

Insurance Matters

A Component of BestPrep's Financial Matters Program

Presenter Info: Name and Company



What is Insurance?

Insurance is a means of protection against financial loss

- You insure your property so it can be replaced if damaged or stolen
- If you cause an accident, liability insurance will pay for the financial loss of the injured party
- The less assets you own, the less you have to protect, so the less insurance you need
- Insurance spreads the risk across a pool of similar risks (ex. All male drivers between the ages of 18-24)



Insurance Companies

Insurance companies try to estimate the amount of loss that might occur to determine the premium (price) you would pay and still allow them to make a profit.

For example, auto insurers may sell 1000 policies, but only 100 policyholders may have a loss and only 2 may have a serious loss. Thus, they spread the cost of the losses across the 1000 policies, so it is affordable to everyone.

Types of Personal Insurance

- Health and Dental
- Automobile
- Homeowners/Renters/Umbrella
- Short-term or Long-term disability
- Long-term care
- Life
- Valuable property (jewelry, artwork, musical instruments)



Can you think of others?

How to Get Insurance

Insurance can be purchased in a variety of ways.

- Your employer may offer health, dental, short and long-term disability, and life insurance as an employee benefit. They generally will pay a portion of the premium.
- You can get other types of insurance such as auto or homeowners through an agent or on-line.
- Not all insurance offers the same protection, so it is important to understand what you are buying.

Insurance is a complex product and so it is best to get advice from an agent or from someone you trust (like a parent or family friend)



Know Your Limits: Examples of Declaration Pages

SECTION I - COVERAGES AND AMOUNTS OF INSURANCE	
COVERAGE A - DWELLING PROTECTION	\$532,000
COVERAGE B - OTHER STRUCTURES PROTECTION	\$53,200
COVERAGE C - PERSONAL PROPERTY PROTECTION	\$266,000
COVERAGE D - LOSS OF USE PROTECTION (UP TO 12 MONTHS)	UNLIMITED
SECTION II - COVERAGES AND LIMITS OF LIABILITY	
Personal Liability - Each Occurrence	\$300,000
Medical Payments to Others	\$5,000
DEDUCTIBLES (Applies to SECTION I Coverages ONLY)	
We cover only that part of the loss over the deductible stated.	
WIND AND HAIL	\$2,000
ALL OTHER PERILS	\$2,000

Know what is covered, the limits of the coverage and if any exclusions apply!

COVERAGES	LIMITS OF LIABILITY	V
("ACV" MEANS ACTUAL CASH VALUE)		1
PART A - LIABILITY		
BODILY INJURY	EA PER \$ 300,000	
	EA ACC \$ 500,000	
PROPERTY DAMAGE	EA ACC \$ 100,000	
PART B-1 PERSONAL INJURY PROTECTION		
PIP WITHOUT STACKING		
PART C - UNINSURED MOTORISTS		
BODILY INJURY	EA PER \$ 300,000	
	EA ACC \$ 500,000	
PART C - UNDERINSURED MOTORISTS		
BODILY INJURY	EA PER \$ 300,000	
	EA ACC \$ 500,000	
PART D - PHYSICAL DAMAGE COVERAGE		
COMPREHENSIVE LOSS	ACV LESS	
COLLISION LOSS	ACV LESS	
FULL SAFETY GLASS COV		

Auto Insurance



Vehicle Crashes: Dangerous and Expensive

An average day in Minnesota...

- 196 crashes
- 1 death and 65 injuries

Average Daily Cost:

\$6,005

Average Economic Loss:

\$6,464,831

More than 200,000 teens are injured in car crashes across the nation each year.

Why Do You Need Car Insurance?

- Protection against theft, injury and crashes
- Protection against uninsured/under-insured motorists
- It's the law!



Types of Coverage

- Auto Liability
- Uninsured/Underinsured
- Comprehensive
- Collision
- Medical/Personal Injury Protection (PIP)
- Additional (towing, rental car, etc.)

How is my Premium Determined?

Insurance is a highly regulated industry to ensure that premiums are not discriminatory based on unrelated factors. The factors applied to determine the rate must have a correlation to the risk of loss

Examples of factors that can impact your auto premiums:

- Age and Gender
- Marital status (discount for married)
- Make/model, age and price of car
- Where you live
(urban more expensive than rural)
- Credit record
(those with poor credit may pay more)
- Driving record
(those with DUI or more tickets pay more)
- Claims history
- For students: grades – discount for B+ avg

Monthly Premiums

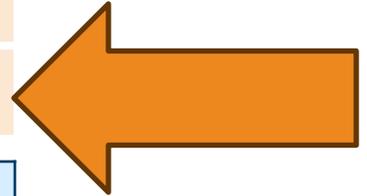
Driving a 2012 Chevy Cruze LS - You have a good credit score - \$500 deductible

	Male	Female
Base Rate (<i>monthly</i>)	\$264	\$187
Good Student Discount	\$204 (\$720 Yearly Savings)	\$162 (\$300 Yearly Savings)
Poor Credit	\$475 (\$2,532 Yearly Cost)	\$339 (\$1,824 Yearly Cost)
With One At-Fault Accident	\$409 (\$1,740 Yearly Cost)	\$287 (\$1,200 Yearly Cost)

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Example #1: You are At-Fault

- **Accident:** We collide, you're at fault and have the MN minimum.
- My Lexus is totaled
- Your Civic is totaled
- We both have some minor traumatic brain injury and a broken leg.

Example: You are At-Fault

- Me:
 - Acura = \$35,000
 - Injuries = \$67,000 (\$17k leg, \$50k TBI)
- You:
 - Civic = \$10,000
 - Injuries = \$47,000 (\$17k leg, \$30k TBI)

Example: You are At-Fault; Insurance

Me: \$35k property, \$67k injury

- My PIP pays me \$67k in injury
- Your Liability pays me \$10k for car
- My *collision coverage* covers \$25k for car

You: \$10k property, \$47k injury

- Your PIP pays you \$20k in injury, \$27k left
Payment plan at hospital
- Probably can't buy another car....

Renter's Insurance



Who thinks they will rent in the future?



What is Renter's Insurance?

- Coverage for your personal belongings
- Includes Personal Property and Liability
- Does not cover the building
- Broad Form:
 - Basic coverage-cheaper, good for most areas
- Comprehensive Form
 - Covers a larger range of events that can trigger a claim
- Actual Cash Value vs. Replacement Cost

Renter's Insurance Cost

Average cost: \$15-30/month

Generally, gives \$30,000 in personal property coverage

\$100,000 in liability coverage

Policy might have \$500 deductible



What Affects the Premium Price?

- Your credit history
- Where you live
- If you have any pets
- The coverage amounts
- The deductible amount

What are the Neighbors Up To?

Are your neighbors currently:

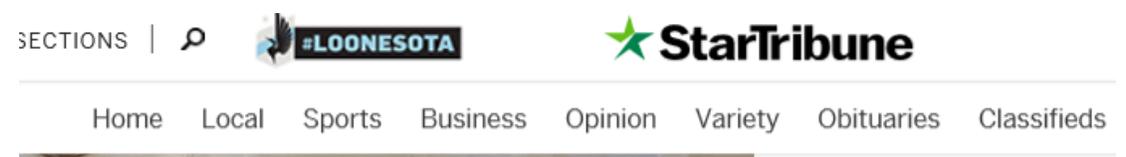
- Starting a grease fire and pouring water on it?
- Falling asleep with candles lit?
- Smoking in bed?
- Letting their toddler splash gallons of water out of the tub?
- Did their cat knock over their 20-gallon aquarium?

Do I Need Renter's Insurance?



- You can't control what the other tenants are doing
- Landlord's policy doesn't cover your possessions or liability
- Covers living expenses if your home is uninhabitable

Drake Hotel Fire



MINNEAPOLIS

Fire that destroyed the Drake Hotel started in one apartment, but cause is unclear

- Former hotel being used as apartment building
- Fire started in one apartment
- Entire building destroyed
- 250 people homeless on Christmas Day

Health Insurance



What is Health Insurance?

Health Insurance provides coverage for medical expenses including:

- Doctor's visits
- Preventative care
- Medical procedures
- Surgery
- Emergency care



Health Insurance Premiums

Premiums are paid monthly either:

- By you if you buy insurance directly, or
- Through paycheck deductions if you get it through your employer.

Does not include care for teeth, or braces (covered by dental insurance).

Does not include insurance to offset your inability to work due to a medical condition (covered by short- and long-term disability insurance).



Do I Need Health Insurance?

As little as	As much as	For
\$100	\$900	X-ray or MRI
\$150	\$3,000	Emergency room visit
\$400	\$1,200	Ambulance ride
\$2,000	\$6,000	Treat diabetes with drugs for one year
\$2,500	\$16,000	Treat a broken arm or leg
\$9,000	\$17,000	Have a baby
\$10,000	\$25,000	Have a C Section
\$10,000	\$200,000	Treat cancer with chemotherapy
\$30,000	\$35,000	Replace a knee
\$30,000	\$45,000	Replace a hip

Health Insurance: How Does it Work?

Key Terms:

Copayment

- A dollar amount you pay to the doctor or provider at the time of service.
- For example, you may pay \$20 for each prescription filled or for each visit to the doctor's office, while the insurance company pays for the rest.

Deductible

- The specific amount of claims you will pay before insurance pays.
- The higher your deductible, the lower your premium can be.



Health Insurance: How Does it Work? Cont'd

Key Terms:

Coinsurance

- The portion of the amount you pay to the doctor or provider.
- Coinsurance are listed as percentages. For example, a 70/30 split means the insurer pays 70% and your shared cost is 30%.

Out of Pocket Maximum

- The largest amount of money you can pay per year, for all your health insurance costs.
- There may also be a lifetime out-of-pocket maximum, typically \$1,000,000.

Example: Traditional Deductible

Julia is covered by her parents' traditional health insurance:

- \$1,000 deductible
- 80/20 coinsurance
- \$2,000 out of pocket maximum

She has a skateboarding accident which costs \$4,000.

How much do her parents pay vs insurance company pay?

- First, the family is responsible for the deductible of \$1,000. This leaves \$3,000.
- The insurance company picks up its coinsurance, which is a percentage of the remaining expense. Her parents pay 20% of \$3,000, or \$600.
- Julia's parents have paid \$1,600 and the insurance company pays the remaining \$2,400.

Example: High-Deductible Plan

Demarion is covered by his parents' high-deductible health plan with:

- 80/20 coinsurance
- \$8,000 out of pocket maximum

He has an accident which costs \$50,000.

How much do Demarion's parents pay vs how much does the insurance company pay?

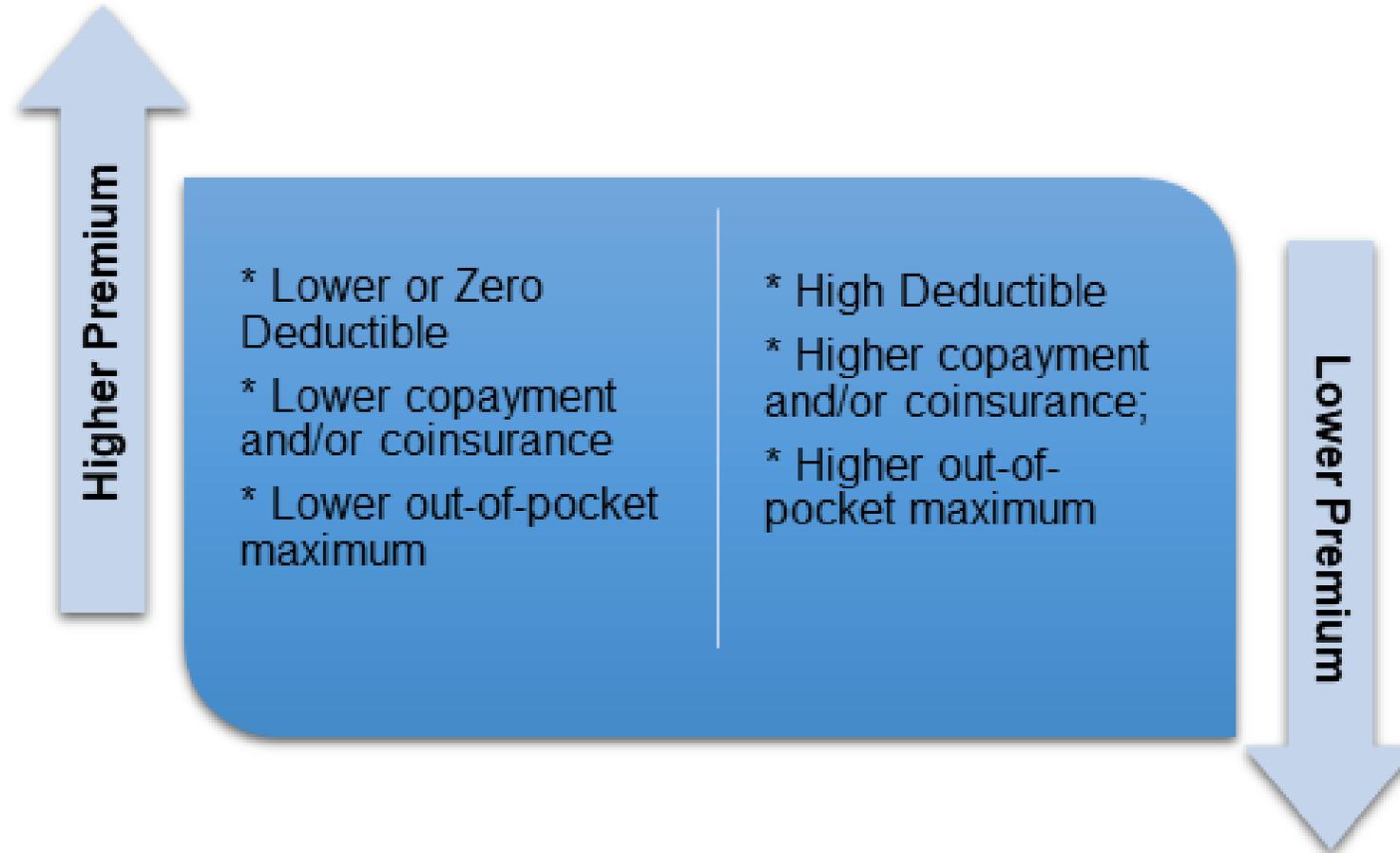
- The parents *would* pay 20%, or \$10,000, but their out of pocket maximum is \$8,000, so they pay \$8,000
- The insurance company pays the remaining \$42,000.



Health Insurance: What Does It Cost?

- Varies greatly depending on where you live, and whether you buy it directly, or get it through your employer.
- In the government insurance marketplace the average monthly cost is \$456 for an individual and \$1,152 for a family.
- If gotten through an employer, the average monthly costs are quite a bit lower: \$101 and \$496. This seems like a lot less, but the employer typically pays for 2/3rds or more of the total premium on your behalf, as part of your benefits package.

Health Insurance: High vs Low Premiums



How Do I Get Health Insurance?

Children get health insurance through their parents.

- Can stay on their parents' plans until age 26.

Many people get health insurance through their employer.

- Good rates are negotiated by the employer with the insurance provider.
- Better rates can be available, simply because you're employed.
 - If you can go to work, you're probably healthy.

Many people get health insurance through a medical insurance marketplace established by the ACA.

- In Minnesota the government insurance market is called MNSure.

What Should I Watch Out For?

A high-deductible plan...

- May be better if you are basically healthy and unlikely to spend a lot of money for health care.
- Less expensive per month.
- Risk: If a big expense comes along, that high deductible you're responsible for, can suddenly be a lot of money to have to pay.

A low-deductible plan...

- May be better if you or a family member needs regular care for a chronic condition,
- Risk: More expensive per month.
- Provides a shield against a large expense.
- You might reach your low annual maximum and then you need only pay the premiums.

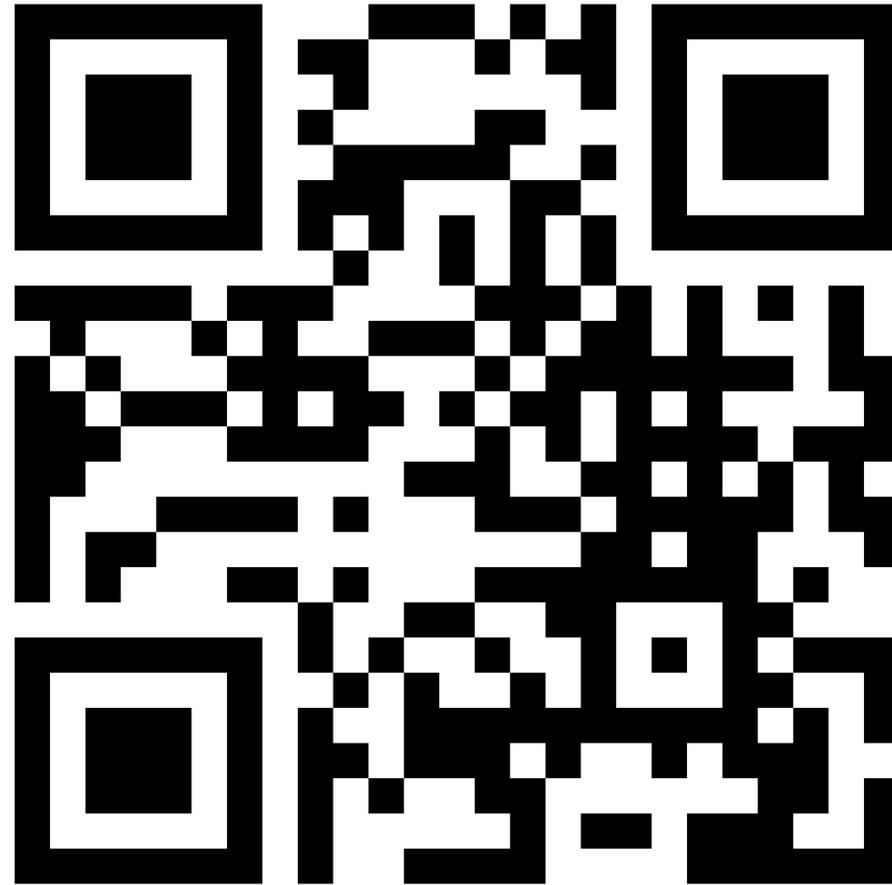
Questions?



Financial Matters

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Student Survey



Thank You!

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