computer equipment. If you have significant amounts of jewelry, fine art and computer equipment, as well as any valuable collections (coins, baseball cards, etc.), there probably isn't enough coverage in the standard homeowners policy for these items.

Your homeowner's policy provides coverage for items from your residence that are, for one reason or another, transported elsewhere and subsequently damaged, lost or stolen. In fact, if your car is stolen and you have, say, hundreds of CDs or cassettes in it, you would make a claim on your *homeowner's* policy, not your auto policy.

∗ **Tip.** Keep in mind, though, that your homeowners insurance has a deductible. Unless the property lost has a value significantly greater than your deductible, it may not make much sense to file a claim.

∗ **Tip.** For your own protection, you should take written and visual (still pictures or video) inventories of everything you own in your home and in other buildings on the property. Include all furniture (indoor and outdoor), appliances, stereos, computers and other electronic equipment, hobby materials and recreational equipment, china, silverware, kitchen equipment, linens, jewelry and clothing.

For the major items (computers, televisions, stereo systems, etc.), write down the serial number, make or model number, purchase price, present value and date of purchase of each item. If you have the receipts for the items, attach them to the inventory. Make at least two copies of the inventory and store one of those copies offsite -- a safe deposit box is a good place. Store the pictures or video of the inventory offsite as well.

How Do You Get the Most for Your Money? 11 Ways to Save Money on Your Homeowners Insurance...

Now that you know the basics of a homeowner's insurance policy, here are 11 ways you can pay less. In many cases, you can get the same level of coverage for fewer dollars.

1. **One Insurer, Multiple Policies** -- Do you have an automobile insurance policy? If so, is it with the same insurance company that provides your homeowners insurance? If the answer is no, *you're probably paying too much* -- *for both policies.*

   ∗ **Tip.** Almost every insurance company that sells homeowners insurance wants its policyholders to also buy auto insurance from that company. These insurers offer so-called multi-policy discounts. Usually, these discounts are at least 10% -- and some insurers apply the discounts to both the auto and the homeowners/renters policy.

2. **Raise Your Deductible** -- The deductible is the amount you pay before insurance kicks in if you have a claim.

   ∗ **Example.** If you have a $250 deductible and you file a claim for $1,000 in damage to your home, you pay the first $250 and your insurer pays the balance, $750. The lower the deductible you choose, the more you pay.

   ∗ **Tip.** Depending on the insurance company, you can save between 12% and 37% if you have a deductible of $500 to $5,000.

3. **New Is Better** -- Insurers really like newer homes. That's because it's less likely something will go wrong with the electrical, heating and plumbing systems. In

addition, the structure itself is in better shape. Insurers offer discounts of as much as 8% to 15% if your residence is new.

4. **<u>Location, Location, Location</u> --** Where do you live and what is your home made of? If you're in the Eastern United States, it's better from an insurance perspective to have a brick or masonry residence because such a structure has a greater resistance to wind damage. By contrast, frame homes are better in the earthquake-prone West. The right structure in the right region can save you 5% to 15%**.** Further, if your home is near a fire station, you will pay less for homeowners insurance.

   ∗ **Note.** If you live in an area that is prone to flooding, you may be required to buy a flood insurance policy, which costs about anywhere from a couple of hundred dollars to several hundred dollars a year, depending on where you live and the risk of flooding in that area.

5. **<u>Insure the House, Not the Land</u> --** Nobody is going to steal your land. Fire and high winds won't "destroy" it. As such, when deciding how much homeowner's coverage to have, don't include the value of the land, only the value of the house and any other buildings on the property**.** If you include the value of the land, you're paying too much**.**

6. **<u>Don't Insure What You Don't Have</u> --** Each year, you should review your policy to see what coverage you have for your possessions. If you have made a major purchase, you will want to increase your limits of coverage, but what if you sell something or some things? You don't need as much coverage**.**

∗ **Tip.** Pay particular attention to items that are covered by endorsements or “floaters” to your policy, items such as jewelry and computer equipment. If you no longer have them, don’t insure them!

7. **Better Safe(r) Than Sorry --** Smoke detectors, burglar alarms and deadbolt locks are usually worth discounts of at least 5%. You can get even bigger discounts, 15% to 20%, if you install a sophisticated sprinkler system or an alarm system that rings at the police station or a security company. However, not all of these systems qualify for discounts.

   ∗ **Tip.** Before you install one, check with your insurer to find out what *type* of system qualifies for a discount and how much you would save on your premium if you installed the system.

8. **Where There’s Smoke . . . --** There’s fire. Smoking (unattended cigarette butts, etc.) produces more than 23,000 residential fires in this country each year. That’s why some insurers have discounts if all the residents in a home are nonsmokers.

9. **Group Discounts --** Some insurers offer discounts to certain business or alumni associations.

   ∗ **Tip.** If you are a member of such an association or associations, ask the director(s) of the association(s) if there are any insurance companies providing discounts to association members.

10. **Don’t Jump Around --** If you’ve been with an insurer for a while and you like that insurer, stay put. Some insurance companies automatically have discounts for policyholders who have been with the companies for a

certain number of years. For examples, 5% for at least three years, 10% for at least five years.

11. **Bite Is Worse Than Bark** **--** If you have a dog or dogs, particularly if it's a more vicious breed, you will pay more for liability coverage. More and more dog bite claims are being brought, which has some insurers not exactly chomping at the bit to provide coverage to homeowners who have, as examples, Rottweilers, Pit Bulls and Dobermans. If you're considering getting a dog, keep this in mind: If you get dogs of certain breeds, your premium probably will go up, or your insurer could even decide to cancel your policy.

BUSTING THE MYTHS ABOUT RENTERS INSURANCE

It is one of the most commonly repeated myths about insurance. Renters don't need insurance because their landlord's policy provides coverage for the renters' property.

No, it doesn't. Further, if someone slips and falls in your apartment or rented home, your landlord's insurance usually won't provide any coverage for you if you are sued.

Renters insurance is basically like homeowners coverage without coverage for the structure.

∗ **Note.** Renters insurance provides coverage for your possessions and for liability if you are sued by someone injured while on your premises. Renters insurance also covers any of your possessions when they are away from your residence, including in your car.

In addition, renter's policies provide what are called additional living expenses. If some catastrophe covered by the policy -- fire, bursting pipes -- makes the place you are renting uninhabitable, the policy will pay some of the costs you incur to live somewhere else while the residence is being repaired.

The coverage is usually limited to either a specific period of time, say 12 months, or what the insurance company considers a "reasonable length of time." Also, there is a cap on the amount of additional living expenses the insurer will pay, usually a percentage of the total liability limits.

Like homeowners insurance, renters policies do not cover damage or losses resulting from flooding, landslide or earthquake -- although it is possible to buy coverage for these risks separately.

Actual Cash Value vs. Replacement Cost for Renters

Like homeowners insurance, there are two options for covering your possessions:

- Actual cash value, which is the replacement cost of an item minus depreciation.
- Replacement, which allows you to buy a new item to replace the one lost, stolen or damaged, no matter how old that item is.

∗ **Note.** Because replacement cost is better coverage, it costs more. Usually about 10% to 15% more.

Speaking of cost, renters insurance is fairly cheap when compared with other personal insurance policies. Usually, you can get a decent policy for about $200 a year, depending on where you live. If you choose higher limits for your personal property and liability coverage, you could pay as much as $400 a year.

The policy has dollar limits on certain types of items. For example, there is usually a $1,000 limit for jewelry and anywhere from a $3,000 to $10,000 limit for computer equipment. If you want higher limits, you can purchase an endorsement, or "floater," to the basic policy.

Like homeowners insurance, renter's coverage has a deductible -- the amount you will pay before insurance kicks in. The higher the deductible, the less your policy will cost.

You probably should have the same liability limits on your renter's policy as you do on your auto insurance policy. Like your auto policy, you want to make sure your renters insurance will cover all your assets if you are sued.

If you are renting with a roommate or roommates, it's probably best to include all your roommates on the policy. In addition, if you are living and renting with a significant other, many insurance companies will allow you to obtain joint coverage, just as if you were married.

If You Rent: How to Keep Track of What You Own...

∗ **Tip.** Like homeowners, you as a renter should have a written and visual inventory of all of your possessions. For items of significant value, you should write down the model numbers, serial numbers, date of purchase and price. Make a written copy of your inventory and keep it at another location, along with your photographs and/or video of the items. A safe deposit box is a good place to keep such records.

∗ **Note.** If one of your “possessions” is a dog, you may find it more difficult to get coverage, particularly if that dog is a Rottweiler, Pit Bull or Doberman.

∗ **Tip.** Finally, remember that many insurance companies give discounts to those who have multiple policies with a given insurer. Shop around, or have your agent shop around, for insurance companies that have the best rates, discounts, etc., for renters and auto insurance if both are placed with the same company.

HOW TO INSURE YOUR IN-HOME BUSINESS

If you are not working at home yet, you may be soon. For more and more Americans, their "commute" to work is from the kitchen or living room to the den or study. By some estimates, there are as many as 18 million home-based businesses in the United States, and that number is expected to grow rapidly.

∗ **Fact.** Unfortunately, many of these home-based businesses, perhaps even most, do not have adequate insurance coverage. One study found that 60% of those who work at home may not have insurance for their business activities**.**

The study also found that most of those without business-specific insurance believe they are protected by their homeowners insurance. Actually, a homeowner's policy does offer some coverage for home-based business, but it is minimal. Most homeowners policies provide a maximum of $2,500 coverage for business equipment (computers, fax machines, etc.) in the home.

If that sounds like it's enough, it probably isn't. If you are sued because of your home-based business activities -- the company that hired you as a consultant believes your advice was dead wrong; the computer equipment you "fixed" doesn't work; the cookies you baked made someone ill -- your homeowner's policy won't protect you.

Further, if you have to temporarily shut down your business for whatever reason, the homeowner's policy won't allow you to recover the income you lost because of the shutdown. There are insurance policies available to home-based businesses that do provide these coverages.

Important Question: What’s the Scope of Your Business?

Some home-based businesses don't need much insurance beyond a homeowner’s policy, particularly those businesses that have minimal equipment, don't have visitors, don't often visit clients or offer fairly straightforward products. It is possible to add coverage to your homeowner’s policy for your business.

∗ **Tip.** Often, for as little as $14 a year, you can double the limit of coverage for business equipment from $2,500 to $5,000.

∗ **Note.** But be aware that these additional coverages, known as endorsements, don't protect you if you are sued as a result of your business activities. Also, the endorsements usually don't cover income lost. Some insurance professionals strongly believe that business-related endorsements to homeowner’s policies aren't a good idea for any home-based operation**.**

One fairly inexpensive option for home-based business owners is a **home office policy**, also known as an in-home business policy. The policy provides the standard coverages for homeowners -- including fire, theft and personal liability -- as well as coverages for business property, commercial liability and loss of income.

∗ **Tip.** Often, for about $200 a year, you can purchase a policy that offers $10,000 of coverage for business property. Also, you can buy business liability coverage with limits of $300,000 to $1 million**.** (If this sounds like a lot of coverage, it really isn't. Most people with any significant amount of assets carry liability limits of at least $300,000 on their personal auto policies.)

In addition, the home office/in-home business policy provides some coverage for loss of valuable papers and records, accounts receivable and business property not located in your home. Also, you can buy additional coverage for equipment breakdown and theft.

∗ **Note.** While the home office policy offers adequate coverage for many in-home businesses, it is not the best option, or even a prudent option, if you conduct a large amount of your business away from your home.

The most extensive coverage for home-based businesses is available in a **business owner's policy**, which insurance people call a BOP. If you stock a lot of inventory, manufacture fairly complex products or provide professional services where there is a significant risk of being sued by disgruntled customers, a BOP probably is the best option.

Depending on the limits of coverage you need for property and liability, BOPs can cost anywhere from $150 to more than $1,000 annually.

∗ **Tip.** No matter what type of coverage you choose -- whether it's an endorsement to your homeowner's policy, a home office/in-home business policy or a BOP -- you and your agent should evaluate on a regular basis, at least once a year, whether your insurance is adequate. As your business grows, it's quite possible it will outgrow your insurance coverage. The bigger your business, the higher limits of property and liability coverage you need.

HOW TO PROTECT YOURSELF AND YOUR FAMILY IF YOU GET SUED!

If insurance is for a rainy day, umbrella insurance is for a storm! A day when someone hits you with a lawsuit for hundreds of thousands, even millions, of dollars.

Think it can't happen to you? Do you know how lawsuit-crazy this country is? You can't pick up a newspaper these days without reading about somebody suing somebody else for . . . what? You read the article and say, "That's crazy. There's no way somebody should be able to sue for that."

Well, guess what? The courts are clogged with these "crazy" lawsuits, and sometimes the person bringing the lawsuit wins. Do you really need coverage for these crazy lawsuits? Maybe not.

But remember that a lot of lawsuits aren't crazy at all. Some get settled. Actually, most get settled. Often, the person being sued winds up paying something to the person who brought the lawsuit. And that doesn't even include the fees the defendant in the lawsuit has to pay to his or her attorney.

How Far Will Your Current Protection Really Go to Protect You?

∗ **Example.** Say you're at fault in an auto accident that causes serious injuries to the driver and/or passenger(s) in the car you hit. Your auto insurance has liability limits of $100,000 per person and $300,000 per accident. (Which are pretty common limits, by the way, even for people with a lot of assets.)

How far do you think $100,000 will go, particularly if the person or persons involved suffer injuries that keep he/she/them from working for months, even years? The accident victim(s) could sue you for his/her/their medical bills, lost income, even pain and suffering. In this scenario, $100,000 is not nearly enough coverage.

Guess what happens if, say, you are hit with a judgment in the case of $250,000 for one person involved in the accident? Your auto liability insurance will cover the first $100,000 –– and you're stuck for the rest. And that doesn't even include the legal fees you have to pay to your attorney. In addition, in some case, you might have to pay all or part of the legal fees the other party or parties incur. Ouch.

Umbrella insurance is for these very rainy days. While it may seem unnecessary, it really isn't, particularly for people with homes and other significant assets to protect. Do you really want to hand over your house and/or gains in the stock market to someone you injure in an auto accident? It could happen. But it doesn't have to.

Umbrella Insurance: Massive Protection for Pennies a Day

Because it is designed for those really rare rainy days, umbrella insurance is cheap. It is also versatile. Umbrella insurance provides additional coverage not only for your auto policy, but also your homeowners or renters policy. Further, umbrella insurance covers things auto, homeowners and renters policies don't.

Such as? In the insurance world, there's something called "personal injury." This is not damage to someone's body, but to his or her career or reputation.

∗ **Example.** Imagine you say in public that a certain person is a lying, no-good so-and-so. Maybe you really believe this to be true, but the person is very offended. He or she can sue you for slander (if you say it) or libel (if you write it). If this happens, your umbrella policy will provide coverage, including legal fees, up to the limits of the policy.

Umbrella insurance also covers personal injuries such as invasion of privacy, wrongful entry, wrongful eviction, false arrest, false imprisonment and malicious prosecution. Some umbrella policies will provide coverage if you are sued because of your service on the board of a civic, charitable or religious organization.

∗ **Note.** Umbrella insurance doesn't cover everything. For example, if you are sued and the court assesses punitive damages against you, those damages won't be paid by your umbrella insurance. What are punitive damages? They are damages awarded to someone in order to punish the person being sued. Punitive damages are awarded for outrageous, totally reckless conduct –- at least what a judge or jury perceives to be outrageous, totally reckless conduct.

You can usually buy umbrella policies with $1 million limits for $200 to $300 a year. If you need more than $1 million limits, you can usually buy each extra $1 million of coverage for $100 to $200. Think about this. For only a few hundred dollars, you can increase your per-person liability limits 10 times, 20 times, even 30 times –- and it applies to both your auto and homeowners or renters policies as well.

Umbrella Coverage: How It Works...

Umbrella insurance actually "sits" on top of your auto and homeowners or renters liability coverage. Say you have a per-person liability limit of $100,000 on your auto policy. Say also that you cause an accident in which a driver or passenger in the other car is ultimately awarded $250,000.

Your auto policy will pay the first $100,000, and your umbrella will kick in the remainder. Well, almost the remainder. Like auto policies, umbrellas have deductibles, usually anywhere from $250 to $2,500. But a deductible of even $2,500 is a small price to pay if you're hit with a $250,000 judgment.

Because umbrellas are over the top of the auto, homeowners or renters liability limits, some insurers offering umbrella policies require you to have your auto and homeowners with these companies as well. But that's not really a problem because most insurers are positively tickled to be able to provide someone's auto, homeowners or renters, and umbrella insurance.

In addition, most insurers offering umbrella coverage require you to have liability limits of a certain amount on your auto and homeowners policies. Typically, this minimum is $100,000 for homeowners and $100,000 per-person for auto.

Yes, you could chose to increase your auto and homeowners liability limits to, say, $1 million for each policy. But not every auto and homeowners insurer offers such high limits.

∗ **Tip.** And, do you know what? Your umbrella policy is usually a *cheaper* option than increasing the limits on your auto and homeowners insurance. Plus, you get the additional "personal injury" coverage that is not available in your auto and homeowners or renters policies.

HOW TO PROTECT YOURSELF AND YOUR FAMILY IF YOU OWN A BOAT

They are called pleasure boats or pleasure crafts, but, let's face it, sometimes they're a "pain." They are an expensive habit, to say the least -- and potential danger comes with the pleasure.

They are, after your house(s) and maybe your car(s), probably your most valued assets. You can choose to own and operate a boat, yacht or Jet Ski without insurance (although some marinas and yacht clubs won't let you dock your craft unless you have coverage). That wouldn't be a very smart choice, however.

∗ **Note.** If you have a homeowner's insurance policy, you may have some coverage for your watercraft, but it is very, very minimal. A typical homeowner's policy will pay as much as $1,000 to repair damage to your boat, but -- guess what? -- that damage has to occur while the boat is at your home. This is not exactly the kind of damage coverage you need. In addition, there may be some liability coverage. Some, but hardly enough.

You can gamble and not buy insurance for your watercraft, but it is a big gamble. You're risking not only losing or severely damaging the boat in an accident without compensation, but possibly your other assets if your boat causes damage and/or injuries to other boats and/or boaters.

Lots of Options...How to Choose

Perhaps more than any kind of insurance, it really pays to shop around for coverage for your watercraft. Depending on the type of craft you have, how fast it moves, where you operate it, etc., you could find that many policies are prohibitively expensive, or don't provide the coverage you need.

First, you need to know that there are three types of "boats."

- Anything less than 16 feet long is usually called "personal watercraft" by insurers. This includes jet skis, Waverunners, Tigersharks, Wet Bikes and Sea Dog "cycle" style models, as well as Jazz and Rage "mini boats."
- "Boats" are 16 feet to 25 feet, 11 inches.
- Anything at least 26 feet long is classified as a "yacht."

You will find that insurers have varying appetites for these types of watercraft. For this insurance, smaller is often not better. In fact, personal watercraft tends to be more accident-prone than most kinds of boats and yachts.

Some insurers won't provide coverage for your personal watercraft at all or won't unless it is a part of a larger policy. For some owners of personal watercraft, an insurer that specializes in this type of risk will be the best bet. Your policy should include coverage for injuries to you and your passengers, the craft itself, liability (for damage and injuries to other crafts and people) and theft.

∗ **Note.** If you use your watercraft for water-skiing, you need to get coverage for this exposure as well. (It usually needs to be added to a standard policy.) You can also get coverage for the trailer(s) you use to transport the watercraft.

Insurance for Powerboats, Sailboats

In the insurance world, "boats" are usually smaller powerboats and sailboats. Standard policies for boats cover damage to the craft, usually on what is called an "all-risk" basis. In this case, all-risk includes damage caused by fire, lightning, theft, vandalism and windstorms.

The coverage is usually available for the boat itself, outboard motor(s), the boat's trailer and personal property on the craft that is part of the normal operation of the vessel. Some insurers offer separate coverage for fishing equipment, cell phones and computers that are aboard the boat.

The standard boat policy also provides liability coverage, which is usually offered in increments of $100,000 to as much as $1 million. Therefore, it is similar to auto insurance liability in terms of what is available.

Most standard policies also cover medical expenses incurred by you, your family and any other passengers on the boat. Some policies also provide coverage for injuries caused by uninsured boaters or by those boaters who don’t have enough insurance. If this sounds like uninsured motorist coverage in an auto insurance policy, it basically serves the same purpose.

∗ **Tip.** If you’re shopping for boat insurance, it’s wise to consider only those policies that offer this coverage. Discuss this with your agent.

Insurance for Yachts

If your watercraft is 26 feet or longer, you will need to buy yacht insurance, which provides basically the same coverage as boat insurance, but the terms are different. Under a boat policy, coverage for damage to the craft is called “physical damage.”

Under a yacht policy, the term is “hull.” Liability coverage under a yacht policy carries the name “property and indemnity,” which insurance people often abbreviate to P&I. As with boat liability coverage, P&I is available in increments of $100,000. Depending on the size of your craft, you can buy P&I limits from $2 million to as much as $50 million.

∗ **Note.** Like boat insurance, you should seek a yacht policy that offers coverage for medical payments (for you and your passengers) and uninsured boaters.

The cost of your boat or yacht policy is based on a variety of factors: horsepower; how fast it moves (it can cost as much as 50% more to insure a speedboat than it does a sailboat of similar size); where it is to be used; age of the craft and experience of the vessel's operator.

∗ **Tip.** Insurers often offer premium discounts of 5% to 20% to those boat/yacht owners who have taken an approved boating safety course. (In some states, such courses are required to operate a boat or yacht.) Premium discounts are available, from some insurers, for newer vessels and protective devices (depth finders, ship-to-shore radios, burglar alarms). You can also save money on the policy by electing to take a higher deductible.

Like boating itself, watercraft insurance is not cheap. As such, it truly pays to shop around. There are a lot of different policies and coverage options available. Some policies might be significantly cheaper than others, but they don't offer the coverage you need.

∗ **Tip.** This is a complex area of insurance with lots of options. Talk to your agent. Let him or her assess the many options out there and find the coverage that best suits your needs and best protects your assets, particularly that pleasure craft you love so much.

HOW TO PROTECT YOURSELF AND YOUR FAMILY IF YOU GET HURT...

So far, we have discussed two types of insurance: that which covers your possessions and that which covers your assets if you cause harm to someone else. But what about you? What if you get sick, injured or even die? How do you protect yourself and your family in these instances?

Remember, insurance is a game of "What if?" So ask yourself these questions:

What happens if you suffer a serious illness or injury that results in major medical bills and significant lost work time?

How do you and your family pay expenses if you are unable to work for an extended period of time?

What happens to your family if you die?

These are obviously not pleasant thoughts, but remember that "What if?" is a game about worst-case scenarios. The next three chapters are about insurance that covers you and your family if your health goes, your ability to work goes or if you die.

Disability Insurance

It seems like something that doesn't happen very often. You suffer an illness or injury that prevents you from working for an extended period of time -- six months, a year, even five years. Sounds rare, doesn't it? It's not.

∗ **Fact.** On average, you have a one in five chance of becoming disabled between the ages of 35 and 65. You have a one in seven chance of becoming disabled for ***at least five years*** before you turn 65. If you are 30, you have a one in three chance of incurring a long-term (at least 90 days) disability before you turn 60. At age 40, the odds are three in 10. At 50, it's less than one in five.

You actually have a far greater chance of becoming disabled during your working career than you do of dying. The chances of disability vs. death are more than six times greater for younger workers. Yet far more Americans buy life insurance than they do a policy that can replace income lost because of a disability.

Disability Coverage: Lots of Options, How to Choose...

Disability insurance can replace some or nearly all of any income you might lose because you are very sick or badly injured. That sounds simple enough, but there are many types of disability insurance. Some of it is available to all of us:

Social Security -- If you are basically unable to perform any job duties at all, you probably are eligible for disability payments from Social Security. But such payments are not very high and won't replace most of your lost income.

∗ **Fact.** Further, 58% of all applicants for disability benefits are initially denied by Social Security. In addition, you are eligible for benefits only after you have been disabled for five months ***and*** if the disability is expected to last at least a year. Finally, any benefits you receive from Social Security are taxable.

Workers' Compensation -- If you are injured or become sick on the job, you are eligible for benefits under your employer's workers' compensation insurance, which all businesses must have. However, the benefits you receive vary from state to state and on the level of your disability. In addition, the benefits are relatively low and won't adequately replace income for those who earn mid- to high-range salaries. Again, the injury or illness must be job-related, or substantially job-related.

Disability Coverage Through Your Work -- Many larger businesses offer disability insurance at somewhat reduced rates to their employees as part of a benefits package. However, these so-called group disability plans likely will have limits on the income they will replace (say no more than 60% of your salary) and have limitations on the time such benefits will be paid. Further, the benefits are taxable, and the coverage cannot be taken with you if you change jobs.

Personal Disability Insurance

The other option for disability coverage, one more and more Americans are taking, is buying your own disability insurance policy. Disability coverage is similar to auto insurance in that you can buy a lot of it or just a little. How much do you need? In general, it is recommended that you have enough to replace about 60% to 70% of your pretax income.

∗ **Note.** If your salary is $5,000 a month, you would need about $3,000 to $3,500 in benefit payments a month from your disability policy. But there are a lot of factors to consider. You should consult with someone experienced in selling disability insurance to determine how much coverage you need.

There are numerous options for coverage in terms of when it is available. You can buy disability insurance that pays benefits for just a few months (short-term disability or STD). Or you can buy coverage for many years or even as long as you live (long-term disability or LTD).

∗ **Tip.** Generally, though, disability insurance is best used for longer terms. Buying short-term disability only is equivalent to purchasing auto insurance for just fender-benders. It makes much more sense to insure against a big (long-term) loss in income.

Disability insurance comes with a waiting, or elimination, period. That's the time between when the injury or illness occurs and when the benefit payments start coming. For LTD, the waiting period ranges from 60 to 180 days. The shorter the waiting period, the more the policy will cost.

Important Information: What Is a Disability?

When considering the purchase of disability insurance, it is vital to look at the definition of disability in each policy. In addition, you must consider how that definition applies to your specific job situation.

Disabilities carry adjectives such as "total and permanent," "partial" and "temporary." Frankly, most disabilities are "partial" and "temporary."

∗ **Tip.** As such, if you are considering the purchase of a disability policy that covers "total and permanent" injuries or illnesses only, you may be wasting your money.

Disability policies also have definitions relating to your occupation. The best, and most expensive, coverage is that which kicks in when you are *unable to perform your specific job*.

∗ **Example.** Say a neurosurgeon loses his or her hand in an accident. The person could still be a physician, but probably could no longer perform the duties of a neurosurgeon. By the definition of so-called "own occupation" policies, this person is disabled.

In contrast to "own occupation," there is "any occupation" coverage. In this case, if the person can perform a job that requires the same skills and training, he or she would not be disabled. In the case of the neurosurgeon, if he or she could continue to serve as, say, a general practitioner, that person would not be disabled. However, some disability policies will pay some of the difference in salary that results from having to change job duties.

Please keep in mind that some disability policies define "any occupation" to be truly that -- any occupation, regardless of the amount of skill and training required.

When Disability Is Defined as Income Lost...

Some disability insurers are offering a type of coverage that doesn't define disability in terms of an occupation, but rather in terms of income lost. Say you are hurt and have to take a job that pays 50% less than the one you had before the injury.

A disability policy based on income would replace some, but not all, of the income lost because of the job change. A common threshold is the policy will start paying after you've lost 20% of your income. In the previous example, such a policy would replace 80% of the income you lost.

Most disability insurance comes with some built-in protection for the policyholders in that the insurers offering the coverage guarantee your policy will be renewed. "Guaranteed renewable" policies mean that if you pay your premium, your insurer can't cancel your coverage or change the terms.

Further, the insurer can't increase your premium unless it does so for everyone who has a risk characteristic (age, job type, etc.) similar to yours.

∗ **Note.** The best option for disability insurance is a non-cancelable policy, which takes all the elements of a guaranteed renewable policy and adds a very important feature: a guarantee that the premium won't be increased. At least until you are 65.

∗ **Tip.** As you can see, there are a *lot* of options for anyone who wants to buy disability insurance. As such, it's no easy task making sure you get the benefits and coverage terms that best fit your situation. Discuss this with a specialist in disability insurance who can help you obtain what you need at a price you can afford.

HOW TO PROTECT YOUR FAMILY IF YOU DIE...

Life insurance is a simple concept -- you buy a policy that pays to your beneficiary or beneficiaries when you die -- but the decisions of what kind life insurance to purchase, how much of a death benefit and how much you pay are extremely complex.

∗ **Note.** There are more than 2,000 companies selling life insurance in this country. Some are very good, financially solid companies; others are not so sound. A company's financial strength is vitally important to you because, hopefully, no one is going to collect on your life insurance for a long time.

You want to make sure your life insurer will be around for the long haul. How do you do this? You can consult a seasoned insurance professional, which is probably your best bet, or you can look at how various independent organizations "rate" the life insurers you are considering. Ratings are like school grades, A+, A, A-, B+, etc. In general, it's wise to stick with companies that are rated A or better by most rating organizations.

Many Purposes for Life Insurance

Life insurance is far more than just a decision of how much to buy. Depending on your financial situation, life insurance can be used for a variety of purposes, such as:

- estate planning
- accumulating cash
- transferring wealth
- achieving estate tax liquidity.

Life insurance is like auto insurance in that you can buy a lot of it or not very much at all. Life insurance differs from auto insurance in that, depending on the type of policy you buy, you can pay a lot or a little for basically the same death benefit. Keep in mind, though, that the younger and healthier you are, the less you will pay for coverage. Life insurers really, really like to have their policyholders around for a long, long time.

∗ **Tip.** So how much life insurance do you need? It depends. One common benchmark is your death benefit should be about six to eight times your annual earnings, but there are a variety of factors to consider:

- Other income sources.
- The size of your family.
- Whether your spouse works and his or her earning capacity now and in the future.
- The number of people who are financially dependent on you and for how long.
- The death benefits your family will receive from Social Security and any life insurance plan at your work.
- And any special needs such as mortgages, college education funds and estate planning.

Make Sure Death Benefit Is Adequate

Now, what kind of life insurance should you buy? Guess what? It depends. But keep this very important principle in mind:

∗ **Tip.** Whatever kind of policy you buy, you should make sure it provides enough of a death benefit to meet your family's needs if you aren't here. So when you consider buying life insurance, start off with a number in mind of what your family must have in terms of a death benefit. *Don't lose sight of this number.*

What kinds of life insurance policies are there? There are several, but keep in mind that the terms and costs of the policies vary widely among insurers.

There are two basic types:

- term life, which is good for only a certain period of time, and,
- cash-value, which is “permanent” insurance that also includes a buildup of value in cash in addition to your death benefit. You can borrow against your cash value. You can even take out some of that cash value, but your death benefit will be reduced.

What exactly is “cash value?” It’s that part of a permanent life insurance policy not needed for so-called “mortality expenses.” The greater your risk of dying, for whatever reason, in the near term, the greater your mortality expense to your insurer.

When young, healthy people buy life insurance, they have a very low mortality cost to their insurer (which is why life insurers are so willing to provide coverage to the young and healthy).

What You Need to Know about Term Life Insurance...

Term life policies provide coverage for specific periods of time, sometimes as little as one year. While you usually can renew term life policies for one or more terms even if your health has changed, there’s potentially a big risk here if you get sick during the term.

∗ **Tip.** If your health does change, you probably won’t be able to buy another term without seeing your premium skyrocket. You should ask your insurer or agent what the premium will be if you continue to renew the policy.

∗ **Note.** You should also ask whether you will lose the right to renew the policy when you reach a certain age. Because this coverage is fairly cheap, it’s often a good option for young people in good health who can’t afford to buy “permanent” coverage.

Here are a couple of term life policy options:

- **Yearly Renewable Term Life --** This is coverage for a longer term, five, 10 or 20 years. The longer term also means that the costs to cover you are spread out so that you will avoid the potential for huge annual premium increases.
- **Convertible Term Life --** This is yearly renewable with the option to convert to a permanent policy in the future. The coverage, which often has the lowest cost and highest death benefit options of term insurance, can be a good choice for younger people who can't afford permanent coverage but who need a large death benefit and the option to convert to a permanent policy down the road.

What You Need to Know about Cash Value Life Insurance...

Cash-value life policies have premiums that are higher at the beginning than they would be for the same amount of term insurance.

The part of the premium not used to cover the yearly cost for mortality and other expenses is invested by the company and builds up a cash value that you may use in a variety of ways. Here are some specific examples of cash-value life insurance:

- **Whole (or Ordinary) Life --** Like other cash-value policies, this is permanent coverage, where the cost is literally stretched out over your entire life, or what the insurance company expects your entire life period to be. Life insurers have tables that tell them how long, on average, someone of your age and physical health will live.

  Say you want $500,000 in coverage. The insurance company's rates are based on how much it needs to charge you in order to allow the company to recoup the eventual death benefit while you are alive. The premium and the death benefit don't change much in whole life policies. You pay so much a month for a given death benefit. However, dividends to policyholders can increase the coverage or decrease the premium.

- **Universal Life --** This is the flexible life insurance. You can change your premium and your death benefit at any time, although a substantial increase in the coverage usually requires you to prove you are still in good health.
- **Variable Life --** This is a hybrid whole/universal coverage in which the death benefit is dependent on the investment performance of the insurance company's assets. And you get to choose the investment vehicle -- money market fund, bond fund or stock fund -- for your premium.

  ∗ **Note.** If your investments do well, your policy's cash value and death benefit will increase. If not, they'll go down, but most variable life policies won't let your death benefit drop below a certain level. However, it's possible a company will charge you for a guaranteed death benefit.

So which type of policy is best for you? In general, if you have significant assets, it's better (and less risky) to have some sort of cash-value policy. But which one? Actually, it's more important to buy the coverage from an insurer that has the best chance of performing well in the future.

An insurer that has low actual expenses and mortality costs. Such an insurer will be able to offer better terms, including higher death benefits, higher cash value and lower premiums.

∗ **Tip.** But, again, there are more than *2,000 companies selling life insurance in the United States*. As a result, you have thousands and thousands of options. This makes it even more imperative that you have a trained insurance professional analyze your financial situation and determine what kind of policy from which insurer is best for you.

HOW TO PROTECT YOURSELF AND YOUR FAMILY WITH LONG-TERM CARE INSURANCE

Consider the following scenario: You have a stroke. It is serious, but not fatal. After a few days or even weeks in the hospital, doctors are able to stabilize your condition and you are sent home. But you are paralyzed. You are unable to dress yourself, feed yourself and go to the bathroom without assistance. Basically, you need so-called custodial care 24 hours a day.

∗ **Question:** Does your health insurance policy cover the costs of the care you need if this happens to you?

∗ **Answer:** No, not at all.

So, if the previous scenario happens, what do you do? Well, if you don't have long-term care insurance, you pay for the care yourself.

Or, if you have few or no assets, the government pays for it through Medicaid. But if you do have assets and you need care that is custodial in nature, **you could exhaust all your assets paying for this care**, particularly if you need it for several years.

Many people mistakenly believe their health insurance covers custodial care. In fact, health insurance is mostly for critical care that gets you back (or close to) where you were before you got sick or were injured.

But some injuries and illnesses don't allow you to get fully healthy again. A stroke can leave you paralyzed for life. Alzheimer's disease likely will eventually prevent you from caring for yourself.

∗ **Fact.** When people think about long-term care, they usually think of nursing homes. In fact, only 20% of long-term custodial care takes place in nursing homes. The remaining 80% is at home. About 90% of at-home custodial care is provided by family members or friends. As such, just because you need custodial care doesn't mean you will have extensive costs. However . . .

∗ **Fact.** More and more Americans will need long-term custodial care sometime during their lifetimes, and it isn't only the elderly who require custodial care. Currently, 40% of those who need such care in this country are younger than 65.

∗ **Fact.** One in four people will enter a nursing home sometime during his or her lifetime.

∗ **Fact.** Further, of those who turned 65 in 1990, three out of seven will be in a nursing home at some point.

Custodial care, if it requires a professional or professionals, is definitely not cheap. Nursing home costs range from $40,000 to $80,000 a year. Home care costs anywhere from $10,000 to $30,000 annually.

Consider these costs when compared to your current asset base. And remember that you won't be able to earn much of a living, if any, when you require such care. More than anything else, the need for long-term care can cause life savings to evaporate.

∗ **Tip.** Long-term care insurance is the solution to this potential financial disaster. A good long-term care policy will cover custodial costs in nursing homes or at one's residence. A good policy will provide coverage if you are unable to perform one or more of what are known as "activities of daily living." Bathing. Dressing. Eating. Going to the bathroom. Transporting yourself in and out of bed.

Why Long-Term Care Insurance Seems Expensive...

But be aware that long-term care insurance is not cheap. Why?

∗ **Fact.** Insurers that sell long-term care coverage expect that they will have claims on *one out of every three policies* they sell. By contrast, it takes, on average, *about 1,200 homeowners policies to generate one claim*. Further, claims on long-term care policies can cost insurers hundreds of thousands of dollars.

Depending on how old you are and how much coverage you buy, long-term care policies can cost anywhere from a few hundred dollars to several thousand dollars a year.

∗ **Tip.** Because of the cost, the United Seniors Health Cooperative recommends you buy the coverage only if you meet these guidelines:

- You have more than $75,000 in assets per person in your household.
- Your annual income is at least $30,000 per person in the household.
- You can afford the premium ***without*** significantly changing your lifestyle.
- You could still afford the premium if it increases 20% to 30%.

Of course, you should talk to your agent about your options given your financial situation. In general, though, it probably doesn't make much sense to buy long-term care before you turn 50.

∗ **Tip.** You can save money on the coverage by increasing the "deductible" or "elimination period," which is the time between when you need custodial care and when the coverage becomes effective.

You can buy policies with elimination periods of anywhere from 30 to 180 days or longer.

Another money-saving option is to buy a policy that provides coverage for a limited time, say two to five years. This, however, might not save you much because most nursing home stays are less than three years.

What You Should Look for in a Good Long-Term Care Policy

If you do make the decision to buy the insurance, you want to make sure you get coverages you need. Here's what to look for in the policies:

1. **Cost-of-Living Adjustment (COLA) --** This is especially important if you are likely to have the policy for a while. If your maximum daily benefit does not keep up with inflation, you could be paying a lot of money for a policy that provides a fraction of the coverage you will need 10 or 15 years from now.
2. **Home Care --** The policy should cover custodial care expenses incurred in your home. This home health care benefit is usually sold as a percentage of the maximum daily benefit in nursing homes.

   Some experts counsel that this home benefit should be the same as the nursing home benefit because residential care is not necessarily cheaper than nursing home care. In addition, remember that if you move into a nursing home, the maintenance costs at your residence may be substantially reduced. Talk to your agent to determine what is best for you in terms of home care benefits given your residential circumstances.
3. **No Hospitalization Requirement --** Make sure the policy does not require a hospital stay before the benefits kick in. More than 60% of nursing home residents aren't hospitalized prior to being admitted to a long-term care facility.
4. **Benefit Triggers --** The policy should go into effect if you are unable to perform one or more "activities of daily living."
5. **Dementia Included --** The policy should provide coverage for "cognitive impairment," whether it is

because of Alzheimer’s or some other form of dementia.

6. When choosing a long-term care policy, you must **consider your financial situation** and whether you can afford the policy you want/need.

∗ **Tip.** Take the time to talk to an agent who is an expert in long-term care coverage and who can assess what policy will adequately fill your needs.

WHEN SOMETHING BAD HAPPENS: HOW TO FILE A CLAIM AND GET RESULTS!

Insurance is a product that really isn't that much fun to use. "Using" an insurance coverage means something bad has happened. You've been in an auto accident. Your house has burned. A burglar has helped himself to some of your possessions. Now you need insurance, and you're glad you have it. But filing a claim isn't necessarily an easy process, particularly if you're not prepared.

Prepared? How do you "prepare" for an accident, a fire or a burglary? There are several ways:

Prepare <u>Now</u> before Something Bad Happens...

∗ **Tip. Read Your Policy, Or At Least Make Sure You Understand What It Covers and What It Doesn't.** When you buy coverage, you should know what you're getting -- and what you're not getting. For example, the average homeowners policy doesn't offer a lot of coverage for computer equipment. As such, if a burglar walks off with thousands of dollars worth of computer equipment from your home, you probably will be disappointed with the coverage.

It's nice to know potential gaps in coverage in advance, if only because you won't have the double disappointment of losing some of your possessions and then having all or part of your claim for those possessions denied, much to your surprise.

∗ **Tip. Know the Procedure in Advance.** Your policy usually has information on how to file a claim, specifically, who to call and how soon after the loss. You should know the claim process before you ever have to file a claim. If you have any questions about what is required of you and how to handle a loss or accident right after it happens, talk to your insurance agent or someone at the insurance company.

∗ **Tip. Document Your Possessions.** Your homeowners, renters and in-home business policies offer general coverage for most of your possessions. (There are, of course, limitations on jewelry, art, computer equipment and collections.) When you lose some or all of these possessions, you have to list on the claim what you lost.

Generally speaking, the insurance company will give you the benefit of the doubt. However, if you claim the loss of numerous expensive items -- televisions, stereo equipment, furniture, appliances, etc. -- you could have a problem if you don't have any evidence of your ownership of these items.

∗ **Tip.** Evidence? Remember that you should have both a written and photographic (or videotaped) record of your possessions. Keep this record up-to-date, and keep copies, both written and photographic, of the records in another location, such as a safe deposit box.

∗ **Tip.** Keep a file of receipts for any items that cost more than a few hundred dollars. And keep a copy of those receipts in the safe deposit box. This way, you minimize any potential hassles that could arise during the handling of the claim.

So, you might be asking, does my insurance company not trust me? The company will trust you unless you give it reason not to. For example, claiming lots of big-ticket items without any written or photographic record is a red flag. Keep good records and you won't have a problem.

∗ **Tip. Keep Pens and Paper in Your Vehicle.** If you have an auto accident, you're going to need to document details of the accident at the scene, including names, addresses and insurance information of the other driver(s); names and addresses of any witnesses; and license number(s), make and model of the other vehicle(s) involved. Make sure you have the capacity to do this.

∗ **Tip. Figure Out Where to Go for Repairs.** If you have an auto accident, you're going to need to get the car repaired. If your house burns, same thing. What will you do? Talk to your agent and/or insurance company. If you have an auto body shop or contractor you like to use, tell your agent or insurer. Usually, you can use whoever you want if the body shop or contractor has been in business for a while.

But make sure it's OK to use that specific body shop or contractor. If you don't know of a body shop or contractor, ask your agent or company for recommendations. Actually, agents and insurance companies are good sources for this kind of information.

OK, now that you're "prepared" to have an accident or suffer a loss, what do you do when the accident or loss actually happens?

What Should You Do if You Have an Automobile Accident? A Checklist...

- ✓ **Record** all the necessary information at the accident scene.
- ✓ **Report** the accident to your agent and/or insurance company. (Find out in advance whom you should contact.) Many insurers have 24-hour claim service, so if the accident doesn't happen during normal working hours, it might be best to call the company's claims service number.
- ✓ **If necessary, have your vehicle towed** to the auto body shop of your choice. (Remember, it's best to plan in advance which shop to use.)

- ✓ **Ask your agent or insurance company representative how to proceed** and what forms or documents are needed to support your claim. This could include “proof of loss” forms, as well as medical and auto repair bills.
- ✓ **Keep records of any expenses you incur**, including medical and hospital costs, lost wages and even the costs resulting if you have to hire a temporary housekeeper. Some of these expenses may be covered under your policy.
- ✓ **Keep copies** of any paper work that results from the accident.
- ✓ As the claim develops, **keep in touch with either your agent or, more likely, the claims adjuster** assigned by the insurance company to your case. If you have any problems with the handling of your claim, let your agent know. He or she can be an advocate for you.
- ✓ **Be cautious about “pulling the lawyer card.”** Don’t threaten to call an attorney until you’re absolutely convinced your claim is not being handled properly and won’t be, no matter what you do. Once you hire a lawyer, your insurance company won’t be able to communicate with you directly. Also, hiring a lawyer creates a hostile situation. Use legal representation as a last resort.

What Should You Do if You Have to File a Claim on Your Homeowners, Renters or In-Home Business Policy? A Checklist...

Report any burglary or theft to the police.

- ✓ **Call your agent or insurance company immediately**. Find out if you need to get estimates for repairs to damaged parts of your home.

- ✓ **Make temporary repairs** and do whatever you can to protect your residence and possessions from further damage.
- ✓ **Save receipts** for any costs you incur in trying to protect your property.
- ✓ **Make a list** of lost or damaged items.
- ✓ **Save receipts** for any additional living expenses you have if you can't live in your residence and have to find other accommodations such as a motel or hotel.
- ✓ **Get claim forms** from the insurer. Properly fill out and return these forms as soon as possible.
- ✓ Make arrangements to have the insurance company's **adjuster inspect** the damage to your residence.
- ✓ Again, **don't play the lawyer card until you feel you need it as a last resort.**

The claims process can be an unpleasant experience, but it doesn't have to be if you take the proper steps, both before and after an accident or loss occurs. If you're a prepared claimant, you shouldn't have any problems.

HOW TO PICK AN AGENT TO HELP PROTECT YOURSELF AND YOUR FAMILY...THE TRUSTED ADVISOR

Throughout this guide, there have been references to the importance of consulting an insurance professional when buying the various coverages you want/need.

An insurance agent is more than just a salesperson. He or she is an expert in analyzing risk and finding the coverages that minimize the risks you face. A good agent doesn’t tell you what to buy, but instead presents you a series of options and recommends which option is best for you. You make the purchasing decision(s).

If you decide to use an agent as opposed to buying the coverage(s) directly from an insurance company, what should you look for?

∗ **Tip.** First and foremost, the agent must have extensive experience in the coverage(s) you want/need. *Insurance is a business of specialists*, mainly because it’s next to impossible to understand all the coverages (or lines) that are available.

Some agents specialize in selling insurance to businesses. Other agents concentrate on coverages for individuals. That’s the kind of agent you want, a personal lines agent. (If you are running a business, you will want a commercial lines agent to recommend coverages for your business.)

Different Types of Personal Lines Agents

There are, however, different types of agents who sell personal lines. Some agents represent only one insurance company. Many of these companies are well-known: State Farm, Nationwide, Farmers. They are good companies, and their agents are good as well.

Some agents represent many insurance companies. They are called *independent agents* because they are literally that, independent. Unlike the "captive" agents that represent just one company, independent agents can offer you coverage with several insurance companies.

A good personal lines independent agent represents five, 10 or even more insurers. If you go to an independent agent, you get options. Coverage options. Price options.

In looking for an agent, you should ask questions. How many auto insurance clients do you have? Homeowners clients? How long have you been a personal lines agent? How many companies do you represent? You want the answers to these questions to be "a lot" and "a long time."

Consider Not Just Agent, but Agency As Well

∗ **Note.** It's also important to consider not just the agent, but the agency he or she works for, especially if you need several different kinds of coverage. Say you have an in-home business and you want specialized coverage for it.

The agent who sold you auto and homeowners insurance might not know anything about insuring in-home businesses, but another agent in the office might have a lot of experience in this area. There's nothing wrong with being a client of more than one agent in the same agency.

∗ **Note.** You'll probably be supported by a "team" of insurance professionals from the agency. Most of your regular communication will probably be with highly skilled Customer Service Representatives who are trained in how to handle policy changes, answer questions and support you in the claims process.

If you are considering the purchase of life and/or disability insurance, you should be aware that agents need a different license to sell these coverages than to sell auto, homeowners, renters, umbrella and in-home business insurance.

As such, you *may* need to find a different agency or a different agent within the same agency to buy these coverages from. If your agent can't support you, he or she can refer someone to you from inside or outside the agency.

Again, it's important to buy insurance from an expert in each kind of coverage you need. Don't settle for anything, or anyone, less.

PROTECT YOURSELF AND YOUR FAMILY: BE A SMART CONSUMER

By now, you probably have a sense of how complex insurance can be. Hopefully, however, you're in a better position to make decisions about getting protection.

There's probably a lot you care about. Your financial health. Your family. Possibly one or more homes, one or more cars. Maybe boats and other "toys."

Insurance is designed to help protect virtually everything.

Insurance agents often see the difficult or tragic part of life. These tragedies are compounded when a consumer did not make the necessary decisions to protect themselves with the right kind of insurance.

More often than not, the mistakes consumers make about insurance were not decisions, but "indecisions" – simply not being aware of the all the options available.

Your life is going to change constantly...what you own, your age, who's living in your home and driving your cars and so forth.

Insurance is also changing. New laws, regulations...new policies and options.

Getting proper protection requires constant vigilance. It helps to be a smart consumer. You also need to find an agent you can respect as a "trusted advisor" – one who makes his or her agency accessible to your needs *and* one who believes in and supports consumer education.

Together you make a team. You each need to do your part.

The future is unpredictable, but you can smooth over the rough edges by being that "smart consumer" and being prepared. The decisions you make today will help determine the future you and your family have tomorrow.