INSURANCE

Car Insurance: Frequently Asked Questions

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How can I lower my car insurance costs?

If you're trying to lower your auto insurance premiums, try using the following tactics:

- Comparison shop
- Take a higher deductible
- Drop collision damage on older cars
- Buy a low-profile car
- Check insurance costs by community when you are planning a move
- Do not duplicate medical coverage
- Pay premiums annually
- Inquire about discounts

What coverage should my auto policy include?

Everyone should have liability coverage for bodily injury and for property damage. These options will protect you if you injure someone else or damage property with your car. One thing to keep in mind is if you're in an accident and your costs exceed your coverage limits, you are responsible for the additional amount. That's why many motorists opt for more coverage than their state's minimum requirements.

Most insurers recommend that you buy at least $100,000 per person with a $300,000 maximum for each accident to pay medical costs, loss of earnings, and pain and suffering. In addition, you should have at least $50,000 in coverage for property damage. Collision and comprehensive are essential for new cars but often can be dropped with an older car. They cover repairs to your car after an accident or in case of fire, theft, or vandalism.

Uninsured motorist coverage, which protects against hit and run and people without enough insurance, is required in some states. If your life, health, and disability policies already protect your family, you might want to pass, given the choice. The same is true of medical payments coverage, which pays you in the case of injury and disability. For people with substantial assets, umbrella insurance is a good idea. It will protect you against liability judgments in excess of $1 million.

Auto insurance is mandatory in every state, but coverage amounts vary among policies. At a minimum, however, the following areas should be covered:

- **Medical:** This protects you against medical costs for injuries to you and other riders in the car.
- **Liability:** This covers physical injuries to other people and compensation for expenses that might arise from such injuries. It also covers damage to other people's property.
- **Comprehensive and collision:** This covers damage to your car due to collisions or overturning, fire, flooding, and theft. There is usually a deductible.

- **Uninsured (or underinsured) motorist:** If there is an accident and the other driver has insufficient insurance, this covers the expenses of the accident.

  Note: In certain states with "no-fault" insurance laws, personal insurance protection coverage is required and there are some restrictions on liability lawsuits.

Your policy will show the total amounts of bodily injury, liability, and property damage coverage. For instance, a policy of $25/$50/$20 means that, in a single accident, you are covered for $25,000 for an individual injured, $50,000 for all persons injured, and $20,000 of property damage.

The amount of coverage you choose will depend on the state's minimum requirements, the replacement cost of your vehicle, and how much medical coverage you already have under other policies.

How should I handle an auto insurance claim?

Here are some tips for making sure that you obtain a fair settlement and obtain payment on a claim as quickly as possible.

- Start a file on the accident immediately after it occurs and put hospital bills, police accident reports, and copies of claims you have submitted into the folder.
- Each time you speak to an insurance company representative by phone, write a follow-up letter or email summarizing what was said. Include the date of the conversation and the name of the person spoken to. Put a copy of the letter or email into the file.
- If it is taking a long time to obtain your settlement, check your policy to see whether interim rental car expenses are covered. If so, rent a car. The insurer will be motivated to speed things along to avoid incurring this cost.
- If you feel the company is being unreasonable and is delaying or not acting in good faith, then make a complaint to your state's insurance regulator.
- If you're getting nowhere, consult an attorney.

Does it make sense to comparison shop for car insurance?

Don't assume that every insurance company charges the same rates. There are several thousand different auto insurers and all of them are vying for your business. It's possible to save as much as 30 to 50 percent by comparing costs.

Costs are usually based on factors such as age, gender, and driving record of the vehicle's driver's); state of residence; age and value of the vehicle; and frequency and purpose of the vehicle's use.

First, contact the insurance regulating body in your state and find out whether they provide a free pamphlet that ranks insurers by price. Many state insurance departments do this. Obtaining this pamphlet will save you a lot of time on the phone asking for price quotes. If no pamphlet is available, then get quotes from independent agents (those who represent several insurance companies) or visit insurer's websites.

You can also begin by comparing several insurers' rates such as:

- **AMICA** 800-24-AMICA
- GEICO: Auto Insurance 800-861-8380
- **Erie Insurance:** 800-458-0811
- **USAA:** 800-531-8722 (Note: USAA is limited to active-duty and former military officers and their families.)

When calling an insurance company, ask if the insurer is a "mutual company"--one owned by its policyholders--as is the case with Amica. If so, ask what percentages of its premiums are returned to policyholders. You may find, for example, that Amica's premiums are higher than those of some other companies, but that it pays annual dividends of 18 percent to 20 percent to policyholders. These dividends reduce your insurance costs.

It's also important not to neglect factors other than price. Quality personal service may cost a bit more but provides added conveniences, so talk to a number of insurers to get a feel for the quality of their service. Don't forget to ask them how you can lower your costs.

> **Tip:** Check the financial ratings of insurance companies with Moody's, and then supplement your review by calling your state insurance department for further information. Some state insurance departments will supply you with the number of justified complaints that have been made about insurers.

How much of a deductible should I take on my car insurance?

It may pay to absorb the cost of fender-benders yourself. In other words, get the highest deductible you can afford. The deductible is the dollar amount you agree to pay out-of-pocket before insurance kicks in. If you cover the cost of small claims and the insurance company covers the large ones, it makes a huge difference: raise your deductible from $100 to $500, for example, and you'll reduce your premiums by 10 percent to 20 percent. Raise the deductible to $1,000 and you can save 25 percent to 30 percent.

> **Tip:** Don't file a claim for a minor accident when the cost to repair your vehicle is only a couple of hundred dollars. Picking up the cost yourself will more than offset the rise in your insurance rates that occurs when you file a claim.

Is it worthwhile to maintain collision coverage on older cars?

Collision coverage takes care of the cost of repairing your car if you're in an accident, regardless of who's at fault; comprehensive pays if your car is stolen or damaged by fire, flood, hail or wind. If your car isn't worth much, why pay a premium for repairs on a vehicle you'll probably replace if it's badly damaged? Collision damage for an older car can cost more than the car is worth.

If your car is worth a few thousand dollars it may not be cost effective to pay for this coverage.

> **Tip:** The rule of thumb--from the Consumer Federation of American group: Drop collision if your premium is equal to 10 percent or more of the value of your car. But remember that you generally can't drop collision until your auto loan is paid off.

> **Tip:** Check the value of your old car in the "National Automobile Dealers Association Official Used Car Guide," known as "The Blue Book." Auto dealers, banks and libraries have copies.

Does the kind of car I buy affect my insurance?

Before you buy a new or used car, check into insurance costs. Cars that are expensive to repair, or that are favorite targets for thieves, have much higher insurance costs.

Not surprisingly, the more expensive the car, the more expensive the insurance. Cars that thieves love --Porsches, Jaguars, BMWs and sports models in general, are more costly to insure. The latest study shows that it costs three to four times as much to insure a Porsche as a Buick or a Ford.

> **Tip:** Call your insurance company or agent before buying a car and ask what the costs are for several different models.

If you buy a used car, insurance will be significantly lower.

Does my address affect my car insurance?

Costs tend to be lowest in rural communities and highest in cities.Additionally, rates vary within cities based upon the incidence of auto thefts and damage within particular areas. Very often zip codes or common streets are used to denote where rates change. If you are planning a move to a new city, call your agent to find out what car insurance costs in different neighborhoods or suburbs. While differences in cost will not likely sway your decision as to which house to rent or buy, doing this may give you an idea which areas you should consider or avoid.

Does it make a difference if I pay my insurance annual, semi-annually or monthly?

Installment plans are convenient but wind up costing more because of fees or interest charges. You are usually better off paying the entire insurance bill when you receive it.

What types of auto insurance discounts are available?

Most insurance companies will reduce premiums 10 percent to 20 percent for various reasons, such as alarm systems, airbags, anti-lock brakes, insuring more than one car, and bundling home and auto insurance. There are also safe driver discounts and discounts if you live close to work. Your agent may not think to advise you of all of the available discounts, so it pays to ask your agent for a list of all discounts available and what requirements must be met to take advantage of them.

What's the most cost-effective way to prevent car theft?

The extent to which you go to protect yourself from car theft will depend on (1) how attractive your car is to thieves, and (2) how much money you're willing to spend. You can use the following methods:

Common-sense (no cost) measures

First, always park in safe, well-lighted, well-patrolled areas, don't leave your key in the ignition, and make sure to lock all the doors and close the windows.

Also, don't leave items that might be attractive to thieves in the car. Thieves may break a window, even risking a car alarm, to get to a briefcase, a pocketbook, CDs, a leather jacket, or a pair of sneakers. If you've been out shopping, lock your purchase in the trunk. Don't leave them in plain site as temptation for would-be thieves.

Deterrent devices

These are devices, such as steering wheel locks and alarm systems, intended to deter theft. We'll start with the least expensive options.

Clubs, shields, and cuffs. These devices are fairly inexpensive, but they are ineffective against a determined thief, who can simply saw through the steering wheel. Therefore, if you have a car model that is sought after by car thieves, you'll probably need more than a club or shield. There is also a collar available to cover your steering column (for cars where the ignition is on the steering column).

Tracking systems. There is one tracking device on the market-the LoJack system. This is a system that allows authorities to track your car if it's stolen.

Alarm systems. If your car doesn't have a factory-installed alarm system, you can have one installed, or buy a model that you install yourself. Alarm systems usually include an alarm that sounds when the car is struck or the door or trunk is opened, lights that flash on occurrence of the same eventualities, and a device that disables the starter, ignition, or fuel system. When you leave the car, you set the alarm with a remote control device. If you choose "passive arming," the system arms itself automatically 30 seconds after you close the door. Alarm systems have a panic button that you can press in an emergency.

Disability Insurance: Frequently Asked Questions

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Should I purchase my own disability insurance policy?

Many of us have life insurance, however very few of us have long-term disability coverage. Yet according to statistics, workers are more likely to sustain a long-term disability (one lasting longer than 90 days) than die at an early age.

Long-term disability insurance is fairly expensive, and people tend to think that they will be protected by workers' compensation or other sources. However, Social Security, workers' compensation, and employer-offered long-term coverage are often inadequate.

How much disability insurance should I have?

A disability insurance company will usually not cover you for more than 60 percent of your income. Look for a policy that provides coverage for this level. When you shop for a disability policy, be ready to prove your income level. If you purchase the policy and pay the premiums yourself, the income received will not be taxable. Therefore, 60 percent should come close to replacing your after-tax income.

What does workers compensation insurance cover?

Worker's compensation covers injuries that happen on the job. Benefits vary widely from state to state but typically are equivalent to 66.67 percent of the average weekly wage for the previous 52 weeks. In addition, most states pay benefits for the employee's lifetime in cases of permanent total disability.

> **Tip:** To get details on worker's comp benefits, contact your state Department of Labor.

In addition to the requirement that an injury is work-related, the payments you would receive under worker's comp may be inadequate.

How is disability defined?

The definition of disability in a policy is extremely important. It tells you under what circumstances you will qualify to receive benefits.

Own-occupation coverage pays benefits if you can't work in your chosen field--if you are an attorney or teacher, for example. Own-occupation policies are the most expensive type of disability coverage because they provide the broadest coverage. Generally, if you cannot perform the duties of your own occupation, you can take a job in a related field, make a decent income, and still collect the benefits.

Any-occupation coverage pays benefits if you can't work at any occupation for which your education level and training has prepared you. Therefore, if you can no longer perform the duties of a nuclear physicist, but you can teach physics at college level, you will not receive benefits.

> **Note:** Many policies are own-occupation for a period of years, at which point they convert to any-occupation.

How does long-term care insurance work?

By 2020, 12 million older Americans will need long-term care. Most will be cared for at home; family and friends are the sole caregivers for 70 percent of the elderly. A study by the U.S. Department of Health and Human Services says that people who reach age 65 will likely have a 40 percent chance of entering a nursing home. About 10 percent of the people who enter a nursing home will stay there five years or more.

Your chances of needing long-term care vary with your age, health, family history and longevity, exercise habits, diet, smoking, and gender; however, women are often at higher risk simply because they live longer.

Long-term care insurance policies pay a set dollar amount per day for covered care during the benefit period stated in the policy.

> **Example:** You choose a policy that pays $160 per day for five years. The maximum that policy will pay is $292,000 ($160 per day, times 365 days, times 5 years).

The older the individual covered, the higher the premium is. For instance, premiums for a set amount of coverage on a 70-year-old individual are about three times those that would apply to a 50-year-old.

Most long-term care policies are indemnity-type policies, meaning they will pay (up to the policy's limits) for actual charges by the care provider. Some long-term care policies, instead of being based on indemnity, pay daily benefit amounts to the insured rather than paying for actual charges. The latter type of policy offers insureds greater flexibility (e.g., allowing them to pay for home care) and less paperwork.

In a long-term care policy, what is the elimination period?

This period constitutes the number of days the insured must wait after becoming eligible for benefits before coverage actually begins.

The elimination period can range from zero to 90 days, or up to one year. The longer the elimination period, the lower the premium is.

How should I select a long-term care insurance provider?

If you decide that long-term care insurance (LTCI) is your best option, it is important to shop around for the right company. Some states have enacted important consumer protections in the LTCI area, while others have not. Do not assume the company is a safe bet just because it is licensed by the state insurance department to sell LTCI.

No matter how good a policy sounds, it is worth little if the company won't be there when it comes time to pay. Buy from a company with strong financial reserves. Unfortunately, there is no foolproof method for determining which companies are financially strong. However, it pays to look up a company's rating by A.M. Best or Standard and Poor's, both of which evaluate the financial health of insurance companies.

> **Tip:** Purchase long-term care insurance from a company that has an A+ or A++ rating from Best or an A, AA, or AAA rating from Standard and Poor's. Most public libraries have these references.

When can I qualify for Medicaid insurance?

Eligibility rules vary from state to state, but beneficiaries are generally required to "spend down" their income and assets to qualify. New laws in many states make it possible for the spouses of Medicaid nursing home residents to keep more income and assets than previously allowed.

By law, nursing homes cannot discriminate against Medicaid patients, but in reality, many keep "waiting lists" for them while enrolling patients with more income and assets. Medicaid coverage for home care is very limited in most states.

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How can I get the best homeowner's insurance at the best price?

The price you pay for homeowner's insurance can vary by hundreds of dollars, depending on the insurance company you buy your policy from. One tip is to ask your insurance agent or company representative about discounts available to you, but there are many others, some of which are listed below.

- Shop around
- Raise your deductibles
- Buy home and auto policies from the same company
- Check a home's insurance cost prior to purchase
- Don't insure land
- Increase home security
- Stop smoking
- Check your policy once a year

How much homeowner's insurance should I buy?

Insure For 100 percent of Rebuilding Costs

The amount of insurance you buy should be based on the cost of rebuilding, and not on the price of your home. The cost of rebuilding your house may be higher (or lower) than the price you paid for it or the price you could sell it for today.

Do You Have a Replacement Cost Policy?

Most policies cover replacement cost for structural damage but check with your insurance agent to make sure your policy does this. A replacement cost policy will pay for the repair or replacement of damaged property with materials of similar kind and quality. The insurance company won't deduct for depreciation (the decrease in value due to age, wear and tear, and other factors).

Find Out About Flood Insurance

If your home is in an area prone to flooding, contact your insurance agent or the Federal Insurance Administration at (800) 638-6620 and ask about the National Flood Insurance Program.

How much homeowner's insurance should I buy?

Check Your Policy and Keep Your Agent Informed

Make sure your agent knows about any improvements or additions to your house that have been made since you last discussed your insurance policy.

Look at your policy to see what the maximum amount is that your insurance company would pay if your house was damaged and had to be rebuilt. The limits of the policy usually appear on the Declarations Page under Section 1, Coverage, Dwelling. Your insurance company will pay up to this amount to rebuild your home.

Contents Insurance: Make a List of All Your Personal Possessions

This includes everything you and your household own in your home and in other buildings on the property, except your car and certain boats, which must be insured separately. Among the things you should include are indoor and outdoor furniture; appliances, stereos, computers and other electronic equipment; hobby materials and recreational equipment; china, linens, silverware, and kitchen equipment; and jewelry, clothing and other personal belongings.

Check Your Policy for Special Limits

Check the limits on certain kinds of personal possessions, such as jewelry, artwork, silverware, and furs.

This information is in Section 1, Personal Property, Special Limits of Liability. Some insurance companies also place a limit on what they'll pay for computers and other home office equipment.

If the limits are too low, consider buying a special personal property "endorsement" or "floater."

How Should I shop for a Home Insurer?

First, do some preliminary research. Start by making a list of insurers to call. Ask your friends about their insurers, search online, check the Yellow Pages, or call your state insurance department. Also, check consumer guides. You can also check with an independent agent.

When talking to insurers, ask them what they could do to lower your costs. Once you've narrowed your search to three companies, get price quotes.

Tip: Don't consider price alone. The insurer you select should offer both a fair price and excellent service. Quality service may cost a bit more, but it provides added conveniences. Talking to insurers will give you a feel for the type of service they offer.

How much of a homeowner's deductible should I have?

Deductibles on homeowners' policies typically start at $250. Increasing your deductible saves you money.

Should I buy home and auto policies from the same company?

Some companies that sell homeowner's, auto, and liability coverage will take 5 to 15 percent off your premium if you buy two or more policies from them.

Should insurance costs be a factor in the home purchase decision?

A new home's electrical system and plumbing, as well as its structure, are usually in better shape than those of an older house, so insurers may offer you a discount of 8 to 15 percent for a new home. Check the home's construction. Brick houses may result in less costly premiums in the East; frame houses are less costly in the West. Choosing wisely could cut your premium by 5 to 15 percent. Avoiding areas that are prone to floods can save you money as well.

Does your town have full-time or volunteer fire service? Is the home close to a hydrant or fire station? The closer it is to either of these, the lower your premium will be.

Should I insure the entire home cost including land?

Insuring the value of the land under your house is not necessary because land isn't at risk from theft, windstorm, fire or other disasters.

Does home security reduce insurance cost?

You can usually get discounts of at least 5 percent for a smoke detector, burglar alarm, or dead-bolt locks. Some companies offer to cut your premium by as much as 15 or 20 percent if you install a sophisticated sprinkler system and a fire and burglar alarm that rings at the police station or another monitoring facility. These systems are not inexpensive, and you should also be aware that not every system qualifies for the discount.

> **Tip:** Before you buy an alarm system, find out what kind your insurer recommends and how much you'd save on premiums.

Do home insurers offer discounts for non-smokers?

Some insurers offer to reduce premiums if all the residents in a house don't smoke. Ask your insurer if this discount is available.

How often should I review my homeowner's policy?

Compare the limits in your policy with the value of your possessions at least once a year, to make sure your policy covers major purchases or additions to your home.

Tip: On the other hand, you don't want to spend money for coverage you don't need. If your five-year-old fur coat is no longer worth the $20,000 you paid for it, reduce your floater and pocket the difference

Should I buy private or governmental sponsored storm insurance?

If you live in a high-risk area, one vulnerable to coastal storms, fires, or crime, for instance, and have been buying your homeowner's insurance through a government plan, you may find that there are steps you can take to allow you to buy insurance at a lower price in the private market. Check with your insurance agent.

Life Insurance: Frequently Asked Questions

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How do insurance companies classify individuals for rate purposes?

Premiums vary among insurance companies so it's a good idea to comparison shop in order to get the best premium. It's also helpful to understand how premiums are calculated by insurers. Here's a quick look at how this works.

Insurance companies place individuals into four risk groups: preferred, standard, substandard, or uninsurable. A terminal illness at the time you apply for insurance will render you uninsurable. Having some type of chronic illness will place you in the substandard category. People with conditions such as diabetes or heart disease can be insured, but will pay higher premiums.

If you have a high-risk job or hobby, you will be considered substandard, a high risk.

The premiums charged will be commensurate with the category you are placed in. Thus, a standard risk will pay an average premium for similarly situated insurers.

> One company's category for you may not be the same as another company's category, so it still pays to shop for insurance with other companies even though one may have labeled you "substandard."
>
> Once an insurance company approves you for coverage, you cannot be dropped unless you stop paying your premium.

What questions should I ask my life insurance agent?

Here are some questions to ask about policies:

- How do cash values accumulate? An early, rapid build-up is generally preferable.
- How has the policy's cash value performed in the past? You can get this information from a publication called Best's Review, Life-Health Insurance Edition. Determine

how the policy performed in comparison with the company's projection and with other insurers.

- Are any special features merely bells and whistles, or do they add value for you?
- What is the company's rating with A.M. Best, Standard & Poor's, and Moody's? You can find these publications in public libraries or online. The rankings should be in the top three to ensure that a company has financial stability.

What should I watch out for when buying life insurance?

Policy provisions that are hard to understand and compare. Many insurance company products contain investment features as well as insurance elements. Because these insurance products are very complex and have many variations, most clients cannot understand them. As a result, rates cannot easily be compared.

Pushing inappropriate policies. Make sure your agent carefully identifies your needs and explains why the policy is suitable for you. You may want to have your accountant or financial planner review any recommended policies before you make any purchases.

High commissions. Make sure you review the costs of any recommended policy carefully. As much as 80 percent of your first-year premium might go into the pocket of the insurance agent.

> Due to administrative costs and commissions paid to agents the expected rate of return on insurance policies is generally low. If you want both insurance and investment returns, unbundle your needs. Get your life insurance from the insurance company (at the lower premium for pure, term insurance) and put the premium savings (the investment element) into a more profitable investment vehicle, where your return at age 65 will be substantially higher than through the insurance company's annuity.

Safety of investment. Check an insurer's rating before purchasing a policy. Even venerable companies such as Lloyd's of London can be wiped out by unexpectedly high claims and the insured's investment (as well as life insurance proceeds) can be lost.

How do I compare the cost of several insurance policies?

In most states, there are rules, set by a group of state insurance regulators, requiring the agent to calculate two types of cost indexes that can help you to shop for a policy. You can use these indexes to compare policy costs.

One type of index, the **net payment index**, gauges the cost of carrying your policy for the next ten or twenty years. The lower the number is, the less expensive the policy will be. This index is useful if you are most interested in the death benefit aspect of a policy, as opposed to the investment aspect.

The other type of index, **surrender cost index**, is useful to those who have a high level of concern about the cash value. This index may be a negative number. The lower the number is the less expensive the policy will be.

These two indexes apply to term and whole life policies; however, with universal life policies, you'll need to focus on the cash value growth and the cash surrender value to make comparisons. "Cash surrender value" is the amount you receive if you cancel the policy. It is not the same as "cash accumulation value."

If you are shown two universal life policies, and they have the same premium, death benefit, and interest rate, then in most cases, the one with the higher cash surrender value is generally the better policy.

Do I really need life insurance?

The purpose of life insurance is to provide a source of income for your children, dependents, or whoever you choose as a beneficiary, in case, of your death. Life insurance can also serve other estate planning purposes, such as giving money to charity on your death, paying for estate taxes, or providing for a buy-out of a business interest.

Whether you need to buy life insurance depends on whether anyone is depending on your income. If you have a spouse, child, parent, or some other individual who depends on your income, then you probably need life insurance. Here are some typical families and a summary of their need for life insurance:

Families or single parents with young children or other dependents. The younger your children, the more insurance you need. If both spouses earn income, then both spouses should be insured, with insurance amounts proportionate to salary amounts.

Adults with no children or other dependents. If your spouse could live comfortably without your income, then you will need less insurance than the people in Situation (1). However, you will still need some life insurance. At a minimum, you will want to provide for burial expenses, for paying off whatever debts you have incurred, and for providing an orderly transition for the surviving spouse.

Single adults with no dependents. You will need only enough insurance to cover burial expenses and debts unless you want to use insurance for estate planning purposes.

Children. Children generally need only enough life insurance to pay burial expenses and medical debts. Many advisors recommend self-insuring for children rather than buying an insurance policy.

Retirees. There is less of a need for life insurance after retirement unless it is to be used for estate planning purposes. You may need to provide an income for the second spouse to die if your retirement assets are not large enough. Further, you will need some insurance to pay burial expenses, final medical costs, and debts.

How much life insurance should I buy?

Determining how much insurance to buy requires you to calculate your current annual household expenses, followed by your assets, debts, and other sources of income. Your financial advisor can assist you in this computation.

The ideal amount of coverage is the amount that would allow your dependents to invest it after your death and maintain their desired standard of living without touching the principal. Although the old rule of thumb to buy five, six or seven times your annual salary may serve as a starting point, it is no substitute for making the calculations to find out how much you really need.

It's important to be as accurate as possible in estimating your family's needs since an underestimation could lead to your being underinsured, and an overestimation will lead to money wasted on unnecessary coverage.

> To accurately estimate your family's annual income needs, it's helpful to have the following documents with you: Online bank statements or checkbook register for one year, a year's worth of credit card statements, and last year's tax return.

What type of life insurance should I buy?

Once you have an idea of how much coverage you need, you can decide which type of insurance product would be best to fill those needs. Although the array of insurance products may seem confusing, there are really just two types of insurance: term and cash value, which is more commonly referred to as whole life, universal life, or permanent life insurance.

With term insurance, you pay for coverage for a specified amount of time, and if you die during that time the insurer pays your survivors the death benefit specified. Cash value on the other hand provides you with some other redeemable value in addition to paying a death benefit. For individuals age 40 or less, a term policy will almost always be less costly than a whole life policy. Although term policies do not build cash values, many are convertible to whole life policies without a physical exam. Thus, a term convertible policy may be a good option for someone who is under 40.

Term Insurance

There are various types of term insurance including:

Renewable. A renewable term policy is the most common type of life insurance where the policy renews automatically on a renewable term, e.g. every year, every 5 years, every 10 years, or every 20 years, which is the most popular renewal term. You do not need to take a physical or verify the fact that you are employed. The premium goes up at the beginning of each new term to reflect the fact that you are older. Most renewable term policies can be renewable until you reach age 70 or so.

Re-entry. With this type of policy, you must undergo a physical exam after a certain period, or pay an extra premium.

Level. With level term policies, the premium is guaranteed to stay the same over a certain period. This period may be shorter than the term of the policy. Nearly all life insurance bought today is level term insurance.

Decreasing. With a decreasing term policy, a good option for insuring mortgage payments the face amount of the policy decreases over time while the premium payments remain the same.

Return of Premium. Some insurers offer term life with "return of premium." Typically, premiums are significantly higher and they require keeping the policy in force to its term.

Cash Value Life Insurance

There are four types of cash value life insurance: (1) whole life, (2) universal life, (3) variable universal life and (4) variable whole life. The first two types are the most common and have a guaranteed cash surrender value; in the last two types, the cash surrender value is not guaranteed.

Whole Life. This is the traditional life insurance policy. It provides a death benefit, has a cash value build-up, and sometimes pays dividends. You do not need to renew a whole life policy. As long as you pay your premiums, you will have coverage, usually until your death. The premium for a whole life policy remains the same for the amount of time you own the policy; the premium is "level" in insurance parlance. Thus, when you are younger, the premium you pay for whole life will be greater than what you would pay for term insurance but when you are older, the premium will be much less than a term premium. Part of each premium goes into the cash value of your policy. Your cash value, which is actually an investment, is guaranteed to grow at a fixed rate. You do not have to pay current income taxes on the growth in the cash value-it is tax-deferred.

You can borrow against your cash value at a rate that is usually better than the prevailing consumer lending rates. If you die with an outstanding loan amount, the loan amount, plus interest, will be subtracted from your death benefit.

Dividend-paying whole life policies-termed "participating" policies are usually offered by mutual life insurance companies. Mutual life insurance companies are generally owned by policyholders while other insurance companies are owned by shareholders. The dividends are refunds of insurance premiums that exceed a certain level. They are paid when the insurance company does well

during a quarter or a year. Of course, premiums for participating policies are usually higher than those paid for non-participating policies.
Term policies can also be participating, but the dividends paid are usually minimal.

Universal Life. Universal life, also known as "flexible premium adjustable life," is similar to whole life, but offers more flexibility in terms of payment of premiums and cash value growth. With a universal life policy, your monthly premium amount is first credited to your cash value. The company then deducts the cost of your death benefit and the expenses of the policy. These costs are about equal to what it would cost to buy term coverage. As with whole life, your cash value grows at a fixed minimum rate of interest. The growth of the cash value is tax-deferred, and you can borrow against it or make partial withdrawals.

A special feature of universal life is that you can vary the premium paid from month to month. You can pay more or less-within certain limits-without jeopardizing your coverage. You can even let the cash value absorb the premium. However, the danger here is that if the premium payments fall too low, your policy may lapse. While some states require the insurer to tell you when your cash value is at a dangerously low point, you will, if you live in another state, have to maintain a careful watch on the amount of cash value if premiums are skipped.

Variable Universal Life. Variable universal life allows you to choose the investment for your cash value. You have a potentially greater cash value growth, but you also have added risk, depending on the type of investment you choose.

Variable Whole Life. With variable whole life, the death benefit and cash value will depend on the performance of an investment fund that you choose. Again, you have potentially greater reward, with its accompanying risks.

Should children have life insurance?

Since the purpose of life insurance is to provide for dependent survivors, children generally need only enough life insurance to pay burial expenses and medical debts. Yet, 25 percent of cash-value life insurance policies sold covers the life of a child under 18. Cash value life insurance; either whole life or universal life combines a death benefit with a savings or investment element.

Alternatives to covering the costs of a child's death include (1) using funds already set aside for college and (2) taking out a rider on a parent's policy (if available).

How do I balance life insurance with my other investments?

Get term life insurance if you haven't bought a policy yet. Then invest as much as you can in tax-deferred IRAs and 401(k) plans. If your money is in stock funds, you are more likely to experience bigger gains than you are with a cash-value policy.

If you already have a cash-value policy, don't sell it. Just realize that it is a conservative, long-term investment. The cash value eventually may be substantial because it is a tax-deferred investment. It may take 15 years or more, however, to produce a respectable return, similar to high-quality corporate bonds or long-term CDs. Balance your policy with investments such as stock funds, with a higher, long-term return.

Long-Term Care Insurance: Frequently Asked Questions

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Should I buy long-term care insurance?

Long term care insurance (LTCI) is both complex and controversial. It covers certain nursing home costs and sometimes home health care. Here is a summary of some of the main points for and against purchasing such coverage.

Reasons Against:

- Inability to afford the premiums, or not having enough assets to protect. In such a case, the individual will quickly qualify for Medicaid.
- Some LTCI policies lack sufficient home care coverage to keep an individual out of a nursing home unless family members or informal caregivers are available to help in providing care. Thus, if your goal is to avoid nursing homes at all costs, LTCI may not be the best way to go.
- LTCI policies return from 60 percent to 65 percent of total premiums paid in benefits. This is much less than returns from other types of health insurance.
- The fact that LTCI policies are improving: In a few years, you may be able to get a better deal.

Reasons For:

- LTCI, although expensive, may provide protection against costly care. While the premiums may be wasted if you never need long-term care if you do need the care the insurance can effectively pay back your premiums many times over.
- If you have family caregivers, the extra home care coverage in LTCI might make it possible to remain at home longer.
- LTCI premium costs increase with age. Once you develop a serious medical condition, you probably won't qualify for coverage. Thus, it is better to buy LTCI early in the game if at all.

Some Guidelines

Do not buy long-term care insurance unless all of the following apply to you:

- Each person in the household has more than $75,000 in assets (not counting the value of the primary residence)
- Your annual retirement income per person in the household is over $30,000
- You can pay premiums without having to "go without"
- You could continue to afford the premiums, even if they increased by 20 percent or 30 percent in the future

What are the alternatives to long-term care insurance?

Here are some options for paying for long-term care, along with their advantages and drawbacks:

Applying For Medicaid

Eligibility rules vary from state to state, but beneficiaries are generally required to "spend down" their income and assets to qualify. New laws in many states make it possible for the spouses of Medicaid nursing home residents to keep more income and assets than previously allowed.

Reverse Mortgage, Equity Conversion

Reverse mortgages and other forms of home equity conversion are often viable alternatives for those who wish to remain at home. Seniors borrow money against the equity in their homes and defer repayment until they die or sell their house. However, for these options to make sense, a home must have a high monetary value and be fully or mostly paid for, and the individual must intend to stay in the home for the long term.

Self Insurance

Self-insurance - paying for costs if they arise - is a gamble but is the current strategy of choice for the majority. Self-insurance makes the most sense for people with major assets; for those who can afford a long nursing home stay and; for people of modest means, who would quickly qualify for Medicaid anyway.

How much does long-term care insurance cost?

Premiums for LTCI vary greatly, depending on your age at the time of purchase, the comprehensiveness of the coverage, and the company selling the plan.

According to the 2022 Long-Term Care Insurance Price Index published by the American Association for Long-Term Care Insurance (AALTCI), a traditional policy valued at $165,000 in benefits can cost $950 annually for a 55-year-old male. The equivalent coverage for a

55-year-old woman is $1,500. a couple both age 65 could expect to pay $3,750 combined. The two policies could provide each with $165,000 of future benefits. Adding an option that increased future benefits by three percent annually would cost the couple almost twice as much ($7,150 combined). Costs vary significantly from insurer to insurer even for identical policies so it's always a good idea to shop around.

But, no matter how good a policy sounds, it's worth little if the company won't be there when it comes time to pay, so you should always buy from a company with strong financial reserves. Unfortunately, there is no foolproof method for determining which companies are financially strong. However, it pays to look up a company's rating by M. Best or Standard and Poor's, both of which evaluate the financial health of insurance companies.

> Purchase long-term care insurance from a company that has an A+ or A++ rating from Best or an A, AA, or AAA rating from Standard and Poor's. Most public libraries have these references.

What should I look for in a long-term care insurance policy?

When you compare long-term care insurance policies, consider the following:

Flexibility. A policy that covers nursing homes should also cover assisted living, a better alternative for many people who can no longer live on their own. If you want a policy with home care, look for one that offers a full range of community-based services, including adult daycare, or that pays you a monthly cash allowance to spend as you please for care.

Eligibility. Look for a policy that bases eligibility on the need for help with activities of daily living. Policies that only pay for "medically necessary" care are not usually a good buy. To be sure you are covered for Alzheimer's disease, choose a policy that covers cognitive as well as physical disability and pays benefits if you meet either criterion.

Inflation. If you purchase a policy before the age of 75, inflation protection is essential to ensure adequate coverage when you need long-term care at some point in the future. Buy a policy that has an additional cost but automatically increases benefits at the rate of 5 percent annually.

Duration. Keep in mind that the chances of needing long-term care for five years or longer are relatively small. For most people, a policy covering two or three years will be more cost-effective.

Do I need long-term care insurance?

A study by the U.S. Department of Health and Human Services says that people who reach age 65 will likely have a 40 percent chance of entering a nursing home; however, the risk of needing nursing home care before age 75 is relatively low. Also, most people will not need nursing home care for longer than a year.

Your chances of needing long-term care vary with your age, health, family history and longevity, exercise habits, diet, smoking, and gender. Women are at higher risk because they live longer.

How does long-term care insurance work?

Long-term care insurance policies pay a set dollar amount per day for covered care during the benefit period stated in the policy.

> **Example:** You choose a policy that pays $160 per day for five years. The maximum that policy will pay is $292,000 ($160 per day, times 365 days, times 5 years).

The older the covered individual, the higher the premium. For instance, premiums for a set amount of coverage for a 70-year-old individual are about three times those that would apply to a 50-year-old.

Most long-term care policies are indemnity-type policies, meaning they will pay (up to the policy's limits) for actual charges by the care provider. Some long-term care policies, instead of being based on indemnity, pay daily benefit amounts to the insured rather than paying for actual charges. The latter type of policy offers insureds greater flexibility, allowing them to pay for home care for example, and less paperwork.

In a long-term care policy, what is the elimination period?

This period constitutes the number of days the insured must wait after becoming eligible for benefits before coverage actually begins. The elimination period can range from zero to 90 days, or up to one year. The longer the elimination period, the lower the premium is.

How should I select a long-term care insurance provider?

If you decide that long-term care insurance (LTCI) is your best option, it is important to shop around for the right company. Some states have enacted important consumer protections in the LTCI area, while others have not. Do not assume the company is a safe bet just because it is licensed by the state insurance department to sell LTCI.

No matter how good a policy sounds, it is worth little if the company won't be there when it comes time to pay. Buy from a company with strong financial reserves. Unfortunately, there is no foolproof method for determining which companies are financially strong. However, it pays to look up a company's rating by A.M. Best or Standard and Poor's, both of which evaluate the financial health of insurance companies.

Purchase long-term care insurance from a company that has an A+ or A++ rating from Best or an A, AA, or AAA rating from Standard and Poor's. Most public libraries have these references.

Should I comparison shop for long-term care insurance coverage?

Seek independent advice before buying. You might find such guidance from a financial advisor; an elder-law attorney; government-funded counseling and information services; or consumer organizations.

Use a local independent agent or broker who has been recommended by someone reliable. Don't buy from an agent who sells door-to-door.

Read the policy from cover to cover; don't rely on marketing literature.

Don't be pressured to buy the first policy you see. Compare it with at least two others.

Don't pay more than one month's premium when you apply for coverage. In most states, after you buy a policy, you have thirty days to change your mind and get a refund.

Is it worthwhile buying special types of health insurance?

You may receive solicitations in the mail for the following types of health insurance, or you may run across ads for them. They are to be avoided at all costs.

We realize that there are worthwhile policies out there that fall into the categories we talk about. But we bring your attention to these categories so that you will be wary of them, and will not buy without careful research.

- **Dread-Disease Insurance.** This limited coverage insures against only one specific disease. Further, if you already have this disease (i.e., have been diagnosed) at the time you buy the policy, you're not covered.
- **Hospital Indemnity Insurance.** "Indemnity" insurance means that the policy will pay (up to the policy's limits) for actual charges by the care provider, as opposed to paying daily benefit amounts to the insured regardless of actual charges. The typical "hospital indemnity" policy will provide a very small amount of coverage per day, and is not worth it.
- **Medical-Surgical Insurance.** This type of coverage also provides limited payments, and only for specified procedures.
- **Insurance Sold Through the Mail and On Television.** Many policies sold through television advertisements and mail solicitations have the following negative attributes: They tend to cover accidents but not illness; they start out with low premiums that later rise unreasonably; they deny claims more than other types of insurance; and they tend to exclude pre-existing conditions.

Do I need disability insurance? How can I ensure I have adequate coverage?

If you have dependents, you've probably made sure that you have adequate life insurance coverage. But what about disability coverage? Although the incidence of permanent or temporary disability during the average individual's prime earning years is fairly high, many people neglect to adequately insure against this risk.

Disability insurance generally provides you with an income stream in case you are unable to earn income due to illness or accident. Here are some questions that will get you started in making sure you have adequate coverage.

- What does your employer provide? Find out what types (if any) of disability coverage are provided. If no coverage is provided, you may be able to purchase coverage through your employer.
- Is the employer or state-provided coverage adequate? Find out how much you will receive under any existing coverage you have. If the amount you will receive is not enough to support your family during an illness or other disability, you may wish to supplement it.

If employer and government coverage is insufficient you should purchase a private disability policy.

Before you buy a disability policy, check out the following factors:

1. Make sure the policy can be renewed every year.
2. Make sure that if you are able to work part-time when disabled, you will still receive benefits.
3. Choose as policy with a three to six-month waiting period, since it will be less costly, and set aside an emergency fund to cover the waiting period.
4. Be sure the policy covers you until you reach age 65, at which time you can obtain full Social Security benefits.
5. Be sure the policy pays when you can't perform work in your own field.