

Insurance

Thinking About Risk

	Low Frequency	High Frequency
Minor Consequences	Do nothing	Do nothing or Avoid/reduce
Major Consequences	<i>Get insurance</i>	Avoid/reduce

The most common mistake that people make is to over-insure against small risks and under-insure against big risks.

Car Insurance

The Basics

- In most states, it's against the law to drive a car without car insurance.
- It's also a bad idea.
- Car insurance policies are divided into several different types of coverage.
 - Liability (when you're at fault)
 - Collision (when you're at fault)
 - Comprehensive (when there's no one to blame)
 - Uninsured motorist, medical, rental car . . .

Liability

- Provides you with insurance against law suits any time you're either at fault or someone is trying to argue you're at fault.
- Protects
 - You when you drive your car.
 - Others if you let them drive your car.
 - You if you drive someone else's car.
- You should have enough coverage to cover your assets
 - Preferably double your assets.
 - Remember future wages can be garnished.

Liability

- Two categories of liability insurance
 - Bodily injury: pays for harm to others
 - Personal property: pays for property damage
- Typical breakdown
 - \$100,000 bodily injury per person
 - \$300,000 bodily injury per accident
 - \$100,000 personal property
 - Expressed as 100/300/100.
- Legal expenses your insurance company incurs to defend you do not count towards these limits

Collision

- Pays for damage to **your** car from collisions with other vehicles or objects
- Protects you when 1) you're at fault or 2) the other driver has no liability insurance.
- It's optional BUT there is no other way to recover the cost of you car if you're at fault or if the other driver has no liability insurance
- People who drive cars that aren't worth much sometimes do not get collision insurance.

Comprehensive

- Pays for noncollision expenses including theft, vandalism, falling objects, earthquake, etc.
- Will often pay for the entire cost of minor windshield repairs regardless of your deductible.
- Sometimes will pay for part of the cost of rental car if your car is stolen.
- Like collision, comprehensive is optional

Coverage to Contemplate

- Medical: pays for medical costs from an accident.
 - Both you and your family if you're in your car or you're driving someone else's car.
 - The guests in your car.
 - If you have good health insurance, you probably do not need this!!!
- Uninsured Motorist: pays your medical bills, lost wages & pain and suffering if the driver who caused the accident is underinsured.
 - If you have good health and disability insurance, this kind of insurance may be largely redundant.

Coverage You Can Skip

- The following sorts of riders appear to be inexpensive but given the hassle of filing a claim and the small amount they are likely to pay, you should avoid them
 - Roadside Assistance
 - Towing
 - Rental car reimbursement (covers the cost of a rental car when you're in an accident)
- Remember: you want to insure yourself against the big losses, not the small ones.

Scenario 1

- Suppose you get into an accident which is your fault.
 - If another driver is seriously injured, what part of your policy covers the other driver's medical bills?
 - If your car is totaled, what part of your policy covers the loss of your car?
 - If you have serious medical expenses, what part of your policy covers your medical expenses?

Scenario 2

- Suppose your roommate borrows your car and gets into an accident which is his or her fault.
 - If another driver is seriously injured, what part of your policy covers you and your roommate for the other driver's medical bills?
 - If your car is totaled, what part of your policy covers the damage to your car?

Scenario 3

- Suppose you get into an accident that's not your fault.
 - If you or your car is damaged & the other driver has insurance, what part of your policy covers the damage to your car?
 - If you are injured and the other driver is uninsured, what part of your policy covers your medical bills?
 - If your car is totaled and the other driver is uninsured, what part of your policy covers your car?

Scenario 4

- If your car is stolen while you're at the grocery store, what part of your policy protects you?
- If your car is stolen while you're in TJ for a night out, what part of your policy protects you?

Where to get car insurance

- JD Power has a list of ratings for various car insurance companies on their web page (jdpower.com)
 - At the top: Amica, Eerie, State Farm
 - At the bottom: Progressive, Mercury, Farmers
- It's extremely easy to change your policy—a simple phone call to your insurance company is all it takes.

What determines your rates?

- Age, sex, marital status, accidents & traffic violations, expected mileage, whether your teenage child is driving your car, where you live, etc.
- Discounts to ask for
 - Multicar and multipolicy
 - Antitheft devices
 - Safety features (antilock brakes)
 - Carpooling
 - Good driver discounts
 - Non-smoker
 - Good student discounts (maybe tell your parents)

California Law

- The minimum liability insurance required is \$35,000
 - \$15,000 for injury or death of one person
 - \$30,000 for injury or death per accident
 - \$5,000 for damage to property
 - Expressed as "15/30/5"
- This is the the minimum you can have and still drive your car.
- Most people buy more coverage. It's not uncommon for an insurer to recommend coverage in the range of 100/300/50.

Some tips

- Shop around for the best rates & ask your friends and family about their experience with various insurance companies
- Consider raising your deductibles.
- Be biased towards high liability coverage.
- Stick with one insurance company.
- Consider dropping comprehensive and collision on older cars.

Health Insurance

The Basics

- At a minimum, you should **ALWAYS** have catastrophic health insurance.
- Health insurance is very complicated--look into your options carefully.
- Three major types of insurance
 - Fee-for-service
 - Preferred provider organizations (PPOs)
 - Health management organizations (HMOs)

Fee-for-Service

- You choose the doctor or hospital or clinic you want, and the insurance company pays for part or all of the cost.
- There are usually:
 - Deductibles: the minimum amount you have to pay each year before the insurance kicks in.
 - Copayments: the percentage of bills you have to cover. For example, a company might pay 80% of the first 5,000 in bills and 100% of the bill above \$5,000.

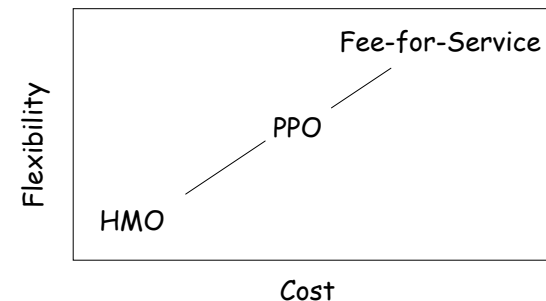
PPOs

- PPOs steer employees to cooperating doctors and hospitals that have agreed to a predetermined plan for keeping costs down.
- There are often fines for going out of network, but it's often easier to go out of network with a PPO than with an HMO.
- If you stay within the list of preferred providers, PPOs can usually save you money compared to fee-for-service insurance.

HMOs

- You pay in advance for your care—the amount you pay does not depend upon the services you use.
- The HMO handles all of your healthcare needs but without the paperwork and with hardly any deductibles or copayments.
- Try to make preventative care easily accessible to cut down on future expenses.
- All HMOs organized differently, but often your care is managed through a "primary care physician".

Cost vs. Flexibility



Where to get health insurance?

- Through your employer.
- Through your membership in a professional association, alumni association, fraternal society or other organization.
- Look for interim insurance plans
 - Assurant Health: www.assuranthealth.com
 - Golden Rule: www.goldenrule.com
- If you're leaving a job where you had insurance, you're eligible for COBRA coverage for 18 months.

Renter's Insurance

The Basics

- You should have renter's insurance
- Coverage for items such as your stereo, TV, personal computer, jewelry, bike and clothes if they are stolen or damaged by fire, smoke, a plumbing problem, lightning, wind, etc.
- Also provides you with liability insurance if someone is hurt in your home and chooses to sue you.
- Look for policies that give you replacement-cost coverage not cash-value coverage.

Insurance you're likely to want later on . . .

- Homeowner's insurance
- Disability Insurance:
 - Important if something happens to you that prevents you from being able to work.
 - Often offered through your employer.
- Life Insurance
 - Important if people count on you for financial support.