



# HEALTHY, WEALTHY, & WISE

*Learning to improve financial health, increase wealth, and make wise consumer choices*

## Insurance: Life, Auto, Healthy, and Property

What would you do if you or your spouse became sick or injured on the job? How would you replace your property if it were damaged or stolen? How would you take care of your family financially if one spouse died? Most individuals obtain insurance to protect themselves, their family, and the things of value they own.

Insurance is a contract with an insurance company that promises to pay for certain financial losses you suffer if you pay a premium.

Test your knowledge of insurance terms. Match the following words with their definitions.

<b>beneficiary</b>	<b>face value</b>	<b>lapse</b>	<b>deductible</b>	<b>premiums</b>
<b>cash value</b>	<b>grace period</b>	<b>perils</b>	<b>insured</b>	

1. \_\_\_\_\_ the person whose life is covered by the insurance.
2. \_\_\_\_\_ the amount paid for the insurance.
3. \_\_\_\_\_ the person who received payment when insured dies.
4. \_\_\_\_\_ the amount of money to be paid when the insured dies.
5. \_\_\_\_\_ dangers your property may be protected against.
6. \_\_\_\_\_ the amount of time to pay your insurance if you are late with a payment.
7. \_\_\_\_\_ the amount the insured must pay before the insurance company will pay.
8. \_\_\_\_\_ the expiration of an insurance policy.

Remember, not having the right insurance at the right time is “risky business.”

## Types of Insurance

### Automobile Insurance

Most states *require* all car owners to have automobile insurance. Auto insurance includes different coverage for different losses. These are losses that may occur in the operation of a car. The main coverages are **liability** (bodily injury and property damage), **medical payments**, **collision**, **comprehensive**, and **uninsured motorists**.

Automobile insurance rates are based on driving records of drivers with similar characteristics. When insurance companies determine rates, they consider age, sex, marital status, cost of repairs, type of car, use of car, and location.



*These are the five main types (categories) of insurance:*

1. automobile
2. property
3. life
4. health
5. liability

#### **Premiums**

*The amount you pay over a period of time for the cost of insurance coverage is called a premium.*

#### **Deductible**

*Most insurance policies, except life insurance, generally include a deductible amount. The deductible is how much you must pay before the insurance company begins to pay for the loss.*

**It makes sense to choose a deductible that is large enough to reduce premiums but small enough to prevent financial hardship when a loss occurs.**

## **Property Insurance**

Protecting your property is an important part of risk management. Property could be **real** property, such as your house and other structures, such as fences or tool sheds within 100 feet of your house. Or it could be **personal** property, such as furniture, clothing, and appliances.

You protect your real and personal property with homeowners or renters insurance. These are three types of policies:

### **basic form    broad form    comprehensive form**

The type of policy you have determines which perils you will be protected against and to what dollar amount that protection will be. **Perils are the dangers your property may be protected against in your homeowner's policy.** Examples are fire, lightning, windstorm, hail, explosion, riots or civil commotion, damage by aircraft, damage by vehicles (not your own), damage from smoke, vandalism, malicious mischief, theft, window breakage, falling objects, weight of ice, snow, sleet, collapse of part or all of building, damage from steam heating or water heating appliances, leakage or overflow of water or steam, freezing of plumbing, heating air-conditioning systems, home appliances, and short circuit damage to electrical appliances. Talk with your insurance agent about how much coverage you need.

A **basic** policy usually protects you against personal liability and property that is destroyed.

A **broad** policy covers everything the basic policy does plus seven other perils.

A **comprehensive** policy protects you against the perils covered in the broad policy **plus** all perils not specifically excluded.

**Renters** insurance is similar to homeowners insurance. But it covers personal property (furniture, clothing, appliances you own) when you rent an apartment or a house. The landlord's insurance coverage does not reimburse renters for loss of their personal property.

Some policies may not cover the total value of all your personal possessions. Limits are often placed on cash, jewelry, electronic equipment, china and silver, furs, and guns. Ask your insurance agent about a "floater" policy to provide additional coverage.

## **Life Insurance**

There are several main types of life insurance choices. One is **term insurance**. Term insurance does not have a cash value or investment component and is written for a certain period of time, usually five or ten years. Other main types are **whole life, universal, variable, and variable/universal**. These all have an investment component.

**The primary reason for buying life insurance for yourself is to protect others.** Life insurance provides a way to protect families and others from losses associated with death. A life insurance policy specifies an amount of money to be paid to beneficiaries when the insured dies.



## Health Insurance

Health insurance is a main type of insurance. It can be discussed as two groups: medical and disability.

### Medical

Many individuals have all or part of their medical insurance provided by their employer. However, some people need to seek out their own group or individual medical insurance. These individuals may be self-employed, for instance. Basic medical insurance takes care of the initial hospital surgery and supply costs. It usually covers from the first dollar of expense incurred. But there are limits on how much the policy will pay. And there are limits on how long it will pay.

There are also restrictions on coverage. An example is a preexisting condition, such as diabetes or cancer. Often these illnesses are not covered. They may be covered only after a specified period of time if there is no recurrence of the disease.

A major difference among the various medical insurance policies is how much they pay per day for a hospital room.

You were most likely covered by your parents' medical insurance until you were married. Now you need to get your own coverage. This is a very important employee benefit to look for when you are considering different job opportunities.

### Disability

One of your greatest assets is your earning power. It is important to protect your earning power and income. You do this with disability income insurance. Disability income insurance pays an income to you if you cannot work because of an injury or illness. The amount of coverage usually is limited to one-half to two-thirds of your gross income. This limited amount of coverage is designed to encourage you to return to work as soon as possible. It is designed to discourage you from staying out of the work force and living on disability income payments.

### Liability Insurance

Liability insurance protects you from personal and financial loss that may result from lawsuits against you. Liability implies that you have a legal responsibility to someone and must pay for personal injury or property damage caused by neglect on your part.

Let's say in a court action you are found to be negligent. You have liability insurance. The insurance company will pay a settlement amount as specified in the insurance contract.

### Credit Life Insurance

This type of insurance pays the unpaid balance of a loan in the event of a borrower's death. Rates for this type of insurance are high, and most financial experts feel it is unnecessary if the borrower has adequate life insurance coverage.

#### Helpful Numbers and Addresses

**National Insurance  
Information Institute**  
110 William Street  
New York, New York  
10038

<http://www.iii.org/nich.btm>

*A resource for consumers with  
automobile, homeowners, life  
and health insurance questions.*

*The helpline is open Monday  
thru  
Friday from 9am to 9pm.*

**National Association of  
Insurance Commissioners**  
120 West 12th Street  
Suite 1100  
Kansas City, MO  
64105

<http://www.naic.org>

*Provides single copies of free  
shopper's guides on various  
types of insurance policies, such  
as health, cancer, auto,  
and long-term care.*

**A.M. Best**  
[www.ambest.com](http://www.ambest.com)

*Provides insurance company  
ratings online. Must register  
first, however, registration  
is free.*

**Arkansas Insurance  
Department**  
1001 Woolfolk Bldg.  
501 N. West Street  
Jackson, MS 39201

<http://insurance.arkansas.gov>

*Provides consumer protection  
through insurer solvency and  
market conduct regulation, and  
fraud prosecution and  
deterrence.*



# Tips on How to Save Money on Insurance

	Auto	Health	Life	Home or Renter	Disability
Shop at least three places; compare rates and policies; ask about discounts and special rates	√	√	√	√	√
Read sources of information such as <i>Consumer Reports</i>	√	√	√	√	√
Purchase more than one type of insurance from the same company; insure all cars with the same company	√	√	√	√	√
Don't smoke; take care of your health	√	√	√	√	√
Select a higher deductible	√	√	√	√	√
Carefully consider before adding riders or floaters	√	√	√	√	√
Maintain a good driving record	√				
Discount allowed for smoke detectors and burglar alarms				√	
Periodically review policies and coverage	√	√	√	√	√

## Answers to questions on front page:

- |            |                |                 |               |
|------------|----------------|-----------------|---------------|
| 1. insured | 3. beneficiary | 5. perils       | 7. deductible |
| 2. premium | 4. face value  | 6. grace period | 8. lapse      |

## IN THE NEXT ISSUE: Investing

University of Arkansas, United States Department of Agriculture and County Governments Cooperating.

The Arkansas Cooperative Extension Service offers its programs to all eligible persons regardless of race, color, national origin, religion, gender, age, disability, marital or veteran status, or any other legally protected status, and is an Affirmative Action/Equal Opportunity Employer.