

INSURANCE BASICS 101



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Insurance Basics

Insurance provides protection. As simple as that sounds, many individuals spend little time considering all their insurance options to make sure they have the insurance they need at the most reasonable price.

Types of Insurance Coverage

Auto Insurance

1. **Auto Insurance Coverage:** While all states require drivers to have a minimal level of auto insurance, keep in mind that it's probably a good idea to carry more than your state's minimum requirement. Ask your insurance agent to help you decide on the appropriate level of insurance.

The main types of auto coverage are:

- **General Liability.** General liability covers damage you cause to other people's property and bodily injuries you cause to people outside of your car. So if you damage someone else's car in an accident, your liability coverage pays the cost to have it repaired. If you injure someone (outside of your car) in an accident and he or she sues you, general liability covers the legal bills.
- **Personal Injury Protection.** While general liability covers bodily injuries you cause to people outside of your car, personal injury protection covers immediate compensation for bodily injury expenses to you and your passengers regardless of who is at fault. Personal injury protection also covers you and members of your household in any accident involving an automobile, whether you are on foot, on a bicycle, or in a friend's car.

- **Collision.** Collision covers repairs for damage you cause to your car caused by an accident, whether it involves another vehicle or an object, such as a tree. A deductible applies to collision payments. This means that you pay the deductible amount first; your insurance company pays the amount over your deductible.
- **Comprehensive (i.e., other non-collision damage).** This covers fire damage to your vehicle, break-ins, vandalism, or theft, as well as natural disasters such as an earthquake, hail, hurricane, or flood. Basically, it covers everything except an actual collision.
- **Uninsured Motorist.** This provides you coverage for a bodily injury claim you would have against another driver who does not have insurance. This coverage does not pay for physical damage to your vehicle.
- **Underinsured Motorist.** This provides you coverage for a bodily injury claim you would have against another driver whose liability coverage is less than your underinsured coverage.

While these are the main types of auto coverage, popular add-ons include coverage for towing expenses and renting a car while yours is being repaired.



Types of Insurance Coverage (continued)

2. **Auto Insurance Premiums:** Auto insurance premiums are generally based on the type of coverage you choose and your track record. Some of the factors that can raise or lower your premium include:

- **Age.** The younger you are, the higher the premium. Statistically, young drivers have more accidents than older drivers. The good news is that rates fall as you age and gain more experience driving, and maintain a clean driving record.
- **Marital Status.** Apparently, married people are more careful drivers because they tend to have fewer accidents. So single people pay higher premiums.
- **Type of Car.** The value, size, weight, age of your vehicle, and even the cost of replacement parts are essential to determining your premium payment. The model of your car is also a factor. For example, sports cars tend to be involved in more accidents than family cars. But safety features such as airbags, anti-theft equipment, and anti-lock brakes can often reduce your premium.
- **Driving Record.** Getting speeding tickets and other traffic violations makes you a riskier driver to insure than someone who has a clean motor vehicle record.
- **Claim Record.** Insurance companies believe drivers with histories of accidents are more likely to be involved in future accidents. So drivers without accidents have lower premiums. In fact, if you have too many accidents, a company may refuse to insure you at all.
- **Credit History.** Didn't we say it would follow you everywhere? Insurance companies believe that people who are responsible with their finances tend to be more responsible with managing their risks.

Types of Insurance Coverage (continued)

Health Insurance

Health insurance pays medical bills when you or your family becomes sick or injured. Given the high costs of medical care — even routine check-ups and illnesses — virtually everyone needs health coverage. If your parents have health insurance, it will cover you until you turn 19 years old, or until age 23 if you're a full-time student. So at some point, you're going to need to find your own coverage — the best way is usually through an employer. You can purchase an individual health policy for yourself or your family, but it's usually much more expensive than the coverage an employer offers.

Property Insurance

Property insurance protects your possessions such as clothes, furniture, electronics, appliances, sports equipment, and computers. You probably don't think about it, but a lot of things can happen to your belongings, including fire, flood, or theft. Renters' insurance does the job for those who don't own their own home. For those who do, homeowners' insurance protects your belongings as well as the house itself. There are two types of coverage: replacement cost and actual cash value (ACV). Replacement cost coverage pays to replace your home and belongings with materials of "like kind and quality" at current prices. Actual cash value policies reimburse only the depreciated value. What this means is that if you get an ACV policy and you have a loss, you will only get what the item was worth at the time of the loss.

If you own a digital camera, it's a good idea to take digital pictures of your belongings and store them on a CD that you keep in a safe place outside of your home. The pictures will come in handy if you ever need to make a claim. You can also use the software at www.knowyourstuff.org to help you make a home inventory.

Life Insurance

Life insurance provides financial support for the people who depend on you in the event of your untimely death. If you are single and no one is dependent on you, you still may need life insurance for final expenses. Once you marry or have children, it's something to consider seriously. Some types of life insurance are designed like an investment to increase in value. The rule of thumb for estimating how much life insurance you should have is

between five and ten times your annual salary.

Disability Insurance

Disability insurance protects your earning power. When most people think about insuring their valuables, they think about their car or home. But your most valuable asset is actually your ability to earn a living. Disability insurance pays you an income when an illness or injury prevents you from working for several weeks or even years. And it's far more necessary than people think. According to the National Association of Insurance Commissioners, people in their 30s are three times more likely to suffer a disability than they are to die.

Liability Insurance

Liability insurance protects you in case you are legally responsible for unintentionally injuring someone or damaging another's property. It covers everything from legal fees to settlements in court cases. Homeowners' and renters' insurance includes liability coverage to some degree. You can also get additional protection through something called an umbrella policy, which will protect you above and beyond your auto and home liability limits.

Long-Term Care (LTC) Insurance

Long-term care (LTC) insurance provides for a person's care in cases of chronic illness or disability. Policies for LTC provide insurance coverage for times when an individual cannot independently manage the basic activities of daily living (ADLs) such as dressing, bathing, eating, toileting, continence, transferring (getting in and out of a bed or chair), and walking.

Age is not a determining factor in needing long-term care. About 60 percent of individuals over age 65 will require at least some type of long-term care services during their lifetime. About 40% of those receiving long-term care today are between 18 and 64. Once a change of health occurs, long-term care insurance may not be available.



Driving Down Your Costs

When you look at the cost of disasters that can happen, insurance premiums are usually a small price to pay for protection against them. Of course, premium amounts may not seem that small when you have to pay them, so here are several strategies you can use to lower your costs:

- Choose a reasonable coverage limit. While you probably need more than the minimum amount, you probably don't need the maximum amount. Ask the insurance company for a reasonable amount of coverage for your situation.
- Go for a higher deductible. You'll pay more if there's an incident, but your premiums will be lower throughout the year.
- Shop for your insurance policies like you would any other purchase. You literally can save hundreds of dollars on the same coverage. And even after you buy a policy, shop around from time to time to see if you can save even more. Changes in the insurance industry, legislation, and/or your circumstances can lead to lower premiums. Use the checklist on the next page to help you. There are lots of places to get insurance online but remember to think about the benefits of local service. Local insurance agents have comparable rates and if you have a claim, it is nice to have an agent right in your hometown.
- Ask your insurance agent if there's anything you can do to lower your risk, which will in turn lower your premiums. Often, having safety equipment in place like anti-theft systems or even smoke alarms can lower your rates. And health and life insurance companies frequently offer better rates to nonsmokers.
- Consider getting all your policies from the same agent or company. You may be able to get a discount if you buy, say, your auto insurance and renters' insurance from the same place.

What to Keep and Where

In Your Files:

- ✓ Current insurance policies
- ✓ Premium statements
- ✓ Medical bills you've paid
- ✓ Inventory of your personal assets
- ✓ Documentation for any claims you've filed

With You (In Your Purse or Wallet):

- ✓ Auto insurance identification card
- ✓ Health insurance identification card

Checklist of Cost of Current Insurance

1 Auto Insurance

Current	Bid
\$ _____	\$ _____
\$ _____	\$ _____
\$ _____	\$ _____

2 Health Insurance

Current	Bid
\$ _____	\$ _____
\$ _____	\$ _____

3 Homeowners Insurance

Current	Bid
\$ _____	\$ _____

4 Life Insurance

Current	Bid
\$ _____	\$ _____
\$ _____	\$ _____

5 Disability Insurance

Current	Bid
\$ _____	\$ _____
\$ _____	\$ _____

6 Liability Insurance

Current	Bid
\$ _____	\$ _____
\$ _____	\$ _____

7 Long-Term Care Insurance

Current	Bid
\$ _____	\$ _____
\$ _____	\$ _____



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The majority of the information contained in this book is from NEFE (National Endowment For Financial Education) and the FTC (Federal Trade Commission). However, some of the information is based on the opinions of Capital Credit Union.

