Personal Finance

Class 6: Insuring your resources

Property and motor vehicle insurance.

Health, disability, and long-term care insurance.

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Insurance and Risk Management: An Introduction

- WHAT IS INSURANCE?
  - Insurance is protection against possible financial loss; it gives you peace of mind
  - An insurance company, or insurer, is a risk-sharing firm that assumes financial responsibility for losses from an insured risk
  - People purchase a policy. The firm assumes a risk for a fee called the premium, which the insured policyholder pays periodically

Insurance and Risk Management: An Introduction

- TYPES OF RISKS
  - **Risk**: Uncertainty or lack of predictability, such as to loss that a person or property, covered by insurance, faces
  - **Peril** is the cause of a possible loss, such as fire, windstorm, robbery, disease, or death
  - **Hazard** increases the likelihood of a loss, such as driving drunk, or defective house wiring
  - **Risk management**: Organized, planned strategy to protect your assets and family

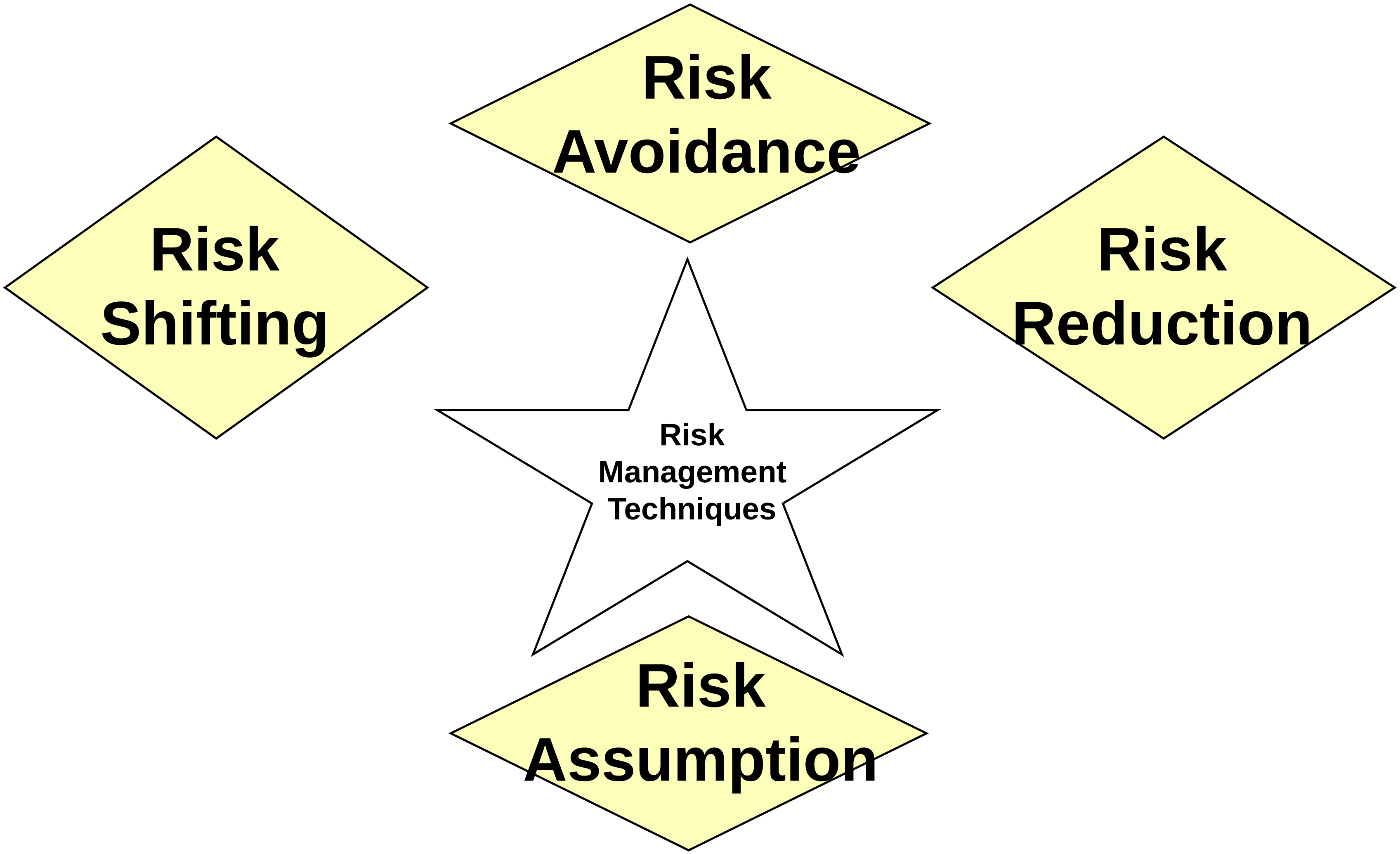
Insurance and Risk Management: An Introduction

- Pure Risk
  - Personal risks, property risks, and liability risks are types of pure risk
  - Insurable, chance of loss, not gain
  - Accidental, unintentional
  - Nature and financial loss of the risk can be predicted

Insurance and Risk Management: An Introduction

- Speculative Risk
  - Chance of loss or gain, such as starting a business
  - Uninsurable

Insurance and Risk Management: An Introduction



Insurance and Risk Management: An Introduction

- PLANNING AN INSURANCE PROGRAM

  To put your risk management plan to work ask yourself…

  - What should be insured?
  - For how much?
  - What kind of insurance?
  - From whom?

Insurance and Risk Management: An Introduction

- PLANNING AN INSURANCE PROGRAM

  Four step process:

  1. Set your insurance goals and prioritize them
  2. Develop a plan to reach your goals
  3. Put your plan into action
  4. Review your results

Insurance and Risk Management: An Introduction

Property and Liability Insurance

- In recent years there have been major losses due to natural disasters. Fires, hurricanes, tornadoes and floods in various areas of the United States have caused billions of dollars worth of damage

Property and Liability Insurance

- POTENTIAL PROPERTY LOSSES
  - Home, automobiles, furniture, clothing, and personal belongings
  - Physical damage
    - Hazards such as fire, wind, water and smoke. Destruction of property or temporary loss of use
  - Loss of Use
    - Due to robbery, burglary, vandalism, or arson

Property and Liability Insurance

- LIABILITY PROTECTION
  - **Liability**: legal responsibility for cost of another person's losses or injuries
  - **Negligence**
    - Failure to take ordinary, reasonable care, such as failure to supervise children in a pool
  - **Strict Liability**
    - A person is held responsible for intentional or unintentional actions
  - **Vicarious Liability**
    - When you are held responsible for the actions of another person, such as your child throwing a ball through a neighbor's window

Home and Property Insurance

- HOMEOWNER'S INSURANCE COVERAGES
  - Damage to or destruction of your house and other structures, plus trees, shrubs and plants
  - Additional living expenses
  - Personal property in or away from home
  - **Personal property floater** - high value items
  - **Household inventory** with documentation

Home and Property Insurance

- Personal liability and related coverages
  - **Medical payments coverage** for minor injuries caused by you, your family members, or pets, occurring on your property or away from home
  - Personal liability- $100,000 or more
    - **Umbrella policy** - also called a personal catastrophe policy-supplements basic personal liability coverage
    - $1,000,000 or more in liability coverage

Home and Property Insurance

- Specialized coverage
    - **Endorsements** add coverage for things such as earthquake damage, or damage from floods

Home and Property Insurance

- RENTER’S INSURANCE
  - Personal property loss or damage
  - Additional living expenses
  - Personal liability
  - A building owner’s insurance usually won’t cover renter’s personal property
  - Many renters do not have insurance

Home and Property Insurance

- HOME INSURANCE POLICY FORMS
  - Special form (HO-3), All-risk
  - Tenant's form (HO-4)
  - Comprehensive form (HO-5)
  - Condominium form (HO-6)
  - Country Home form (HO-7)

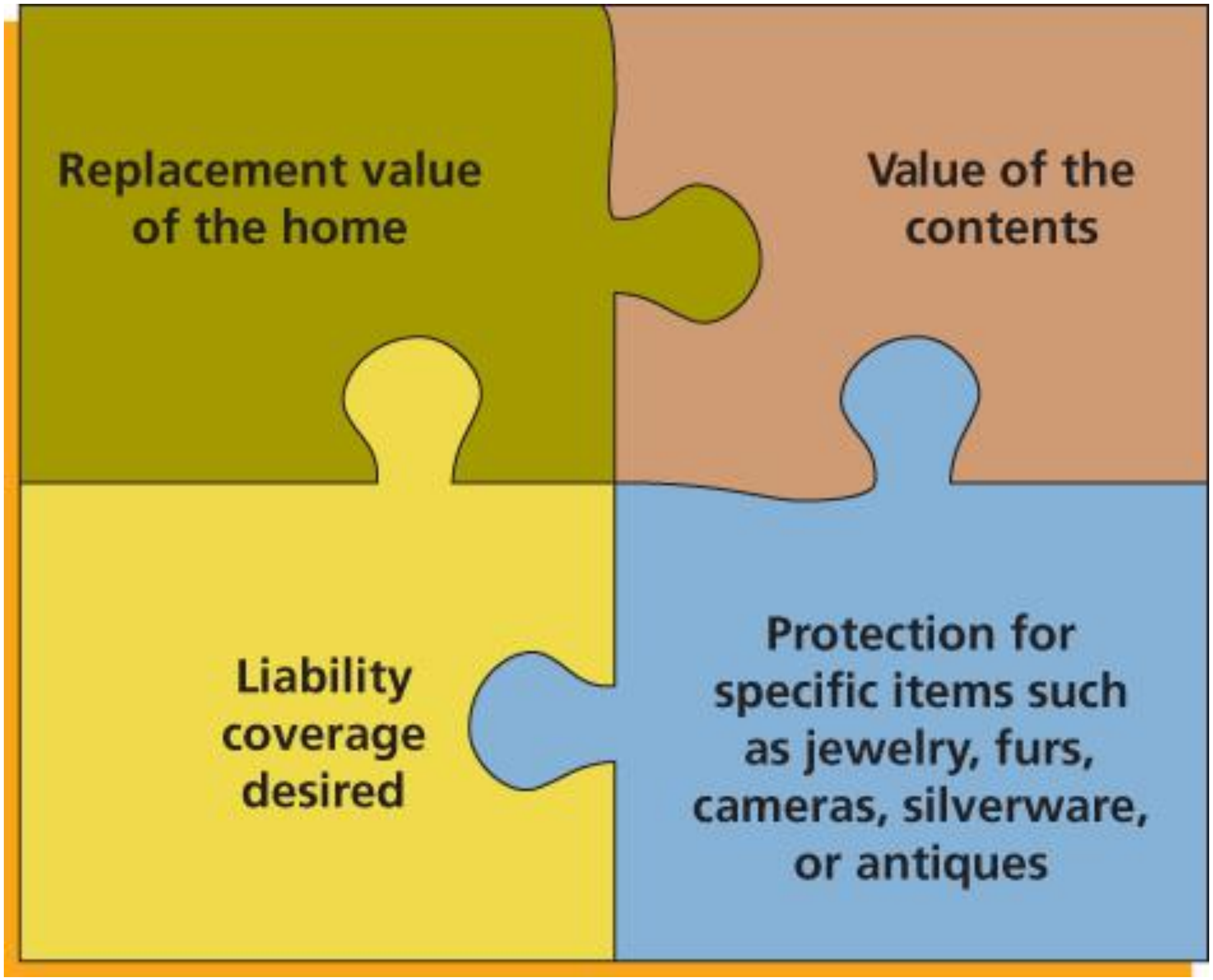
Home Insurance Cost Factors

- Look for a policy with **full coverage** rather than a **coinsurance clause**, where you have to pay for part of a loss

- Which type of claim settlement method is used?
    - **Actual cash value**
        - cost less depreciation

Home Insurance Cost Factors

- How Much Coverage do you Need?



Home Insurance Cost Factors

- **Replacement value**
  - Cost to repair or replace the damaged or lost item, without considering depreciation of the item
  - May limit replacement cost to 400% of actual cash value of item
  - Costs 10-20% more than actual cash value coverage

Home Insurance Cost Factors

- FACTORS THAT AFFECT HOME INSURANCE COSTS
  - Location of home
  - Type of structure
  - Coverage amount and policy type
    - Deductibles

Home Insurance Cost Factors

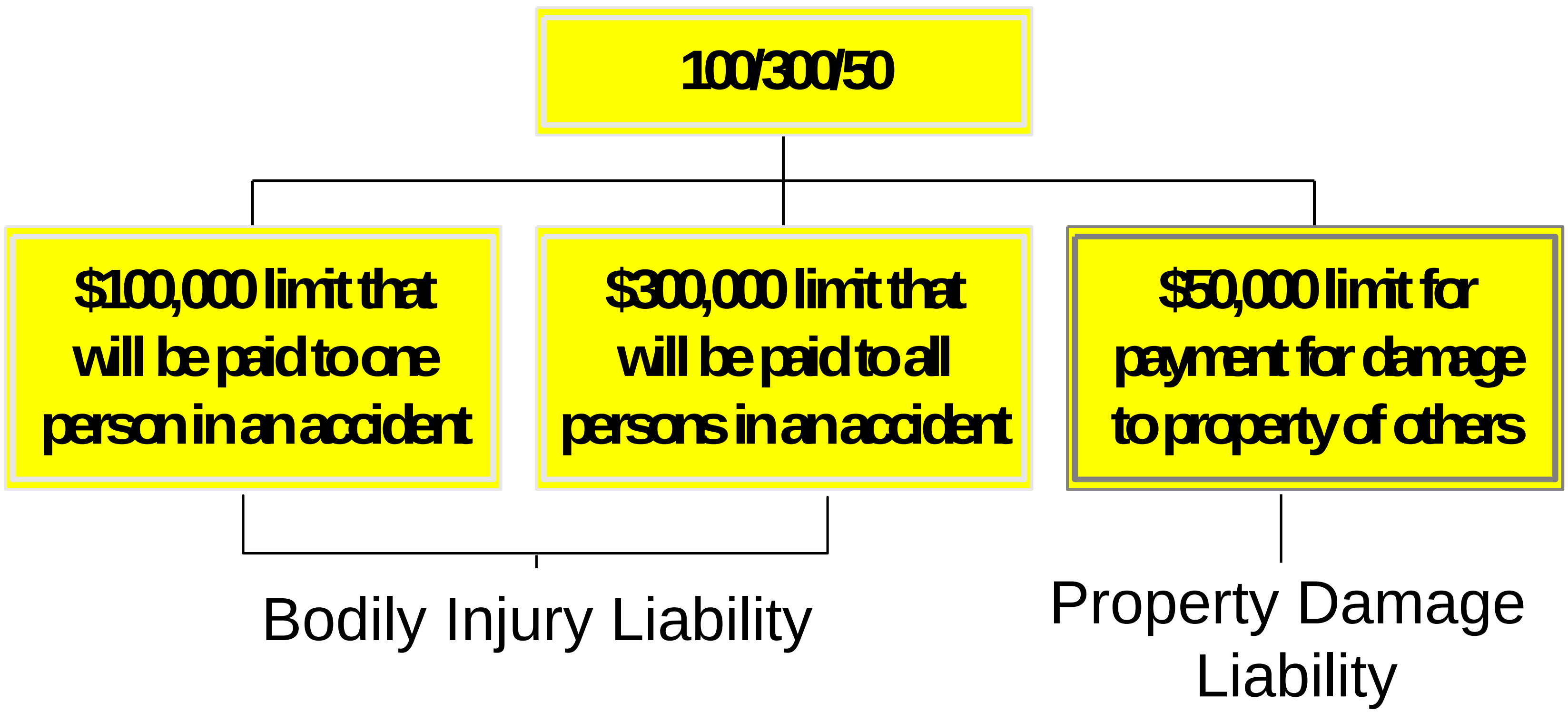
- REDUCING HOME INSURANCE COSTS
  - Home insurance discounts
    - Alarm system, smoke detector, if you insure your car with the same company
  - Company differences
    - Compare costs and coverages at sites such as *http://www.insuremarket.com/*
    - Customer satisfaction index information is available at http://www.consumerreports.org/

Automobile Insurance Coverages

- **Financial responsibility law**
  - State legislation: Nearly all states have compulsory automobile liability insurance laws
  - see Exhibit 10-8 to see the minimum limits for financial responsibility (liability) in your state
  - Requires drivers to prove their ability to cover the cost of damage or injury caused by them in an automobile accident

Automobile Insurance Coverages

- Automobile Liability Insurance Coverage



Automobile Insurance Coverage

- MOTOR VEHICLE BODILY INJURY COVERAGES
  - *Bodily Injury Liability*
    - Bodily injury liability covers the risk of financial loss due to legal expenses, medical expenses, lost wages and other expenses associated with injuries caused by an accident for which you were responsible
  - *Medical Payments Coverage*
    - Medical payments covers the cost of health care for persons injured in your automobile, including yourself, or a pedestrian

Automobile Insurance Coverage

- *Uninsured Motorist's Protection*
  - Pays for the cost of injuries to you and your family if your vehicle is hit by a person without insurance. However, it does not cover property damages

- *No-Fault Insurance*
  - System is intended to provide fast, smooth methods of paying for damages without taking the legal action frequently necessary to determine fault

Automobile Insurance Coverage

- MOTOR VEHICLE PROPERTY DAMAGE COVERAGES
  - *Property Damage Liability*
    - covers damage to others person's car when you are at fault. It also includes damage to such things as street signs and buildings
  - *Collision*
    - When your car is in an accident, collision coverage pays for damage to your automobile, regardless of who is at fault
    - If you are not at fault, your insurer will try and collect from the other driver's property damage liability first
    - Coverage is limited to the actual cash value of your vehicle (www.nada.org)

Automobile Insurance Coverage

- *Comprehensive Physical Damage*
  - Covers damage to your vehicle that is not caused by a collision, such as...
    - Fire, theft or vandalism
    - Glass breakage
    - Hail, sand, or wind storm
    - Falling objects or hitting an animal
    - Some things in your car, like some radios and stereo equipment are not covered

Automobile Insurance Coverage

- OTHER AUTOMOBILE INSURANCE COVERAGES
  - *Wage Loss Insurance*
    - Reimburse you for any salary or income lost due to injury in an automobile accident
  - *Towing and Emergency Road Service*
    - Pays for the breakdowns and mechanical assistance

Automobile Insurance Costs

- AMOUNT OF COVERAGE
  - Legal concerns include having enough coverage if you were sued
    - $100,000/$300,000 is recommended for bodily injury liability, with an additional $1,000,000 or more umbrella liability policy recommended

Automobile Insurance Costs

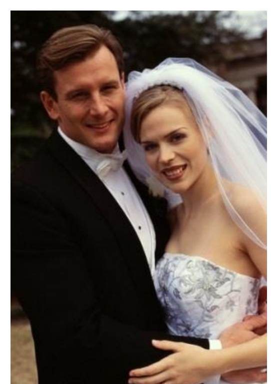
- Property Values of vehicles have gone up
  - $50,000-$100,000 is usually suggested for property damage liability

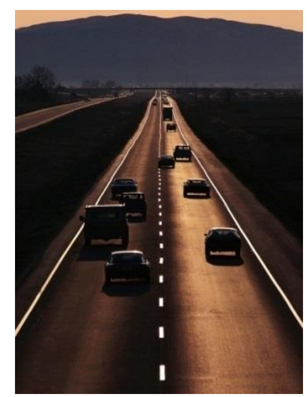
Automobile Insurance Costs

- AUTOMOBILE INSURANCE PREMIUM FACTORS
  - Automobile Type
    - Year, make, model, and theft rate
  - Rating Territory
    - Accident, auto theft, and vandalism rates in the area where you live

Automobile Insurance Costs

- Driver Classification
  - Age, sex, marital status, credit history, driving record, and driving habits
  - Assigned risk pool for people who are unable to obtain insurance





Automobile Insurance Costs

- REDUCING AUTOMOBILE INSURANCE PREMIUMS
  - Compare Companies
    http://www.insuremarket.com/
  - Premium Discounts
    - Have larger deductibles
    - Establish and maintain a good driving record
    - Non-smoker
    - Install security devices such as a car alarm
    - If you have more than one vehicle, insure them both with the same company

Health Care Costs

- The US has the highest per capita medical expenditures of any industrialized country in the world
    - $9,767 health care costs per person in 2013
    - This amount is twice as much spent on health care as the average for the 24 industrialized countries in Europe and North America

Health Care Costs

- Medical expenditures were 6% of the GDP in 1965, but rose to 13.4 of our GDP in 1997 and further increased to 17.9 in 2008. This is expected to continue growing to 20% in the next 5 years.

– High administrative costs

11% of health care dollar vs. 1% in Canada

Health Care Costs

- WHY DOES HEALTH CARE COST SO MUCH?
  - Use of sophisticated, expensive technologies
  - Duplication of tests and technologies
  - Increases in the variety and frequency of treatments
  - Increasing number and longevity of elderly people
  - Regulations that result in cost shifting rather than cost reduction

Health Care Costs

- Increasing number of accidents, crimes that require emergency services
- Limited competition, restrictive work rules in the health care delivery system
- Labor intensiveness, rapid earnings growth for health care professionals
- Using more expensive medical care than necessary
- Malpractice Insurance
- Built in inflation in health care delivery system
- Aging baby boomers

Health Care Costs

- WHAT IS BEING DONE ABOUT THE HIGH COSTS OF HEALTH CARE?
  - Careful review of fees and charges
  - Establish incentives for...
  - Preventive care
  - Services provided out of the hospital where medically acceptable
  - Involve community in balancing health care needs, health care resources
  - Encourage prepaid group practices
  - Support community health education programs so people take better care of themselves

Health Care Costs

- WHAT CAN YOU DO TO REDUCE PERSONAL HEALTH CARE COSTS?
  - Consider participating in a flexible spending account
  - Consider a high-deductible health plan
  - Ask for less expensive generic drugs
  - Use a mail-order or on-line pharmacy for long term drugs
  - Review free or low-cost coverage for uninsured children

Health Care Costs

- Review state plans for prescription drug assistance
- Review follow-up procedures with doctor
- Investigate non-urgent procedure
- Review billing statements for errors
- Appeal unfair decisions by your health plan

Health Care Costs

- Stay well - focus on prevention
  - Eat a balanced diet, keep your weight under control
  - Avoid smoking, don’t drink to excess
  - Get enough rest, relaxation, and exercise
  - Drive carefully, watch out for accident and fire hazards in the home

Health Insurance and Financial Planning

- About 50 million Americans have no health insurance
- An older student population is not covered by their family's policy. 40% are older than age 25
- HEALTH INSURANCE limits the financial burdens people suffer due to illness or injury
  - It's part of your overall risk management plan to safeguard your family's economic security
  - Disability income insurance protects your most valuable asset - your ability to earn an income

Health Insurance and Financial Planning

- GROUP HEALTH INSURANCE
  - Group plans comprise more than 90% of all health insurance
  - Most group plans are employer sponsored; employer pays part or most of the cost

Health Insurance and Financial Planning

- 1996 Health Insurance Portability and Accountability Act provides federal portability standards, nondiscrimination in health insurance, and guaranteed renewability;
  If you changes jobs you need not lose your health insurance

– INDIVIDUAL INSURANCE is also available

Health Insurance and Financial Planning

- SUPPLEMENTING YOUR GROUP POLICY
  - The coordination of benefits provision in a policy says that benefits received from all sources are limited to 100% of allowable medical expenses

Health Insurance and Financial Planning

- MEDICAL COVERAGE AND DIVORCE
    - COBRA requires many employers to offer employees and dependents the option to continue their group coverage for a set period of time following a divorce

Types of Health Insurance Coverage

- TYPES OF MEDICAL COVERAGE
  - Hospital Expense Insurance
    - Hospital room and board and other charges
  - Surgical Expense Insurance
    - Surgeon's fee for an operation

Types of Health Insurance Coverage

- Physician Expense Insurance
  - Pays for physician's care such as office visits, lab tests and X-rays
  - It does not include surgery

Types of Health Insurance Coverage

- Major Medical Expense Insurance
  - Covers expenses for a serious injury or long-term illness
  - Has a deductible, coinsurance, and a stop-loss provision

Types of Health Insurance Coverage

- Comprehensive Major Medical Insurance
  - Low deductible offered without a separate, basic plan. Covers hospital, surgical, and other bills
- Other Insurance Policies
  - Dread disease and cancer insurance policies: Focus on unrealistic fears, and only pays out for very specific conditions. Often sold by people working on commission, and are of poor value

Types of Health Insurance Coverage

- Hospital Indemnity
  - Pays a fixed amount for each day you are in a hospital. Best for people in high-risk groups
- Dental Expense Insurance
  - Covers exams, cleaning, x-rays, fillings, root canals, and oral surgery
- Vision Care
  - Exams, contact lenses, and glasses

Types of Health Insurance Coverage

- LONG TERM CARE INSURANCE
  - Virtually unknown 40 years ago
  - Growing faster than any other form of insurance
  - In 2010, estimated that 9 million men and women over 65 years old will need long term care insurance
  - Long term care insurance can be very expensive
  - National Average: 1 year in nursing home can cost $88,000
  - Premiums $2,000 to $16,000 per year

Types of Health Insurance Coverage

- MAJOR PROVISIONS IN A HEALTH INSURANCE POLICY
  - Eligibility
    - Varies with age, marital status, and dependency
  - Assigned benefits
    - Insurance pays your doctor or hospital directly
  - Internal limits
    - Fixed amount per day for a hospital room

Types of Health Insurance Coverage

- Co-payment
  - Cost sharing in the form of a flat dollar amount you pay, such as $20.00 to $30.00 per office visit or $15.00 to $30.00 per prescription
- Service benefits
  - Insurance benefits are expressed in terms of entitlement to specific care rather than a fixed $ amount per procedure

Types of Health Insurance Coverage

- Benefit limits - maximum $ amount or maximum # of days in the hospital
- Exclusions and limitations
- Coordination of benefits - coverage under more than one policy
- Guaranteed renewable
- Cancellation and termination - explains the circumstances

Types of Health Insurance Coverage

- HEALTH INSURANCE TRADE-OFFS
  - Reimbursement versus indemnity
  - Internal limits versus aggregate limits
  - Deductibles and coinsurance

Types of Health Insurance Coverage

  - Out-of-pocket limit, or stop-loss
  - Benefits based on reasonable and customary charges
- HEALTH INFORMATION ONLINE
  - Can provide information when you are comparing policies

Types of Health Insurance Coverage

A GOOD HEALTH INSURANCE PLAN SHOULD:

- Offer basic coverage for hospital and doctor bills
- Cover at least **120** days hospital room and board
- Provide at least **$1,000,000** lifetime maximum for each family member
- Pay at least 80% of out-of-hospital expenses after yearly deductible of $1,000 per person or $2,000 per family is met
- Impose no unreasonable exclusions
- Limit your out-of-pocket expenses to no more than $4,000 to $6,000 in a year, excluding dental, optical, and prescription costs

Private Sources of Health Insurance and Health Care

- Private insurance companies
  - Individual policy
  - Group policy sold to an employer
- Hospital and Medical service plans
  - Blue Cross - hospital care benefits
  - Blue Shield - surgical and medical services benefits

Private Sources of Health Insurance and Health Care

- Managed Care
  - Prepaid health plan
  - Primary care physician
- Health Maintenance Organization
  - Contracts with selected care providers
  - Fixed pre-paid monthly premium
  - Focus is on prevention and wellness
  - Basic and supplemental services

Private Sources of Health Insurance and Health Care

- Preferred Provider Organization
  - Several providers to choose from
  - Costs more than a HMO, but you have more choices, fewer restrictions
  - If you go to a non PPO provider, you pay more

- Home Health Care Agencies
  - Home health agencies, home care aide organizations and hospices

Private Sources of Health Insurance and Health Care

- Employer Self-funded Health Plans
  - Coverage made available by plans that employers, labor unions, fraternal societies, or communities administer
  - Self-funded plans often do not have the assets like private insurance companies do

- New Health Care Accounts
  - Health Savings Accounts
  - Health Reimbursement Accounts
  - Flex Spending Accounts

Private Sources of Health Insurance and Health Care

- The Health Insurance Marketplaces
    - Starting in 2014, the marketplace will allow you to compare health plans, get answers to questions, find out if you are eligible for tax credits for private insurance, and enroll in a health plan that meets your needs
    - Open enrollment began October 2013

Government Health Care Programs

- Medicare - federal program for those age 65 and older, and certain disabled persons
  - Part A – Hospital Insurance
    - Compulsory
    - covers hospital costs including doctor
  - Part B – Medical insurance
    - Voluntary if have proof of coverage
    - Doctor’s visits and prescriptions

Government Health Care Programs

Medicare, *continued*

- Part C - Medicare Advantage program
- Part D – Medicare Prescription Drug benefit

- Medigap - may pay what Medicare doesn’t
- Medicaid
  - Low income people of all ages
  - State administered with federal guidelines

Government Health Care Programs

- MEDICARE FRAUD: You may get a reward of up to $1,000 if you meet <u>all</u> of these conditions.
  - You report suspected Medicare fraud
  - The Inspector General's Office reviews your suspicion
  - The suspected fraud you report isn't already being investigated
  - Your report leads directly to the recovery of at least $100 of Medicare money

Government Health Care Programs

- HEALTH INSURANCE AND THE PATIENT PROTECTION AND AFFORDABLE CARE ACT OF 2010
  - Health Care and Education Reconciliation Act-3/30/10

    The Obama Administration believe that the health care reform provided in the above Act's will:
    - Reduce long-term growth of health care costs
    - Protect families from bankruptcy or debt due to health care costs
    - Guarantee choice of doctors and health plans
    - Invest in prevention and wellness
    - Improve patient safety and quality of care
    - Assure affordable, quality health coverage for all Americans
    - Maintain coverage upon losing or changing jobs.
    - Eliminate barriers due to pre-existing medical conditions

Government Health Care Programs

- PATIENT PROTECTION AND AFFORDABLE CARE ACT OF 2010
  - Process: set aside $635 Billion over the next 10 years for reform.
  - Key provisions of the Act are:
    - Offering tax credits for small businesses to make coverage more affordable
    - To prohibit denying coverage due to pre-existing medical conditions for children
    - To provide access to affordable insurance for those with pre-existing medical conditions
    - Prohibiting insurance companies from dropping coverage when people are sick.
    - Eliminating co-payments for preventive services
    - Requiring new health plans to allow persons up to age 26 to remain on their parent's insurance policy

Government Health Care Programs

- Prohibiting health insurance from placing lifetime caps on coverage
- Restricting the use of annual limits
- Ensuring consumers have appeal options with the plan
- Providing funds to states to set up consumer assistance offices
- Increasing money for community health centers
- Increasing investment for increases the number of health care workers
- Requiring health insurance companies to justify all premium increases

Government Health Care Programs

- Government Consumer Health Information Websites
  - www.hhs.gov (Health Finder)
  - www.nlm.nih.gov (Medline Plus)
  - www.nih.gov (NIH Health Information)

Disability Income Insurance

- Disability is more likely than death at any age
- Young, healthy people don't think about risks related to all their future earning potential
- Provides regular cash income lost as the result of an accident, illness, or pregnancy
- If you become disabled, your income drops but your expenses go up

Disability Income Insurance

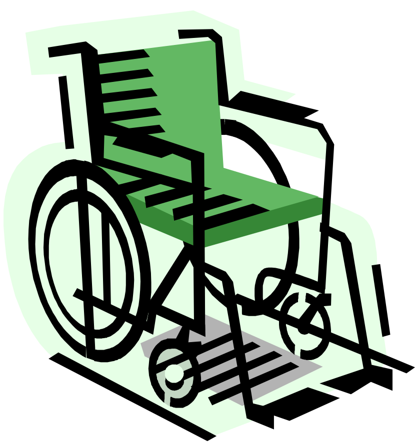
- Carefully read a policy's definition of disability
  - May only pay if you can't work at *any* job
  - Look for a policy that pays if you are unable to work at your *regular* job
- Aim for a benefit that when added to your other income will equal 60-70% of your gross pay

Disability Income Insurance

- How long do benefits last? To age 65? For life?
- How long is the waiting period? 30 days? 90 days?
- Look for a policy that is both noncancelable and guaranteed renewable

Disability Income Insurance

- SOURCES OF DISABILITY INCOME
  - Employer
    - Group disability policy may be short or long term
  - Social Security
    - Covers total disability that lasts more than twelve months



Disability Income Insurance

- Workman's Compensation
  - If you are injured at work or your injury is a result of your type of employment
- Disability insurance
  - Benefits limited to 70-80% of your take home pay