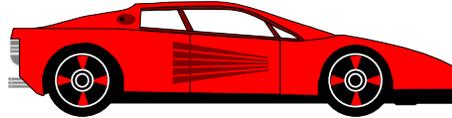


WHAT QUESTIONS DO YOU HAVE ABOUT INSURANCE?



LIFE IS FULL OF RISKS...MANY HAVE FINANCIAL CONSEQUENCES

- ◉ Damage to car in accident
- ◉ Loss of home and/or possessions
- ◉ Loss of income due to disability
- ◉ Loss of a household earner's income
- ◉ Loss of a homemaker's services
- ◉ Large medical bills for disease or injury
- ◉ A court judgment of liability for damages



FIVE WAYS TO MANAGE RISK

- ◉ Do nothing and hope for the best
- ◉ Risk avoidance
- ◉ Risk reduction
- ◉ Risk acceptance
- ◉ Risk transfer (insurance)



**Risk
Avoidance**

**Don't stop at a
convenience store in
a bad part of town
after midnight**

**Risk
Shifting**

Buy Insurance

Self Insurance

**Ways to
Manage
Risk**

**Risk
Reduction**

Wear seatbelts

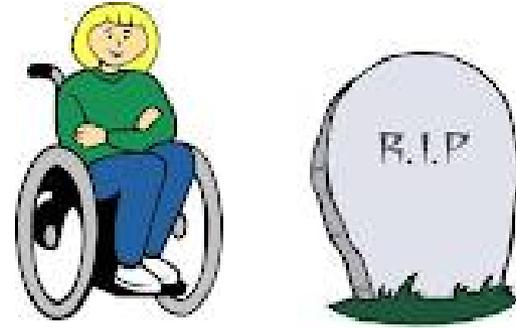
**Install an
alarm system**

**Risk
Assumption**

COMMON TYPES OF RISK

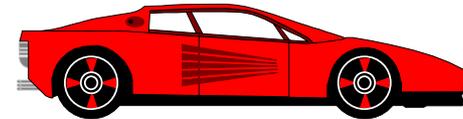
○ Personal Risks

- Loss of income or life
- Illness and disability



○ Property Risks

- Losses to property
- Caused by perils such as fire or theft



○ Liability Risks

- Losses caused by negligence
- Resulting in injury or property damage to others



HOW INSURANCE WORKS

Insurance Policy - Contract between a person buying insurance (the insured) and an insurance company (the insurer).



THE ESSENCE OF INSURANCE

○ Insurance consists of two basic elements:

- Reduction of risk
- Sharing of losses



○ Law of Large Numbers - As the number of members in a group increases, predictions about the group's behavior become increasingly more accurate

PARTS OF AN INSURANCE CONTRACT

- ⦿ Declarations page
- ⦿ Insuring Agreements
- ⦿ Exclusions
- ⦿ Endorsements and Riders



VIDEO: DEDUCTIBLES AND COINSURANCE

<http://www.youtube.com/watch?v=8lybFtOtXdc&feature=related>

Deductibles and Coinsurances

staysmartstayhea1thy

Subscribe

25 videos ▾

LIFETIME MAXIMUM

The diagram illustrates the concept of a lifetime maximum. It shows a stack of US dollar bills, a baby, and a man's face. A hand is drawing a line that starts at the baby, goes up to a peak, and then goes down to the man's face. A horizontal line with tick marks is drawn below the peak, representing a period of time or a limit.

1:34 / 2:42



FACTORS THAT AFFECT HOMEOWNER'S INSURANCE

- ◉ Location of Home (e.g., rural vs. urban)
- ◉ Type of Structure (e.g., brick vs. wood)
- ◉ Coverage Amount and Policy type
- ◉ Home Insurance Discounts
 - Alarm system
 - Smoke detectors
 - If you insure car with the same company
- ◉ Company Differences
 - Compare costs and coverage



FACTORS THAT AFFECT AUTO INSURANCE



- ◉ **Vehicle Type**
 - Year, make, model, and theft rate
- ◉ **Rating Territory**
 - Accident, auto theft, and vandalism rates in the area where you live
- ◉ **Driver Classification**
 - Age, sex, marital status, credit history, driving record, driving habits
 - Assigned risk pool for those unable to obtain insurance
- ◉ **Credit Score**

Reducing Automobile Insurance Premiums

- ◉ **Compare Companies**
- ◉ **Premium Discounts**
 - Establish and maintain a good driving record
 - Install security devices such as a car alarm
 - Multiple policies with the same company
 - Larger deductibles

AUTOMOBILE LIABILITY INSURANCE POLICY LIMITS

Automobile liability insurance limits may be quoted as three figures:

100/300/50

\$100,000

Per-person bodily injury limit specifying that \$100,000 is the most that will be paid for any **one person's** bodily injury liability losses from an accident.

\$300,000

Per-accident bodily injury limit specifying that \$300,000 is the most that will be paid for **all** bodily injury liability losses from an accident.

\$50,000

Per-accident property damage liability limit specifying that \$50,000 is the most that will be paid for **all** property damage liability losses from an accident.

OR

They may be quoted as a single figure:

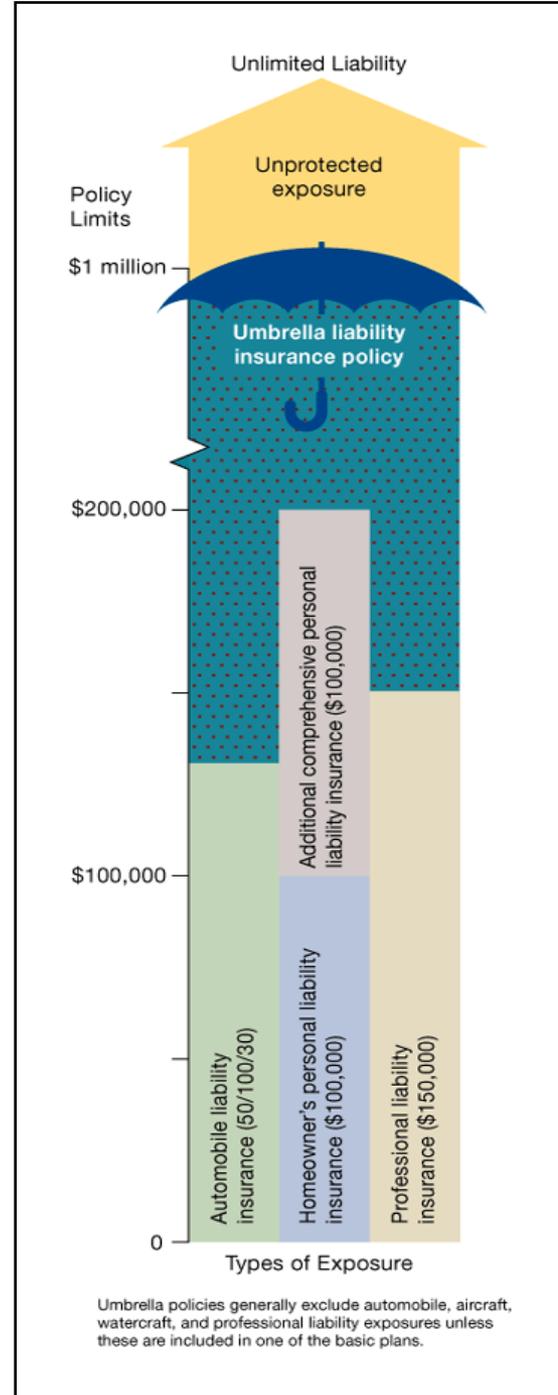
\$250,000

Per-accident limit for all liability losses specifying \$250,000 as the most that will be paid in liability losses arising out of one accident.

Source: *Personal Finance* by Garman and Forgue, Houghton-Mifflin

HOW UMBRELLA INSURANCE POLICIES WORK

Source: *Personal Finance* by Garman and Forgue, Houghton-Mifflin



WHY DO PEOPLE NEED LIFE INSURANCE?

- ◉ **Income-Replacement Needs** - The financial losses resulting from premature death are lost income and employee benefits
- ◉ **Major Expenses**- Two examples are a mortgage and children's college expenses
- ◉ **Final Expenses** - One-time medical and funeral expenses occurring just prior to or after a death.
- ◉ **Readjustment-Period Needs** - Allows surviving spouse/family members to pay ongoing expenses



BUY TERM LIFE INSURANCE AND INVEST THE DIFFERENCE?

Cash-Value Policy

Premium to pay for
insurance protection,
sales commissions,
and company expenses



Premium to provide for the building of cash value
plus related company expenses

Term Policy

Premium to pay for
insurance protection,
sales commissions,
and company expenses



Dollars not spent on life insurance and
available to spend, save, or invest

Source: *Personal Finance* by Garman and Forgue, Houghton-Mifflin

CALCULATING YOUR NEED FOR LIFE INSURANCE

- ◉ **Multiple-of-Earnings Approach** is an inaccurate method
 - Multiplies one's income by some factor (e.g., 7x or 10 x) to derive a rough estimate of needed insurance
- ◉ **Needs Approach** is a Better Method
 - Considers individual factors that affect life insurance needs (personalized calculation)

Resources:

<http://www.bankrate.com/calculators/insurance/life-insurance-calculator.aspx>

<http://www.lifehappens.org/insurance-overview/life-insurance/calculate-your-needs/>

BUYING LIFE INSURANCE

- Research insurance company ratings by major rating firms:
 - A. M. Best
 - Standard and Poor's
 - Duff & Phelps
 - Moody's
 - Weiss Research
- Talk to friends, colleagues, or advisors
- Online premium quote services



HEALTH INSURANCE SOURCES

- ◉ Employers



- ◉ Private Market (Individual/Family Policy)

- ◉ Government-Facilitated Exchanges

- ◉ Government Programs

ACA GOAL: DECREASING THE NUMBER OF UNINSURED AMERICANS

THE CONSUMER PROTECTIONS

Requiring insurance companies to take all seeking insurance

- No more exclusions for consumers who have pre-existing conditions
- No more cancellation of policies for someone being too sick
- No more lifetime maximums on the amount paid for care for essential benefits
- No more annual maximums on the amount paid for care for essential benefits



ACA GOAL: DECREASING THE NUMBER OF UNINSURED AMERICANS (CONTINUED)



- ◉ Consumers are mandated to purchase insurance
- ◉ Creates Marketplaces (Exchanges) where consumers can choose among affordable plans, offering tax credits to some who qualify by income
- ◉ Builds on current employer-employee fringe benefit insurance arrangement and mandates large employers to offer adequate and affordable plans
- ◉ Intended to expand states' Medicaid programs to include all individuals and families under 138% of FPL (\$15,856 for individual, \$32,499 for family of four (2013))

DIFFERENT LEVELS OF PLANS

- 4 Levels of Coverage – “The Metals”: Bronze, Silver, Gold, and Platinum
 - Each has a different value for level of coverage
 - Bronze: 60%. Silver: 70%. Gold: 80%. Platinum: 90% (Refers to adequacy values: how much plan vs. insured pays)
 - Any costs not covered by the plan are paid by individuals through deductibles, co-pays, co-insurance (not including monthly premium)
- Each plan level must cover the same set of minimum essential health benefits
 - What differs is amount of cost-sharing required
 - **Example:** The bronze plan will have the least generous coverage (60%) with more out-of-pocket costs



<http://www.healthcare.gov> for more information

ESSENTIAL HEALTH BENEFITS

Qualified Health Plans in the Marketplace must cover:

Ambulatory patient services	Maternity and newborn care
Emergency services	Prescription drugs
Mental health and substance use disorder services	Laboratory services
Rehabilitative and habilitative services and devices	Chronic disease management
Preventive and wellness services	Pediatric services, including oral and vision care

COMPARE AVAILABLE OPTIONS

Benefits	Premier Plan	Standard Plan
In Network Deductible	\$500 / \$1,000	\$1,000 / \$2,000
Out of Network Deductible	\$1,000 / \$2,000	\$1,500 / \$3,000
In – Network Co-Pay per Office Visit Co-insurance	\$20 PCP/ \$40 Specialist 90% after deductible	\$30 PCP /\$50 Specialist 80% after deductible
Out of Network Co-insurance	70% after deductible	60% after deductible

COMPARE AVAILABLE OPTIONS

	RETAIL	MAIL ORDER
Tier 1	\$10 Co-pay 30 Day Supply	\$20 Co-pay 90 Day Supply
Tier 2	\$30 Co-pay 30 Day Supply	\$60 Co-pay 90 Day Supply
Tier 3	\$50 Co-pay 30 Day Supply	\$100 Co-pay 90 Day Supply

UNIVERSITY OF MARYLAND EXTENSION *SMART CHOICE* HEALTH INSURANCE WORKBOOK

- https://www.extension.umd.edu/sites/default/files/_images/programs/insure/My%20Smart%20Choice%20Health%20Insurance%20Guide%204-3-13.pdf
- Uses “Rule of Three” approach (3 columns)
- Good to teach with a case study comparing 3 different plans

HEALTH CARE SAVINGS ACCOUNTS

○ Health Savings Accounts (HSA)

- Money contributed to pre-tax dollar account
- Must have a high-deductible policy

○ Health Reimbursement Accounts (HRA)

- Also tied to high-deductible policies
- Funded solely by employer
- Unused funds carried over to next year



○ Flexible Spending Accounts (FSA)

- Workers contribute pre-tax dollars
- Funds managed by employer
- Unused funds forfeited at year end

SOURCES OF DISABILITY INCOME

◉ Workman's Compensation

- Disability from on-the-job accident or illness

◉ Employer Plans

- Short or long-term group disability policy

◉ Social Security

- Covers total disability lasting > 12 months
- Starts in the 6th month
- Strict definition of disability to qualify

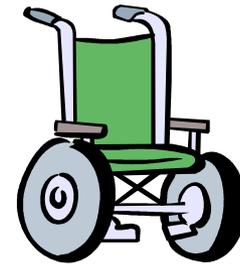


◉ Private Income Insurance Programs

- Supplements other disability income sources
- Normally provides 40-60% of income (up to 75%)

DISABILITY INSURANCE FACTORS

- Policy's definition of disability
 - Own Occupation- can no longer perform previous job
 - Any Occupation- can't work at *any* job
- Waiting or elimination Period
- Duration of benefits
- Amount of benefits
 - **Guaranteed renewable** (guarantees coverage as long as you pay premium, but premiums can change within a class of insureds)
 - **Noncancellable**- Better but more expensive; no future change in premium
- Cost-of-Living Adjustments (adjusts benefit for inflation)
- Partial benefits (pays benefit if person can only work part-time)



GENERAL INSURANCE TIPS

- ◉ Insure for major losses
- ◉ Choose a highly rated insurance company
- ◉ Select the highest deductible you can afford
- ◉ Pay premiums annually or semi-annually
- ◉ Avoid duplicating coverage
- ◉ Ask about available discounts
- ◉ Follow “The Rule of Three”



VIDEO: HOW DOES INSURANCE WORK?

<http://www.youtube.com/watch?v=nXfGeMNnBsM>

