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Topic: Insurance Planning 101

Many of us find ourselves with many insurance options, often at the workplace, but we don't always know what coverage decisions we should make. This guide covers some of the basic things you should be considering when making insurance decisions.

Why buy insurance?

Think of going through life like walking on a high wire. We occasionally take a fall in life. Insurance is like having a net to catch you when those falls happen. We buy insurance to avoid the pain of the fall such as financial loss, bad credit and bankruptcy. Having said that, how do you know what insurance to buy? How do you make sure your net of protection does not have holes? How do you keep your insurance portfolio affordable? Here are three basic concepts to remember:

1. Cover the Basics First

Covering the basics means making sure you have coverage where the financial impact of needing coverage and not having it is most devastating. For example, most of us could not afford the cost of health care without insurance. A simple procedure or surgery could result in thousands of dollars in medical bills. Approximately 95% of Americans are within three paychecks of bankruptcy, so disability insurance is critical for almost everyone. The costs of treating a critical illness such as heart disease or cancer often creates significant financial hardship even for people with major medical coverage. Therefore, health insurance, disability insurance, and critical illness coverage can be important coverage to ensure your safety net doesn't have gaping holes.

2. Fill the Gaps Second

Every health insurance plan has gaps in coverage that can lead to significant out-of-pocket expenses. Purchasing an accident policy may make sense to offset your out-of-pocket costs created by your health insurance deductible. You could also choose to put money in a Health Savings Account or Flexible Spending Account to pay for upcoming or future expenses. You may purchase dental insurance to help cover you family's dental expenses, or vision insurance to cover eyeglasses.

3. Buy Insurance to Protect Against Risk, Not to Pay for Known Expenses

You need insurance when you are on the high wire 100 feet from the floor, not when the high wire is six inches from the floor. When most of us purchase auto insurance, we select a plan with a deductible. We don't expect the policy to pay for routine expenses such as oil changes or new tires. We buy insurance to cover major damage caused by accidents. Coverage is generally affordable because the insurer covers many people though only a few will have an accident claim. Insurance works by spreading risk. Applying that concept when you purchase any insurance will help to keep your costs low. For example, a health plan with no deductible will cost substantially more than a health plan with a \$1,000 deductible. In fact, you will likely spend more than \$1,000 in premium to get the additional \$1,000 of coverage.