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Handout E

PwC's *Earn Your Future*™ Curriculum

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Insurance types

Automobile insurance

Auto insurance protects you against financial loss if you have an accident. It is a contract between you and the insurance company. You agree to pay the premium and the insurance company agrees to pay your losses as defined in your policy. Auto insurance provides property, liability and medical coverage:

- Property coverage pays for damage to or theft of your car.
- Liability coverage pays for your legal responsibility to others for bodily injury or property damage.
- Medical coverage pays for the cost of treating injuries, rehabilitation and sometimes lost wages and funeral expenses.

An auto insurance policy is comprised of six different kinds of coverage. Most states require you to buy some, but not all, of these types of coverage. If you're financing a car, your lender may also have requirements. Most auto policies are for six months to a year. Your insurance company should notify you by mail when it's time to renew the policy and to pay your premium.

Your auto policy may include six types of coverage. Each type of coverage is priced separately.

1. **Bodily Injury Liability**
   This coverage applies to injuries that you, the designated driver or policyholder, cause to someone else. You and family members listed on the policy are also covered when driving someone else's car with their permission.

   It's very important to have enough liability insurance, because if you are involved in a serious accident, you may be sued for a large sum of money. Definitely consider buying more than the state-required minimum to protect assets such as your home and savings.

2. **Medical Payments or Personal Injury Protection (PIP)**
   This coverage pays for the treatment of injuries to the driver and passengers of the policyholder's car. At its broadest, PIP can cover medical payments, lost wages and the cost of replacing services normally performed by someone injured in an auto accident. It may also cover funeral costs.

3. **Property Damage Liability**
   This coverage pays for damage you (or someone driving the car with your permission) may cause to someone else's property. Usually, this means damage to someone else's car, but it also includes damage to lamp posts, telephone poles, fences, buildings or other structures your car hit.

4. **Collision**
   This coverage pays for damage to your car resulting from a collision with another car, object or as a result of flipping over. It also covers damage caused by potholes. Collision coverage is generally sold with a deductible of $250 to $1,000—the higher your deductible, the lower your premium. Even if you are at fault for the accident, your collision coverage will reimburse you for the costs of repairing your car, minus the deductible. If you're not at fault, your insurance company may try to recover the amount they paid you from the other driver's insurance company. If they are successful, you'll also be reimbursed for the deductible.

5. **Comprehensive**
   This coverage reimburses you for loss due to theft or damage caused by something other than a collision with another car or object, such as fire, falling objects, missiles, explosion, earthquake, windstorm, hail, flood, vandalism, riot, or contact with animals such as birds or deer.

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Comprehensive insurance is usually sold with a $100 to $300 deductible, though you may want to opt for a higher deductible as a way of lowering your premium.

Comprehensive insurance will also reimburse you if your windshield is cracked or shattered. Some companies offer glass coverage with or without a deductible.

6. **Uninsured and Underinsured Motorist Coverage**
   This coverage will reimburse you, a member of your family, or a designated driver if one of you is hit by an uninsured or hit-and-run driver.

   Underinsured motorist coverage comes into play when an at-fault driver has insufficient insurance to pay for your total loss. This coverage will also protect you if you are hit as a pedestrian.

Disability insurance

If you were disabled and unable to work as a result of an accident or illness, what would you and your family do for income?

Disability income insurance, which complements health insurance, can replace lost income. Forty-three percent of all people age 40 will have a long-term (lasting 90 days or more) disability event by age 65.

There are three basic ways to replace income:

1. **Employer-paid disability insurance**
   This is required in most states. Most employers provide some short-term sick leave. Many larger employers provide long-term disability coverage as well, typically with benefits of up to 60 percent of salary lasting from five years to age 65, and in some cases extended for life.

2. **Social Security disability benefits**
   This can be paid to a worker whose disability is expected to last at least 12 months and is so severe that no gainful employment can be performed.

3. **Individual disability income insurance policies**
   Other limited replacement income is available for workers under some circumstances from workers compensation (if the injury or illness is job-related), auto insurance (if disability results from an auto accident) and the Department of Veterans Affairs.

   For most workers, even those with some employer-paid coverage, an individual disability income policy is the best way to ensure adequate income in the event of disability. When you buy a private disability income policy, you can expect to replace from 50% to 70% of income. Insurers won't replace all your income because they want you to have an incentive to return to work. However, when you pay the premiums yourself, disability benefits are not taxed. (Benefits from employer-paid policies are subject to income tax.)

There are two types of disability policies: Short-Term Disability (STD) and Long-Term Disability (LTD):

1. **Short-Term Disability policies (STD)** have a waiting period of 0 to 14 days with a maximum benefit period of no longer than two years.

2. **Long-Term Disability policies (LTD)** have a waiting period of several weeks to several months with a maximum benefit period ranging from a few years to the rest of your life.

Disability policies have two different protection features that are important to understand.

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1. **Noncancelable** means the policy cannot be canceled by the insurance company, except for nonpayment of premiums. This gives you the right to renew the policy every year without an increase in the premium or a reduction in benefits.

2. **Guaranteed renewable** gives you the right to renew the policy with the same benefits and not have the policy canceled by the company. However, your insurer has the right to increase your premiums as long as it does so for all other policyholders in the same rating class as you.

Health insurance

There are essentially two types of health insurance plans: **indemnity** plans (fee-for services) or **managed care** plans. The differences include the choice of providers, out-of-pocket costs for covered services and how bills are paid. There is no one "best" plan for everyone. Some plans are better than others for your or your family's health care needs, but no one plan will pay for all the costs associated with your medical care.

Here is a brief description of the types of available health insurance plans: Indemnity Plans; Managed Care Options; and Government-sponsored Health Insurance

A. Indemnity Plans

Cafeteria/Flexible Spending Plans are employer-sponsored plans that allow the employee to design his or her own employee benefit package, choosing between one or more employee benefits and cash. Several types of Flexible Benefits or Cafeteria Plans are used by employers, including a pre-tax conversion plan, multiple option pre-tax conversion plan, medical plans plus flexible spending accounts, and employer credit cafeteria plans. For more information about these choices, contact your employee benefits department.

Indemnity Health Plans allow you to choose your health care providers. You can go to any doctor, hospital or other provider for a set monthly premium. The plan reimburses you or your health care provider on the basis of services rendered. You may be required to meet a deductible and pay a percentage of each bill. However, there is also often an annual limit on out-of-pocket expenses, so that once an individual or family reaches the limit, the insurance covers the remaining eligible medical expenses in full. Indemnity plans sometimes impose restrictions on covered services and may require prior authorization for hospital care or other expensive services.

"Basic and Essential" Health Plans provide limited health insurance benefits at a considerably lower cost. When buying such a plan, it is extremely important to read the policy description carefully because these plans don't cover some basic treatments, such as chemotherapy, certain prescriptions and maternity care. Furthermore, rates vary considerably because, unlike indemnity plans or a managed care option, premiums are community rated and are based on age, gender, health status, occupation or geographic location.

Health Savings Accounts (HSA) are a recent alternative to traditional health insurance plans. HSAs are basically a savings product designed to offer individuals a different way to pay for their health care. HSAs enable you to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis. Instead of paying a premium, you establish a tax-free savings account that covers your out-of-pocket medical expenses. This means that you own and control the money in your HSA. You make all decisions about how to spend the money without relying on a third party or a health insurer. You also decide what types of investments to make with the money in the account in order to make it grow. However, if you sign up for an HSA, you are generally required to buy a High Deductible Health Plan as well.

High-Deductible Health Plans (HDHP) are sometimes referred to as catastrophic health insurance coverage. An HDHP is an inexpensive health insurance plan that kicks in only after a high deductible is met of at least $1,000 for an individual or $2,000 for a family.

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B. Managed Care Options

Health Maintenance Organizations (HMOs) offer access to an extensive network of participating physicians, hospitals and other health care professionals and facilities. You choose a primary care doctor from a list provided by the HMO and this doctor coordinates your health care. You must contact your primary care doctor to be referred to a specialist. Generally, you pay fewer out-of-pocket expenses with an HMO, but you are often charged a fee or co-payment for services such as doctor visits or prescriptions.

Point-of-Service (POS) plans are an indemnity-type option in which the primary care doctors in the POS plan usually make referrals to other providers within the plan. If a doctor makes a referral out of the plan, the plan pays all or most of the bill. However, if you refer yourself to an outside provider, the service is covered by the plan, but you will be required to pay co-insurance.

Preferred Provider Organizations (PPO) charge on a fee-for-service basis. The participating doctors, hospitals and health care providers are paid by the insurer on a negotiated, discounted fee schedule. Costs are lower if you use in-network healthcare services, but you have the option of going out-of-network. If you choose an out-of-network provider, you are generally required to pay the difference between what the provider charges and what the plan pays.

C. Government-sponsored Health Insurance

Medicaid is a federal/state public assistance program created in 1965. It is administered by the states for people whose income and resources are insufficient to pay for health care or private insurance. All states have Medicaid programs, though eligibility levels and coverage benefits vary.

Medicare is a federal government program for people 65 and older, or those with certain disabilities, that pays part of the costs associated with hospitalization, surgery, doctors' bills, home health care and skilled-nursing care.

State Children's Health Insurance Program (SCHIP) is administered at the state level and provides health care to low-income children whose parents do not qualify for Medicaid. SCHIP may be known by different names in different states.

Military Health Care includes TRICARE/CHAMPUS (Civilian Health and Medical Program of the Uniformed Services) and CHAMPVA (Civilian Health and Medical Program of the Department of Veterans Affairs) as well as care provided by the Department of Veterans Affairs (VA).

State-specific Plans are available for low-income uninsured individuals. These plans are known by different names in different states.

Indian Health Service (IHS) is a Department of Health and Human Services program offering medical assistance to eligible American Indians at IHS facilities. In addition, the IHS helps pay the cost of selected health care services provided at non-IHS facilities.

Homeowner's insurance

Homeowner's insurance provides financial protection against disasters. A standard policy insures the home itself and the things you keep in it.

Homeowner's insurance is a package policy. This means that it covers both damage to your property and your liability or legal responsibility for any injuries and property damage you or members of your family cause to other people. This includes damage caused by household pets.

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Damage caused by most disasters is covered but there are exceptions. The most significant are damage caused by floods, earthquakes and poor maintenance. You must buy two separate policies for flood and earthquake coverage. Maintenance-related problems are the homeowners' responsibility.

A standard homeowner's insurance policy includes four essential types of coverage. They include:

1. Coverage for the structure of your home
2. Coverage for your personal belongings
3. Liability protection
4. Additional living expenses in the event you are temporarily unable to live in your home because of a fire or other insured disaster

1. The structure of your house

This part of your policy pays to repair or rebuild your home if it is damaged or destroyed by fire, hurricane, hail, lightning or other disaster listed in your policy. It will not pay for damage caused by a flood, earthquake or routine wear and tear. When purchasing coverage for the structure of your home, it is important to buy enough to rebuild your home.

Most standard policies also cover structures that are detached from your home such as a garage, tool shed or gazebo. Generally, these structures are covered for about 10% of the amount of insurance you have on the structure of your home. If you need more coverage, talk to your insurance agent about purchasing more insurance.

2. Your personal belongings

Your furniture, clothes, sports equipment and other personal items are covered if they are stolen or destroyed by fire, hurricane or other insured disaster. Most companies provide coverage for 50% to 70% of the amount of insurance you have on the structure of your home. So if you have $100,000 worth of insurance on the structure of your home, you would have between $50,000 to $70,000 worth of coverage for your belongings. The best way to determine if this is enough coverage is to conduct a home inventory.

This part of your policy includes off-premises coverage. This means that your belongings are covered anywhere in the world, unless you have decided against off-premises coverage. Some companies limit the amount to 10% of the amount of insurance you have for your possessions. You have up to $500 of coverage for unauthorized use of your credit cards.

Expensive items like jewelry, furs and silverware are covered, but there are usually dollar limits if they are stolen. Generally, you are covered for between $1,000 to $2,000 for all of your jewelry and furs. To insure these items to their full value, purchase a special personal property endorsement or floater and insure the item for its appraised value. Coverage includes “accidental disappearance,” meaning coverage if you simply lose that item. And there is no deductible.

Trees, plants and shrubs are also covered under standard homeowner's insurance. Generally you are covered for 5% of the insurance on the house—up to about $500 per item. Perils covered are theft, fire, lightning, explosion, vandalism, riot and even falling aircraft. They are not covered for damage by wind or disease.

3. Liability protection

Liability covers you against lawsuits for bodily injury or property damage that you or family members cause to other people. It also pays for damage caused by your pets. So, if your son, daughter or dog accidentally ruins your neighbor’s expensive rug, you are covered. However, if they destroy your rug, you are not covered.

The liability portion of your policy pays for both the cost of defending you in court and any court awards—up to the limit of your policy. You are also covered not just in your home, but anywhere in the world.

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Liability limits generally start at about $100,000. However, experts recommend that you purchase at least $300,000 worth of protection. Some people feel more comfortable with even more coverage. You can purchase an umbrella or excess liability policy which provides broader coverage, including claims against you for libel and slander, as well as higher liability limits. Generally, umbrella policies cost between $200 to $350 for $1 million of additional liability protection.

Your policy also provides no-fault medical coverage. In the event a friend or neighbor is injured in your home, he or she can simply submit medical bills to your insurance company. This way, expenses are paid without a liability claim being filed against you. You can generally get $1,000 to $5,000 worth of this coverage. It does not, however, pay the medical bills for your family or your pet.

4. **Additional living expenses (ALE)**
   This pays the additional costs of living away from home if you cannot live there due to damage from a fire, storm or other insured disaster. It covers hotel bills, restaurant meals and other expenses, over and above your customary living expenses, incurred while your home is being rebuilt.

   Keep in mind that the ALE coverage in your homeowner's policy has limits, usually a percentage of the amount of coverage you have on your home, and some policies include a time limitation. But the amount of ALE coverage is separate from the amount available to rebuild or repair your home. For example, suppose you have a policy that provides up to $150,000 in rebuilding costs and up to $15,000 (10 percent) for ALE and you use up the entire $15,000, your insurance company will still pay what it costs to rebuild your home up to the policy limit of $150,000.

   Coverage for additional living expenses differs from company to company. Many policies provide coverage for about 20 percent of the insurance on your house. You can increase this coverage, however, for an additional premium. Some companies sell a policy that provides an unlimited amount of loss-of-use coverage, but for a limited amount of time.

   If you rent out part of your house, ALE coverage also reimburses you for the rent that you would have collected from your tenant if your home had not been destroyed.

Life insurance

There are two major types of life insurance—term and whole life. Whole life is sometimes called permanent life insurance, and it encompasses several subcategories, including traditional whole life, universal life, variable life and variable universal life. In 2003, about 6.4 million individual life insurance policies bought were term and about 7.1 million were whole life.

Life insurance products for groups are different from life insurance sold to individuals. The information below focuses on life insurance sold to individuals.

Term

Term Insurance is the simplest form of life insurance. It pays only if death occurs during the term of the policy, which is usually from one to 30 years. Most term policies have no other benefit provisions.

There are two basic types of term life insurance policies—level term and decreasing term.

- Level term means that the death benefit stays the same throughout the duration of the policy.
- Decreasing term means that the death benefit drops, usually in one-year increments, over the course of the policy's term.

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Whole Life/Permanent

Whole life or permanent insurance pays a death benefit whenever you die—even if you live to 100! There are three major types of whole life or permanent life insurance—traditional whole life, universal life, and variable universal life, and there are variations within each type.

In the case of traditional whole life, both the death benefit and the premium are designed to stay the same (level) throughout the life of the policy. The cost per $1,000 of benefit increases as the insured person ages, and it obviously gets very high when the insured lives to 80 and beyond. The insurance company could charge a premium that increases each year, but that would make it very hard for most people to afford life insurance at advanced ages. So the company keeps the premium level by charging a premium that, in the early years, is higher than what's needed to pay claims, investing that money, and then using it to supplement the premium level to help pay the cost of life insurance for older people.

By law, when these "overpayments" reach a certain amount, they must be available to the policyholder as a cash value if he or she decides not to continue with the original plan. The cash value is an alternative, not an additional, benefit under the policy.

Many financial experts consider life insurance to be the cornerstone of sound financial planning. It can be an important tool in the following situations:

1. **Replace income for dependents**
   If people depend on your income, life insurance can replace that income for them if you die. The most commonly recognized case of this is parents with young children. However, it can also apply to couples in which the survivor would be financially stricken by the income lost through the death of a partner, and to dependent adults, such as parents, siblings or adult children who continue to rely on you financially. Insurance to replace your income can be especially useful if the government- or employer-sponsored benefits of your surviving spouse or domestic partner will be reduced after your death.

2. **Pay final expenses**
   Life insurance can pay your funeral and burial costs, probate and other estate administration costs, debts and medical expenses not covered by health insurance.

3. **Create an inheritance for your heirs**
   Even if you have no other assets to pass to your heirs, you can create an inheritance by buying a life insurance policy and naming them as beneficiaries.

4. **Pay federal "death" taxes and state "death" taxes**
   Life insurance benefits can pay estate taxes so that your heirs will not have to liquidate other assets or take a smaller inheritance. Changes in the federal "death" tax rules will likely lessen the impact of this tax on some people, but some states are offsetting those federal decreases with increases in their state-level "death" taxes.

5. **Make significant charitable contributions**
   By making a charity the beneficiary of your life insurance, you can make a much larger contribution than if you donated the cash equivalent of the policy's premiums.

6. **Create a source of savings**
   Some types of life insurance create a cash value that, if not paid out as a death benefit, can be borrowed or withdrawn on the owner's request. Since most people make paying their life insurance policy premiums a high priority, buying a cash-value type policy can create a kind of "forced" savings plan. Furthermore, the interest credited is tax deferred (and tax exempt if the money is paid as a death claim).

Source: http://www.iii.org/insurance_topics/

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