Module

Insurance

Insurance is a great way to financially protect yourself from some of life's biggest hardships so that when something bad happens, you don't need to worry about your personal finances.

Be it your health, car, or home, insurance allows you to reduce your risk in life, by ensuring that you have financial security in case anything unexpected happens.

POWERED BY

Rapunzl

Key Takeaways From This Module

Guiding Questions

- What is insurance and what are the different types?
- How does car insurance work?
- How is insurance considered an asset and how can it be used as a means of diversification?
- What is the difference between term life insurance & permanent life insurance?

Enduring Understandings

- Insurance is a contract that provides an individual or entity with financial protection or reimbursement against losses on personal property, assets or themselves.
- There are an array of insurance products available to individuals and entities.
- Term life insurance only lasts for the term of the policy, whereas permanent life insurance accrues value.

Key Terms

Coinsurance Rate: The percentage of the cost which you pay for services covered by your insurance plan.

Copay: This is the fee that you pay at the time of receiving services covered under your insurance plan.

Covered Costs: These are the costs that are determined to be covered by your plan which means that the insurance company is willing to pay for them.

Deductible: This is the amount which you have to pay before the insurance company will start covering the costs associated with your coverage.

Formulary: This is a list of drugs that your plan covers, which vary depending upon the health insurance plan you receive.

Health Savings Account: This is a type of savings account which you can contribute to tax-free and then pay for health care costs.

Network: When an insurance company refers to their network, it includes all of the medical facilities that sign a contract with a health plan and your insurance company. Typically a medical facility must be in your insurance company's network in order for the costs to be covered.

Out-of-pocket Maximum: This is the most you could pay out of pocket in a given year, which is how insurance helps cap your risk.

Premium: This is the amount that you pay monthly to the insurance company for them to provide you coverage.

How Does Insurance Work?

Insurance is a contract that transfers risk of financial loss from the customer to the insurance company. This means that insurance can help you pay for damages done to your property or pay others if you injure someone or damage property. It is also there to provide protection from financial loss when there is sickness or death in a family.

- ***In order for an insurance company to take on some client's risk, the insurance company collects monthly or yearly fees from the clients.***
- This money is then pooled together and then, when something bad happens, the insurance companies uses the pooled capital to pay out settlements.
- There are a lot of different types of insurance, however, they can be placed into to two main categories:
  - **Property and Casualty Insurance**
  - **Life and Health Insurance**
- These cover two very broad groups and there are a lot more specific types of insurance where some are essential, such as home and health insurance, whereas others may only make sense for certain individuals.

At the most basic level, insurance is a way for a policyholder to pay an insurance company to take their financial risk.

The amount & type of risk determine the type of policy & how much it costs.

Different Types of Insurance

Health Insurance

This covers expected and unexpected healthcare expenses, which are costly. Everyone should have some form of this. It is a contract between an insurer and client where the client pays a portion of their medical bills.

Car of Insurance

This covers your car from any damages and any damages you cause to others. It is against the law to drive uninsured.

Life Insurance

Death is expensive; there is the cost of settling an estate to planning a funeral. Life insurance is there to ease the financial burden for those left behind. The money is left to a beneficiary.

Homeowners Insurance

Helps protect against major financial loss if there are major damages to your home. This is essential for any homeowner.

Umbrella Insurance

This insurance is used if you already have an insurance policy but want even more protection. This covers the costs in excess of other insurance companies.

Renters Insurance

This protects the renter of a property from damages they cause and are sometimes required by landlords. This is used to cover personal property and damages the landlord is not liable for.

Disability Insurance

Disability insurance covers if you become too sick or are injured and unable to work for an extended period of time by covering roughly 45-65% of your income

Travel Insurance

Travel insurance is used to cover the cost of the trip if you have a medical emergency or other major incidents that cause a trip to be cut short.

Understanding Car Insurance

Most states mandate that if you are driving that you have car insurance. This is to protect every driver on the road because if you cause an accident, you're in charge of paying all of the expenses. **Since government's cannot predict how large of an accident may happen, drivers must have insurance in case they cannot afford to pay the related expenses.**

- Car insurance is like all other forms of insurance where you pay premiums to protect you against financial loss.
- This insurance typically covers **property**, **liability**, and **medical expenses**.
- This means that it covers damages to your car or others cars or property involved in the accident. It also covers your legal responsibility to pay the healthcare costs for yourself and anyone else you may have injured. The insurance also covers a potential loss of wages, because imagine if you lost your job!
- Typically, car insurance is batched into 6 month or year long agreements and your policy covers you if you are driving your car or someone else's car, if they gave you permission.

The True Cost of Buying a Car

There are many hidden costs to owning a car and ***if you're not careful*** - between the price, financing costs, insurance, taxes & maintenance - a shiny new car can drain your bank account. And if you want to sell the car after buying it? **Prepare to lose money.**

Let's say you drive 40 miles per day, which could involve a 20 mile commute, or maybe a couple big roadtrips. That adds up to 15,000 miles per year! **Let's say you buy a new car for $35,000. If you drive 15,000 miles per year, you'll face:**

- Fuel Costs: $1,681.50 per year.
- Car Insurance: $1,592 per year.
- Maintenance: $913.50.
- Licenses & Taxes: $668 per year.
- Interest If You Take A Loan: $669 per year.

This means that the cost to own a car worth $35,000 in the first year of ownership would be over $5,000!

First year depreciation will be $6,712, which means your $35,000 car will also be worth less than $30,000! That's why there's a saying that you should always buy your first car used, because it loses roughly 15% of its value when the car is driven off the lot.

How Health Insurance Works

Health insurance protects you from the high costs of healthcare, which continue to increase at an alarming rate. Health insurance can help you get the medicine you need, the right doctors and much more; plus, without health insurance, you run the risk of incurring such high medical bills that you'll have to enter bankruptcy! Many people have lost their life savings and retirement because of expensive medical treatment without insurance.

CHECK OUT THIS EXAMPLE:
Imagine that you have $50,000 in medical bills from an accident. You do not have $50,000 in savings, but you do have $10,000. You could pay $40,000 on a credit card, but most credit cards charge over 20% per year, which means you'll be paying $8,000 in interest! Fortunately, you also have health insurance....

While your rate may look confusing at first, each line is crucial to understanding how much you would have to pay at the hospital. Firstly, your deductible of $5,000 means you have to pay the first $5,000 of medical expenses before you can use health insurance.

But, After paying your deductible, you would only pay 20% of your total healthcare costs until you reach your Out-Of-Pocket Maximum of $6,000, including what you already paid for the deductible. This means that the health insurance company would pay the other $44,000 and you'd still have $4,000 in savings after the accident.

YOUR HEALTH INSURANCE PLAN:

Yearly Deductible:	$5,000
Co-Insurance Rate:	20%
Yearly Max Out-Of-Pocket:	$6,000

Different Health Plans Mean Different Doctors

There are many different types of health plans out there to meet a variety of needs for clients who can afford better or worse health insurance coverage. These options vary the types of doctors you can see and sometimes, the types of treatments and medications which are covered by your insurance. Here is a list of the most common plans in the insurance marketplace:

Health Maintenance Organization (HMO)

This is a type of plan that limits care to people who work for or contract with the HMO. It typically will not cover anything out of network other than an emergency. Typically they have a service area.

Exclusive Provider Organization (EPO)

This is a managed care plan where your healthcare expenses are only covered if you rely upon providers included in the plans network.

Preferred Provider Organization (PPO)

This plan you pay less if the provider is in the plan's network. You can use providers outside of the network without a referral for an additional cost.

Point of Service (POS)

This plan encourages you to use their network by making it be cheaper than alternatives. They require referrals from your primary doctor to see a specialist

Introducing Life Insurance

There are **two types of life insurance**, depending upon if you are seeking protection for a specific period of time, or if you're trying to build value in a life insurance policy until your death.

Term Life

This type of policy covers you for a designated term. For example, you may purchase a 10 year or 20 year term life policy. These policies then will last for the designated term as long as premiums are paid. If premiums are paid then the insurance covers you in case of death they will provide your family with the financial amount in the contract.

Permanent Life

This type of policy covers you forever, just so long as you keep paying the premiums. Permanent life insurance also has an investment component that accumulates a cash value for the customer. Financial advisors and insurance agents sometimes refer to these policies as investments because of the policy's cash component and the ability to draw from that or borrow against the policy's payout.

Term life is only about protection. Permanent life insurance allows you to own your policy, which means that you may borrow against that policy in the future and it will not expire unless you stop paying the premiums.

Term Life Insurance

Term life insurance provides financial security to your loved ones upon your passing and helps them pay off any debts or expenses. There is no ownership component so once the term on the policy expires, the policyholder does not have any protection and does not receive any of the premiums back. Here are some other key factors about term life insurance:

Lower Premiums
Term life typically costs less than permanent life insurance. This is due to the fact that the insurance company is assuming less risk since the policy is only for a set period of time. These policies take your health into account so the younger and healthier you are the cheaper these plans are.

Flexibility
Term life insurance allows you to be flexible and choose the length of policy that you are looking for. There are many out there for 10 or 15 or 20 years. This allows you to choose the best plan that fits your needs. This also means that you will have predictability in the amount that you need to pay over the span of the policy. Permanent policies on the other hand are more like a guessing game on how much you will have to pay as they last forever.

Convert to permanent insurance
If you start to reach the end of you term policy, you are able to convert it over into a permanent life insurance policy. This may increase the premiums that you owe, but it could be a good investment if you want coverage for life.Converting could also give you the opportunity to accumulate cash value.

Cons of Term Life
The main issue with term life insurance policies is that all of the premiums go towards the death benefit promised by the policy. This means that unlike permanent life insurance, there is no cash value and therefore no investment component.

If the term ends and you have not died then the entire death benefit will be forfeited and you or your family will not see any money from your premiums. This is the main con of term life insurance. However, it still offers you piece of mind during the years that you are covered.

Permanent Life Insurance

Permanent life insurance covers you for as long as the premiums are paid to the insurance company and the policyholder builds value.

This is different than term life insurance, where the policies are only paid over a set period of time, and the policy is terminated at the end of the term.

In turn for higher premiums, permanent life insurance offers an investment component that allows policy holders to accumulate a cash value to their policy which is why a lot of financial advisors and life insurance agents advocate for permanent life insurance policies to their clients.

Pros:
The growth of the policy's value is tax-deferred, which means you do not have to pay any taxes until you potentially draw. The policy provides coverage for life and you can borrow against the cash value of the policy, sometimes receiving anywhere from 25-100% of your death benefit prior to death

Cons:
These benefits don't come free and typically cost more than a term life insurance policy. There can be tax implications with permanent policies and they are not typically a good investment when compared to other, riskier assets.

A LOOK AT THE LARGEST

US Insurance Companies

Anthem
(ANTM)
$94 billion in annual premiums

State Farm
Not Listed*
$70 billion in annual premiums

Berkshire Hathaway
(BRK.A)
$62 billion in annual premiums

UnitedHealth Group
(UNH)
$189 billion in annual premiums

Centene
(CNC)
$72 billion in annual premiums

**State Farm is actually a mutual insurance company, which means the company is privately owned by the people who purchase its insurance policies. Shares in the company are only available to policyholders and are not available to investors on the public market.*