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Focus on Risk Management

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Focus on Financial Management Series

Unit 4

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Focus on Risk Management

Part of every individual and family financial plan needs to include provisions for protection against financial loss due to premature death, illness, accident, unemployment, loss of real or personal property, and personal liability for damage to other people's property. Insurance is one way to provide this protection. Insurance is probably the least understood and least monitored area of personal finance. Studies by the nonprofit National Insurance Consumer Organization show that more than nine in ten Americans purchase and carry the wrong types and amounts of insurance coverage. Most people are overwhelmed by all the exclusions and limitations on policies, not to mention the jargon in sales and policy statements. As a result, people buy the wrong type of insurance.

Insurance is based on the concept of shared risk. Your insurance premium (payment) is pooled in a common fund along with thousands of other premiums. The insurance company then uses the money in the pool to cover the losses of individual policyholders. Everyone pays a little so that no one person has to suffer the entire financial loss.

Insurance policies are available to cover a variety of financial risks such as:

- Loss of income due to disability or death.
- Medical expenses due to injury or illness.
- Damage or loss of property due to fire, storm, theft, or collision.
- Personal liability for injury to others or damage to their property.

Worksheet 11: Insurance Quiz

Complete this quiz at the beginning of Workshop 4: Focus on Risk Management, to check your knowledge about insurance. Circle one answer for each statement

1. ***The reason to buy insurance is:***
   a. To keep you from having accidents
   b. To protect your income and savings
   c. To help insurance companies grow rich
2. ***People do not need health insurance if they:***
   a. Hardly ever get sick
   b. Have a retirement fund
   c. Qualify for Medicaid
3. ***Long-term care insurance covers expenses of long-term care in a nursing home or in one's residence. The type of care most commonly needed by those with chronic illnesses is:***
   a. Skilled care (intensive care, 24-hour-a-day supervision, or treatment by a registered nurse under the direction of a doctor)
   b. Custodial care (supervision and/or help with personal tasks such as eating or personal hygiene)
   c. Intermediate care (the patient is unable to live alone and needs some nursing care, but not around-the-clock care).
4. ***Insurance that provides a beneficiary with money if the insured person dies is called:***
   a. Disability insurance
   b. Liability insurance
   c. Life insurance
5. ***Insurance that provides a monthly income if a worker becomes disabled and can no longer work is called:***
   a. Life insurance
   b. Disability insurance
   c. Liability insurance
6. ***Insurance that pays to replace personal belongings that were damaged by fire or stolen is called:***
   a. Liability insurance
   b. Disability insurance
   c. Homeowner's or renter's insurance
7. ***The most important part of automobile insurance is:***
   a. Collision
   b. Liability
   c. Comprehensive

(Continued)

8. *Personal liability coverage would protect you if:*

a. Your child falls and gets hurt at school
b. You lost your purse while on vacation
c. A tree in your yard falls and damages your neighbor's house

9. *Before buying any insurance policy, you should compare coverages from at least how many companies?*

a. 2
b. 3
c. 4

10. *Sufficient insurance coverage is:*

a. Very expensive
b. Inexpensive
c. Essential in taking control of your financial life

If you chose "b" answers for the odd-numbered questions and "c" answers for the even-numbered questions, you have a sound understanding of the purpose of major types of insurance.

Adapted from *The ABCs of Managing Your Money*, Iowa State University Extension, June 1996.

From Whom to Buy?

You will want to buy insurance coverage from financially sound companies with professionally trained representatives. Protection is available from a wide range of sources, so it is relatively easy to find a reputable insurer. Below are some sources to check before buying insurance.

√ Family, friends, co-workers.

√ Insurance rating agencies. These agencies assess the financial soundness of the rated firm. As a general rule, deal with companies rated A++, Aaa, A+, or A.

- A.M. Best's Ratings http://www.ambest.com/
- Standard & Poor's http://www.standardpoor.com/
- Moody's http://www.moodys.com/

√ Periodicals such as *Consumer Reports, Kiplinger's, Personal Finance Magazine, Money*.

√ State insurance departments.

Save on Insurance Costs

Know What You Have

If you are covered by insurance, the best way to save money is to know and understand your coverage. For information or an explanation of benefits, contact your employer or insurance company.

Comparison Shopping

The best advice to follow when seeking insurance is to shop around. You will find that both prices and products vary from company to company. Although it is time-consuming, comparison shopping will increase your choice of products and could save you money. Ask your friends, check the Yellow Pages, or contact the state insurance department. The Indiana Department of Insurance (http://www.in.gov/idoi/) has several consumer guides, rate comparisons by company, and other information on its Web site about complaints that have been filed against particular insurance companies. Also check consumer guides, insurance agents, companies, and online insurance quote services. This will give you an idea of price ranges and tell you which companies have the lowest prices. But don't consider price alone. The insurer you select should offer a fair price and deliver the quality of service you would expect if you needed assistance in filing a claim. Talk to a number of insurers to get a feeling for the type of service they provide.

Deductibles

A deductible is the money you must pay toward a loss before the insurance company will pay. Generally, the larger the deductible, the lower the premium. Be sure you keep enough money in emergency savings to be able to pay deductibles.

Group Plans

Group plans are almost always less expensive than individual plans, especially with health insurance. Look into joining a group insurance plan at your place of work, through your credit union, or through a social, fraternal, or professional organization.

Fewer Payments

You can usually save a few dollars by paying premiums once or twice a year instead of making monthly payments.

Discounts

Ask about discounts. Some companies provide discounts for insuring multiple vehicles, teenagers with good grades, senior citizens, and insuring your vehicle and home with the same company.

Shopping Online

If you have Internet access, you can do some rate shopping online at these sites:

Accuquote	http://www.accuquote.com/
MasterQuote	http://www.masterquote.com/
4Insurance.com	http://www.4insurance.com/
Insure.com	http://www.insure.com/
Insurance Quote	http://www.quotes-insurance.org/
Insurance Quotes	http://www.for-insurance-quotes.com/
Insurance Quotes	http://www.insuranceselect.com/
Insurance Quotes	http://www-insurance-quotes.com/
Insurance Quotes	http://4insurance-quote.com/

Before You Buy

Insurance policies are legal contracts. Read and compare the policies you are considering before you buy. Make sure you understand all of the provisions. Marketing or sales literature is no substitute for the actual policy. Read the policy itself before you buy. Discuss the policies you are considering with people whose opinions you respect — perhaps your doctor, your children, or an informed friend or relative.

Ask for the insurance company's financial rating and for a summary of each policy's benefits or an outline of coverage. (Ratings result from analyses of a company's financial records.) Good agents and good insurance companies want you to know what you are buying.

Even after you buy a policy, if you find that it does not meet your needs you generally have 30 days to return the policy and get your money back. This is called the "free look."

Do not give in to high-pressure sales tactics. Do not be afraid to ask your insurance agent to explain anything that is unclear. If you are not satisfied with an agent's answers, ask for the name of someone in the company whom you can contact. Call your state insurance department if you are not satisfied with the answers you get from the agent or from company representatives.

Automobile Insurance

Automobile insurance pays if your vehicle is involved in an accident. The policy protects against a number of losses. Since most states require at least a basic amount of auto insurance coverage, it's not really a choice of "Do I need it?" but rather "How much can I afford, and how can I get the best coverage for the least amount of money?" Many people do not understand the basics of auto insurance: liability, collision, and comprehensive coverage. The following definitions will help clear up that confusion.

Liability – Pays if you injure another party while driving your car. Your policy pays a maximum amount for each person injured and for each accident. This is one element of auto insurance that is mandated by law. With most companies, coverage consists of three parts:

- A maximum amount for bodily injury to one person.
- A maximum amount for bodily injuries for each accident.
- A maximum amount for property damage.

Automobile insurers routinely categorize bodily injury (BI) and property damage (PD) with a numerical code. For example, in a policy coded 25/50/25 (or $25,000/$50,000/$25,000), the first number is the highest amount the insurer will pay for bodily injuries suffered by one person; the second is for all persons injured in one accident, and the third is for damage to property.

In Indiana, the required minimum coverage is 25/50/10. The most common coverage carried is 100/300/100.

Collision — Covers damage to your vehicle from a traffic accident no matter what or who caused the accident. Premium costs vary with the amount of the deductible, the type of car, and the extent of coverage. The most common deductibles are $250 and $500.

Comprehensive — Pays if there is damage to your automobile by a cause other than a traffic accident, such as theft, fire, vandalism, hail, animals, glass breakage, etc. Deductibles vary from $0 to $500. If you have an older vehicle, paying for collision and/or comprehensive coverage may not be economically practical.

Medical Payments — Provides medical expense benefits if you or any passengers in your vehicle are injured. The most common coverage is $5,000.

Uninsured – Pays if you are in an accident with a person who doesn't have insurance. It pays bodily injury for each person per accident, besides paying for property damage. This insurance also covers the insured and any members of the family if hit by an uninsured motorist while walking or riding a bicycle. The numerical codes and minimum coverages are the same as those for liability coverage. Most states, including Indiana, require that all new policies must include uninsured and underinsured motorist coverages unless you reject this in writing.

Underinsured — Pays if you are in an accident with a person who doesn't have enough insurance to cover damages. The numerical codes and minimum coverages are the same as those for liability coverage. Most states, including Indiana, require that all new policies must include uninsured and underinsured motorist coverages unless you reject this in writing.

Towing and Labor — This coverage may reimburse you for mechanical labor at the place of breakdown, towing of vehicle, or delivery of gas, oil, battery, or change of tire.

Rental Reimbursement — You will be reimbursed for your cost of renting a car because your insured vehicle is being repaired or has been totaled.

Use Worksheet 12 to compare prices and coverages from three companies.

Homeowner's Insurance

Homeowner's insurance is a policy covering your home (the structure) and its contents (personal belongings). It can save you from severe financial loss if your home is damaged or destroyed. It covers your family's possessions and can provide you with protection for liability claims, medical expenses, and other costs that result from property damage and personal injury suffered by others. Most lenders require homeowner's insurance in order to obtain a mortgage.

Homeowner's insurance is also a way for condominium and cooperative unit owners, mobile home owners, renters, and farmers to protect their possessions from damage or theft, and to obtain liability coverage for property damage and personal injury suffered by others.

How Much Coverage Do You Need?

Your homeowner's policy will have various types of coverage. The following is a basic description of the types of coverage available.

1) Dwelling/Structure — Provides coverage on your physical home and any attached structures (porch, garage).
    a. Market Value Coverage: covers your home only for its market value, up to the limits of the policy.
    b. Replacement Cost Coverage: replaces lost, stolen or destroyed property by paying current market prices.
    c. Guaranteed Replacement Cost Coverage: insures your home will be replaced even if the cost exceeds the limit on the policy (for some companies, how much the cost may exceed your policy level is limited). Virtually all companies require that you be insured to 100 percent of replacement cost in order to obtain guaranteed replacement cost coverage.
2) Personal Property/Contents — Provides coverage on your belongings such as clothing, books, stereo equipment, furniture, jewelry, etc. This is usually 50 percent of the coverage for your dwelling. There are limits to how much the insurance company will pay for particular categories like jewelry, furs, computers, and guns. If you own items that exceed the basic policy standards, you can obtain extra coverage at an additional charge in the form of a "personal articles floater."

3) Liability — The personal liability component covers you for a claim made against you when you cause a loss to someone else (for example, when someone bitten by your dog sues you). It also covers the cost of your legal defense. This coverage is usually $100,000, although companies are increasingly offering $300,000, usually at an additional charge.
4) Medical Payments to Others — If someone is injured while on your property with your permission, this coverage will compensate them for medical expenses. This is a small amount of coverage and usually protects you only for $1,000 or $5,000.
5) Dwelling Extension/Additional Structures — Provides coverage for other buildings/structures on your lot (unattached garage/tool shed/gazebo). This coverage is almost universally at 10 percent of the coverage on the dwelling, but it may be increased.
6) Loss of Use — Covers expenses associated with your home being uninhabitable. This pays for a comparable place for you to stay or sometimes the fair market rental value of your home. The payments usually are made only for a limited time.

Types of Policies

It is important to understand that not all types of coverage are provided in each homeowner's policy, and not all policies provide the same amount of coverage within a coverage category. There are seven basic homeowner's insurance policies, HO1-HO8 (there is no HO7). These policies were developed by the Insurance Services Office (ISO), an independent company that collects and assembles property/casualty insurance industry data and provides such information to insurance companies and agencies in the industry. Many insurance companies utilize these policies in the exact form provided by the ISO. Some may revise them, or add their own company name or title to it. Other companies, however, utilize their own policies. For any policy, it takes special insurance to obtain coverage from flood, earthquake, war, nuclear accident, or other perils specified by your policy. Use Worksheet 13 to compare prices and coverages from three companies. The chart on the next page shows the different HO policies and the coverages they provide.

Types of Homeowner's Policies

Basic HO1	Broad HO2	Special HO3	Renter's HO4	Comprehensive HO5	Unit-Owners HO6	Older Home HO8	
•	•	•	+	•	+	•	1. Fire or lightning
•	•	•	+	•	+	•	2. Windstorm or hail
•	•	•	+	•	+	•	3. Explosion
•	•	•	+	•	+	•	4. Riot or civil commotion
•	•	•	+	•	+	•	5. Aircraft
•	•	•	+	•	+	•	6. Vehicles
•	•	•	+	•	+	•	7. Smoke
•	•	•	+	•	+	•	8. Vandalism and malicious mischief
•	•	•	+	•	+	•	9. Theft
•	•	•	+	•	+	•	10. Breakage of glass constituting a part of the building
	•	•	+	•	+		11. Falling objects
	•	•	+	•	+		12. Weight of ice, snow, or sleet
	•	•	+	•	+		13. Volcanic eruption
	•	•	+	•	+		14. Sudden and accidental tearing asunder, cracking, burning, or bulging of a steam or hot water heating system or of appliances for heating water
	•	•	+	•	+		15. Accidental discharge, leakage, or overflow of water or steam from within a plumbing, heating, or air-conditioning system or domestic appliance
	•	•	+	•	+		16. Freezing of plumbing
	•	•	+	•	+		17. Sudden and accidental injury from artificially generated currents to electrical appliances, devices, fixtures, and wiring (TV and radio tubes not included)
		o		•			All perils except flood, earthquake, war, nuclear accident, and others specified in your policy. Check your policy for a complete listing of perils excluded

• Dwelling and Personal Property
+ Personal Property Only
o Dwelling Only

Adapted from *The ABCs of Managing Your Money* by Jonathon D. Pond, CPA, 1993.

Flood Insurance

Your homeowner's policy protects you from many disasters, but it does not cover floods.

In 2003, 66 percent of presidentially declared storm disasters were flood-related. Floods can occur anywhere. In fact, 25 percent of flood insurance claims are in low-risk areas. The National Flood Insurance Program (NFIP) defines flooding as "a general and temporary condition during which the surface of normally dry land is partially or completely inundated." Floods can happen anywhere after heavy rains, snowmelts, or other events that trigger water release. Mortgage lenders may require some homeowners to purchase flood insurance.

You can buy up to $250,000 of federally backed flood insurance for your home's structure and up to $100,000 of flood insurance coverage for its contents. Renters can purchase a contents policy to protect just their belongings.

Flood insurance costs very little compared to the potential cost of replacing your home and possessions. Homes in low to moderate risk areas qualify for the Preferred Risk Policy, which is approximately $100 per year. The average flood insurance policy runs from $300 to $400 per year for $100,000 of coverage.

Source: http://homebuying.about.com/library/weekly/aa092402a.htm

Earthquake Insurance

Earthquakes occurred in 39 states during the 20th century, and approximately 90 percent of Americans live in areas considered seismically active. Earthquakes can do a great deal of damage to your home and personal possessions and can financially devastate your family. Although earthquakes are excluded as a peril under most homeowner's policies, special insurance is available.

For some people, the question should not be whether to purchase earthquake insurance, but rather how much to buy. For others, the decision requires a risk assessment: How likely is an earthquake, how much damage would it inflict on you and your property, and how much can you afford to lose?

Ideally, your earthquake insurance policy should cover the cost to replace or repair your damaged property. There are several options to consider when picking a plan, including:

- Does the policy cover only the dwelling, or are accessory structures, such as garages, also included?
- Will the policy pay for the contents of your home and for additional living expenses if your home is badly damaged or destroyed?
- Are there any exclusions or limitations to coverage?
- What deductible must you pay before the insurance kicks in?

Earthquake insurance rates are determined differently by each insurance company and can vary widely depending on several rating factors. Generally, older homes cost more to insure than new homes. Wood homes get better rates than brick homes because they tend to be better at withstanding quake stresses. In addition, areas are graded on a scale of one to five for likelihood of quakes, and this may be reflected in insurance rates. Because earthquake insurance is a type of catastrophic coverage, most policies carry a high deductible – usually 10 percent to 25 percent of your coverage limit. A policy covering a house for $100,000 and contents for $25,000 with a 10 percent deductible requires the policyholder to pay for the first $10,000 of damage to the house and the first $2,500 of damage to contents.

If you decide to purchase earthquake insurance, remember that you should buy enough to cover the costs of rebuilding your home and replacing broken possessions. The amount of insurance you buy should be based on replacement and reconstruction costs, not the market value of your property and possessions.

You should also find out your rights for filing claims before you buy earthquake coverage. It is especially important to know how much time you have to file a claim following a quake, because earthquake damage may not be apparent for some time.

As when buying any insurance coverage, make sure you understand what is and is not covered, the amount of the deductible, and whether required code upgrades are covered.

Sources: Insure.com, http://www.insure.com/home/quake.html
Washington Insurance Council, http:://www.wa-ic.org/in_eart.htm

Umbrella Liability Insurance

Personal liability umbrella policies will protect you and your family from claims arising out of nonprofessional activities. For example, umbrella insurance will protect you if your dog bites a neighbor or if your car rolls into the street and hits the mail truck. It is usually coordinated with your automobile and homeowner's/renter's insurance policies and is designed to take over when the liability limits of these policies have been exceeded.

A good umbrella policy will protect you, family members living in your home, children attending school away from home, and even pets. In addition, the policy should cover legal defense costs, critically important since even the successful defense of a lawsuit can be very costly. Purchasing a personal liability umbrella insurance policy may reduce the risk of a lawsuit being filed against you.

An umbrella policy can be obtained at a reasonable cost. Naturally, the premium will vary depending on your personal circumstances, such as the size of your family, number of homes you own, etc.

The primary purpose of health insurance is to diminish the financial burdens suffered by individuals because of illness or injury. Like other forms of insurance, health insurance diminishes financial risk by dividing losses among many individuals.
You pay the insurance company a specified premium, and the company guarantees you some degree of protection. There are basically two types of health insurance plans: 1) traditional fee-for-service health insurance, and 2) managed care plans such as preferred provider organizations (PPOs) or health maintenance organizations (HMOs).

Types of Insurance

The term health insurance refers to a wide variety of insurance policies. These range from policies that cover the costs of doctors and hospitals to those that meet a specific need, such a paying for long-term care. Even disability insurance — which replaces lost income if you can't work because of illness or accident — is considered health insurance, even though it's not specifically for medical expenses.

Major medical insurance describes a specific type of health insurance that provides for coverage in case of extreme medical costs. Major medical insurance comes in a wide variety of policies that offer a range of deductible costs and coverage areas.

Today, when people talk about broad health care coverage, instead of using the term "major medical" they are more likely to refer to fee-for-service or managed care. These terms apply to different kinds of coverage or health plans. Moreover, you'll also hear about specific kinds of managed care plans: health maintenance organizations or HMOs, preferred provider organizations or PPOs, point-of-service or POS plans, and individual practice associations or IPAs.

While fee-for-service and managed care plans differ in important ways, in some ways they are similar. Both cover an array of medical, surgical, and hospital expenses. Most offer some coverage for prescription drugs, and some include coverage for dentists and other providers. But there are many important differences that will make one or the other form of coverage the right one for you.

The following section is designed to acquaint you with the basics of fee-for-service and managed care plans. But remember: the detailed differences between one plan and another can only be understood by carefully reading the materials provided by insurers, your employee benefits specialist, or your agent or broker.

1) Fee-for-Service Plans — Traditional fee-for-service plans make payments to health care providers for specific services rendered. There are several types of coverage. Hospital/surgical/medical coverage is usually bought as a unit and referred to as basic coverage. It covers part or all of daily hospital room and board, routine nursing care, minor medical supplies, laboratory tests, X-rays, anesthesia, operating room fees, and drugs. Basic coverage also pays doctors for services provided during hospitalization, and it generally pays for local ambulance service.
2) Managed Care Plans — Managed care refers to a variety of methods that attempt to control the costs of health care. It also refers to the sharing of your health care through the cooperative arrangement of a variety of providers, such as nurses, physicians, therapist, and specialists.

    Preferred Provider Organization (PPO) — Health care providers, physicians, pharmacists, and therapists contract with the insurer to provide their services at a lower rate. You make a smaller co-payment (usually a percentage) for covered expenses than if you used a health care provider who was not registered as a preferred provider with your insurer.

    Health Maintenance Organization (HMO) — In an HMO, you or your insurer prepay a set amount per month to the HMO for health care services you might need. After payments are made to the HMO on your behalf, you become a member and use health care providers contracting with that particular HMO. HMOs do not have deductibles but do use co-payments, usually a fixed dollar amount, such as $5, $10, or $20.

    Individual Practice Association (IPA) — The IPA is a type of HMO that does not maintain its own staff and clinic buildings, but contracts with a number of doctors in private practice to provide services for members on a fee-for-service basis from their own offices. Commonly, they are paid a set amount per patient in advance, and the provider then absorbs the costs of all services to patients. They share a common administrative unit for billing and insurance.

Point of Service (POS) — The POS is based on the basic managed care foundation: Lower medical costs in exchange for more limited choice. But POS health insurance does differ from managed care plans. When you enroll in a POS plan, you are required to choose a primary care physician to monitor your health care. This primary care physician must be from within the health care network, and becomes your "point of service." The primary POS physician may then make referrals outside the network, but your health insurance company may offer only partial reimbursement for such services.

Where Do People Get Health Insurance Coverage?

Group Insurance

Most Americans get health insurance through their jobs or are covered because a family member has insurance at work. This is called group insurance. Group insurance is generally the least expensive. Some employers offer only one health insurance plan; some offer a choice of plans. In many cases, the employer pays part or all of the cost.

Not all employers offer health insurance. You might find this to be the case with your job, especially if you work for a small business or work part-time. If your employer does not offer health insurance, you might be able to get group insurance through membership in a labor union, professional association, club, or other organization. Many organizations offer health insurance plans to members. Employers who do not offer group insurance may offer a stipend for an employee to purchase insurance through another group.

Individual Insurance

If your employer does not offer group insurance, or if the insurance offered is very limited, you can buy an individual policy. You should compare your options and shop carefully, because coverage and costs vary from company to company. Individual plans may not offer benefits as broad as those available from group plans.

If you get a noncancelable policy (also called a guaranteed renewable policy), you will receive individual insurance under that policy as long as you keep paying the monthly premium. The insurance company can raise the cost, but it cannot cancel your coverage. Many companies now offer a conditionally renewable policy. This means that the insurance company can cancel all policies like yours, but it cannot cancel just yours. This protects you from being singled out, but it doesn't protect you from losing coverage.

Before you buy any health insurance policy, make sure you know what it will and will not pay for.

Shopping for Health Insurance

If you are shopping for an individual policy, look for broad coverage that includes basic as well as major medical insurance. A policy with a high lifetime or maximum benefit insures against financial catastrophe due to an extended illness. Don't use insurance dollars against losses that you can afford to cover yourself. Maintain an emergency fund for small health care expenses. Worksheet 14 will help you compare health insurance costs. Understanding these health insurance terms may help you find the policy that best fits your needs.

Co-insurance — The amount you are required to pay for medical care in a fee-for-service plan after you have met your deductible. The co-insurance rate is usually expressed as a percentage.

Coordination of Benefits — A system to eliminate duplication of benefits when you are covered under more than one group plan. Benefits under the two plans usually are limited to no more than the cost of the service.

Co-payment — A flat fee you pay every time you receive a medical service (for example, $5 or 20 percent). The insurance company pays the rest.

Covered Expenses — Most insurance plans do not pay for all services. Covered services are those medical procedures the insurer agrees to pay for. They are listed in the policy.

Deductible — The amount of money you must pay each year to cover your medical care expenses before your insurance policy starts paying.

Maximum Out-of-Pocket — The most money you will be required pay in one year for deductibles and co-insurance. It is a stated dollar amount set by the insurance company, in addition to regular premiums.

Noncancelable Policy — A policy that guarantees you can receive insurance, as long as you pay the premium. It is also called a guaranteed renewable policy.

Pre-existing Condition — A health problem that existed before the date your insurance became effective; many policies will not cover expenses related to such a condition.

Premium — The amount you or your employer pays in exchange for insurance coverage.

COBRA

A federal law ensures continuing group health coverage for most former employees and their dependents. Passed in 1985, the Consolidated Omnibus Budget Reconciliation Act (COBRA) directs businesses with more than 19 employees to provide continuing group health coverage for at least 18 months after an employee termination or resignation. The only exception is for employees who have been fired for gross misconduct.

If you are terminated or laid off, you and your dependents may continue coverage for up to 18 months. However, you, not your employer, must pay the premiums.

Widows, divorced or separated spouses, and dependent children from someone who was covered under a group policy may continue coverage under COBRA for up to three years. When you retire, you, your spouse, and your dependent children can continue group coverage for up to 18 months. The coverage ends if the premiums are not paid or you become eligible for other group coverage through employment, marriage, or Medicare.

Source: Health Benefits Under the Consolidate Omnibus Budget Reconciliation Act (COBRA).
Source: U.S. Department of Labor, Pension and Welfare Benefits Administration. 1999

Medicare

Medicare is the government-run health insurance plan for the elderly. At its core is a two-part major medical plan. Enrollment in Part A (hospital expenses) is automatic at age 65 and requires no premium. Part B, which covers physician and other charges including home health care coverage, is optional and is open to all Part A recipients and to anyone else age 65 or older. Those choosing Part B pay a monthly premium that is adjusted annually.

Medigap Insurance

This is private insurance that helps pay the costs Medicare doesn't cover. In 1992, Congress established federal standards for Medigap policies. Insurers can offer 10 plans, labeled A through J. Plan A is the core package, and the other nine plans have a different combination of benefits. However, all plans include the core package and provide:

- Coverage for the Part A co-insurance amount for days 61-150 of a hospital stay.
- After you use up all Medicare hospital benefits, coverage for 100 percent of the Medicare Part A eligible hospital expenses.
- Coverage for the reasonable cost of the first three pints of blood each year.
- Coverage for the co-insurance amount for Part B services after you meet the annual deductible.

Comparing Medigap Benefits

The 10 basic Medigap policies offer a broad range of coverage.

	Type Of Policy									
What Policy Pays For	A	B	C	D	E	F	G	H	I	J
Basic Medicare cost-sharing	*	*	*	*	*	*	*	*	*	*
Hospital deductible (Part A)		*	*	*	*	*	*	*	*	*
Skilled nursing home co-payments			*	*	*	*	*	*	*	*
Medical-services deductible (Part B)			*			*				*
Foreign travel emergencies			*	*	*	*	*	*	*	*
At-home recovery assistance				*			*		*	*
Excess doctor charges (Part B)						100%	80%		100%	100%
Preventive care					*					*
Outpatient prescription drugs								$1,250 max.	$1,250 max.	$3,000 max.

Sources: 2001 Guide to Health Insurance for People with Medicare. U.S. Department of Health and Human Services Health Care Financing Administration. Some choices may be unavailable in Mass., Minn., Wis.

Although Medigap policies are standardized, the premiums charged by various insurance companies for the same plan vary widely.

When choosing a Medigap policy, check when coverage begins for pre-existing conditions – conditions you had when you purchased the policy. Find out about limits on your benefits and check your right to renew. If the company can refuse to renew your policy, it may drop your coverage when you need it most. Worksheet 15 will help you compare Medigap policy costs.

Senior Health Insurance Information Program

The Senior Health Insurance Information Program (SHIIP) is part of a federal network of State Health Insurance Assistance Programs located in every state. SHIIP is a nonprofit organization designed to provide an unbiased place for seniors and pre-retirees to find answers to their health insurance questions.

SHIIP helps answer your questions about Medicare, Medicare Supplemental Insurance, Medicare plus Choice, Medicaid, long-term care insurance, prescription coverage, and low-income assistance. SHIIP provides tools and information to help you make decisions regarding your health care. SHIIP volunteers/counselors strive to help you be a wise consumer and to get the most value for your health insurance dollar.

For finding state-specific information, check the Medicare Web site: http://www.medicare.gov/ In Indiana, contact the central office in Indianapolis, 1-800-452-4800, to find the local counseling sites.

Life Insurance

Life insurance protects your dependents from financial hardship resulting from your death. Most people buy life insurance to protect someone who financially depends on them. That someone could be a spouse, children, an aging parent, or a business partner. The beneficiaries named in the policy receive a sum of money at the policyholder's death.

Types of Life Insurance

Term Life Insurance

- Provides protection against financial loss resulting from death during a specified period of time (usually 5, 10, 15 or 20 years or up to age 65).
- Coverage ends when the term has expired or when you stop paying the premium.
- Payment to beneficiary is made only if you die within the term stated in the policy.
- Least expensive form of life insurance; policy has no cash value.

Whole Life Insurance (cash-value, straight life, ordinary life)

- Provides protection and savings.
- Builds cash value, which can be used as collateral for a personal loan.
- In most cases, the premiums remain steady over the life of the policy, and protection can be kept in force throughout your lifetime.

Universal Life Insurance

- Blend of term and whole life insurances.
- Premiums, cash value, and level of protection can be adjusted during the policy.

Variable Life Insurance

- Form of whole life insurance that allows policyholder to choose the investments made with the cash-value portion of the policy and to share in any gains or losses.

Life Insurance Characteristics

Term	Whole Life	Universal	Variable
Protection for limited period of time	Permanent protection	Permanent protection	Permanent protection
Low initial premium, but rises with each term	Fixed premium	Flexible premium	Flexible premium
Fixed death benefit	Fixed death benefit	Adjustable death benefit	Minimum guaranteed flexible death benefit
No cash value	Fixed cash value	Cash value reflects premiums paid and interest rate environment	Cash value reflects investment performance

Which Insurance Is Best?

It depends on your situation.

1) Term insurance

Term insurance provides a preset amount of cash if you die while the policy is in force. For example, a five-year $130,000 term policy pays off if you die within five years. If you live beyond the end of the term, you get nothing. With term insurance, you pay only for life insurance coverage. The policy does not develop reserves.

Term insurance is the least expensive form of coverage over a limited number of years. Term life insurance is particularly suitable for younger people with families, who want substantial insurance coverage at low cost. Since the risk of dying in your 20s, 30s, or 40s is quite low, the cost of term insurance during these years is as reasonable as life insurance prices get. Also, if you need insurance for only a short time, say to qualify for a business loan, term is your best bet.

As you age, the likelihood that you will die increases, which is why older individuals pay more for life insurance. However, many term policies give you the option to renew your policy at the end of the term without undergoing another medical exam. You also can lock in low premiums by asking for a “level premium” policy, which means that for a specific time period, say 20 years, your premium rate stays the same. After that term expires, your rates will increase, reflecting the increased risk that you will die.

2) Whole Life Insurance

Whole life (sometimes called "straight life") insurance provides a set dollar amount of coverage, which can never be canceled, in exchange for fixed, uniform payments. Because the payments are the same throughout your life, in the early years of the policy, the premiums are high compared to your statistical risk of death. This is why reserves are built up. Assuming you live a long time after the policy was issued, your payments become low, compared to your risk of death. In other words, during the first few years of a whole life policy, insurance companies take in substantially more money than they pay out. The insurance company invests the surplus. Some of the surplus becomes your cash reserve, which grows over time. The cash reserve earns dividends, paid by the insurance company. After a set time, usually several years, you have the right to borrow against the cash reserve. You can also, of course, cancel the policy and receive its cash surrender value. Whole life often is not desirable for younger people with small children who can't afford the higher premiums during the early years of the policy.

3) Universal Life Insurance

Universal life insurance combines the protection of a conventional term insurance policy with the current yields available from short-term investments. Unlike a whole life policy, the cash value of a universal life policy grows at a variable rate.

Universal life's advantage is its flexibility. For example, you can buy additional insurance with the built-up cash value should the need arise. (A medical examination may be necessary). You also can vary premium payments within the limits established by the policy — a useful feature if your income is subject to periodic fluctuations.

4) Variable Life Insurance

As with whole life and universal life insurance, a portion of your variable life premium buys pure insurance protection, while the rest is invested by the insurance company on your behalf. The variable life policyholder may choose from a range of investments. For example, you can direct the company to invest your premiums in a combination of mutual funds that invest in stocks, bonds, and/or money markets.

There are two kinds of variable life policies: straight and universal. Straight variable life has a fixed annual premium, while universal variable life allows more flexibility to vary the premiums that are paid. In addition to deciding how the money will be invested, you can choose the amount of premiums you can afford to pay in a universal variable life policy.

You should realize there are increased risks with variable life insurance, since stock and bond mutual funds fluctuate in value. The death benefit of a variable life policy is paid for by the pure insurance part of the policy and will never fall below a specified amount, as long as the premiums are paid. The amount of cash value is not guaranteed, and it could be reduced if the investment portfolios perform poorly. The policy owner assumes all of the investment risk.

How Much Insurance Do You Need?

Some financial advisers will tell you to multiply your annual income by seven. Others will tell you to buy enough life insurance to replace the income you expect to make between now and retirement. Some recommend that you buy only enough life insurance to cover your present debts. While you probably can do all of those calculations in a minute, they won't give you the right answer.

Simply put, calculating your life insurance needs takes homework. It requires you to do an inventory of all of your finances, and then consider how your beneficiaries would maintain their lifestyles without you. You also must consider inflation and, if you have children, future education costs.

Some experts recommend a needs analysis. Use this simple formula: Short-term needs + long- term needs – resources = how much life insurance you need. Ideally, you will buy enough life insurance to equal the investment capital your family will need at the time of your death. How much capital your family will need is a function of two variables:

1. How much will be needed at death to meet immediate obligations?
2. How much future income is needed to sustain the household?

Worksheet 16 will help you determine the amount of life insurance you need. If you can't afford the full amount, buy as much as you can afford.

Make the Most of Your life Insurance Dollar

- Don't put off an important decision that would provide protection for your family, but take your time to make the correct choice. Make sure you fully understand any policy you are considering and that you are comfortable with the company, agent, and product.

- When you purchase a policy, make your check payable to the insurance company, not to the agent. Be sure to get a receipt.
- After you have purchased an insurance policy, keep in mind that you may have a free-look period, during which you can change your mind. During that period, read your policy carefully. If you decide not to keep it, the company will cancel the policy and give you an appropriate refund. Depending on the state, the free-look period ranges from 10 to 30 days after you receive the policy.
- Review the copy of your application contained in your policy. Promptly notify your agent or company of any errors or missing information.
- If an agent or company contacts you and wants you to cancel your current policy to buy a new one, contact your original agent or company before making a decision. Surrendering your policy to buy another could be costly.
- If you have a complaint about your insurance agent or company, contact the customer service division of your insurance company. If you are still dissatisfied, contact the state insurance department. Most departments have a consumer affairs division that can offer help, and some have a toll-free number to respond to consumer requests.
- Review your policy periodically or when your situation changes to be sure your coverage is adequate.

Store your life insurance policy in a safe place. Your beneficiaries will need to know where the policy is kept because they will have to send it to the company, along with a copy of the death certificate, to collect the insurance.

Disability Insurance

Typically when we think of protecting our assets we think of our home or car. We tend to forget that what allows us to afford these items is our earning potential. That is what disability insurance is designed to protect.

If you are the primary wage earner, imagine what life would be like if that income was no longer there because you became disabled. This scenario is different than being laid off or suffering a temporary job loss, because when you are disabled, you can't find another job. All of your monthly bills, from groceries to mortgage payments, must be paid, month after month. A disability that ends the income that you have come to rely on could be a serious financial threat to your family. It will quickly threaten your present lifestyle and jeopardize your future. Disability insurance can protect you and your family from this potentially frightening situation.

How Is Disability Defined?

It is critical that you understand the definitions for "any occupation" or "own occupation" in a disability policy. Some policies pay benefits only if you are unable to perform the duties of any occupation for which you are reasonably qualified. Others pay benefits if you are unable to perform the major duties of your own occupation.

How Much Coverage Should I Consider?

You should consider obtaining enough coverage to maintain your family's present lifestyle. This means taking into account rent or mortgage payment, food, automobiles, and other monthly expenses. You should be aware that income from Social Security benefits or employer-related plans most likely would not come close to covering your expenses. Typical policies range from 60 percent to 70 percent of your pre-tax income.

The table below calculates potential lifetime earnings for certain monthly incomes up to age 50. For example, if you were disabled at age 35, and your monthly income was $3,000, you would face a lifetime loss of $1,460,451 in wages.

Current Monthly Income							
Age	**$2,000**	**$3,000**	**$4,000**	**$5,000**	**$7,000**	**$10,000**	**$15,000**
25	1,449,648	2,174,471	2,899,295	3,624,119	5,073,767	7,248,238	10,872,357
30	1,199,867	1,799,801	2,399,735	2,999,669	4,199,563	5,999,337	8,999,006
35	973,634	1,460,451	1,947,268	2,434,085	3,407,719	4,868,170	7,303,254
40	768,727	1,153,091	1,537,454	1,921,818	2,690,545	3,843,636	5,765,454
45	583,137	874,705	1,166,274	1,457,842	2,040,979	2,915,684	4,373,527
50	415,042	622,563	830,084	1,037,605	1,452,647	2,075,210	3,112,815

Source: Federal Reserve Bank of Dallas

When making a decision regarding disability insurance, consider the following:

- In 1998, only 35 percent of Social Security disability claims were approved.
- More than five months must pass before Social Security will pay on an approved claim.
- Social Security requires that you cannot perform "any" gainful work.
- Social Security only pays benefits to people whose disability has lasted or is expected to last for at least one year or to result in death.
- Between the ages of 35 and 65, seven out of ten people will become disabled for three months or longer.
- One out of seven employed people will be disabled for five years or more before age 65.
- An average American household only has two months worth of savings in reserve.
- Worker compensation only covers injuries that occur on the job.
- Statistically, you are more likely to become disabled as you get older. That's why many financial experts regard disability coverage as more important than additional life insurance.

Source: Disability-Insurance-Center.Com

Choosing a Policy

Group policies through an employer are generally cheaper than single policies. Some employers offer a policy that covers short-term disability; others offer coverage only for long-term disability.

A single policy may be your only choice. Apply the "Rule of Three" and shop for three alternatives. The web site Disability-Insurance-Center.com is one place to start. Once you choose a company, return to the Internet to learn more about customer satisfaction. Comments from others will help you learn about a company's claim service.

Worksheet 17 will help you determine how much disability insurance you need.

Long-Term Care Insurance

What Is Long-Term Care?

Most Americans know about the kind of health insurance that pays doctor and hospital bills. But the kind that pays for long-term care in a nursing home or your own home is not as familiar.

Long-term care goes beyond medical care and nursing care to include all the assistance you may need if you have a chronic illness or disability that leaves you unable to care for yourself for an extended period of time. You can receive long-term care in a nursing home, or in your own home for assistance with daily activities such as bathing or dressing. Long-term care can help those of any age who have been in an accident or suffered a debilitating illness. However, it is the elderly who most often need long-term care services.

Beyond nursing homes, a range of services is available to help meet long-term care needs. Care given by family members can be supplemented by visiting nurses, home health aides, friendly visitor programs, home-delivered meals, chore services, adult daycare centers, and respite services for caregivers who need a break from daily responsibilities.

Are You Likely To Need Long-Term Care?

By the year 2005, about nine million men and women over the age of 65 will need long-term care. By the year 2020, 12 million older Americans will need long-term care. Most will be cared for at home; family members and friends are the sole caregivers for 70 percent of elderly people. But a study by the U.S. Department of Health and Human Services indicates that people of age 65 face at least a 40 percent lifetime risk of entering a nursing home. About 10 percent will stay there five years or longer.

The American population is growing older, and those over age 85 are now the fastest-growing segment of population. The odds of entering a nursing home, and the length of stay, increase with age. In fact, statistics show that at any given time, 22 percent of those age 85 and older are in a nursing home. Because women generally outlive men by several years, they are 50 percent more likely than men to enter a nursing home after age 65.

You may never need a nursing home. But the longer you live, the greater the chance that you will need some form of long-term care.

What Does Long-Term Care Cost?

Long-term care can be very expensive. As a national average, a year in a nursing home is estimated to cost more that $46,000. In some regions, it can easily cost twice that amount.

Home care is less expensive, but it still adds up. Bringing an aide into your home just three times a week (two to three hours per visit) to help with dressing, bathing, preparing meals, and similar household chores can easily cost $1,000 each month, or $12,000 a year. Add in the cost of skilled help, such as physical therapists, and the costs can be much greater.

What Kind of Insurance Is Available?

Long-term care insurance is similar to other insurance in that it allows people to pay a known premium that offsets the risk of much larger out-of-pocket expenses. Although long-term care insurance is relatively new, more than 100 companies now offer coverage.

Traditional long-term care insurance is an indemnity policy. This means it pays a fixed dollar amount for each day you receive specified care either in a nursing home or in your own home.

Today, many companies also offer "integrated policies" or policies with "pooled benefits." This type of policy provides a total dollar amount that may be used for different types of long-term care services. There is usually a daily, weekly, or monthly dollar limit for your covered long-term care expenses. For example, suppose you purchase a policy with $150,000 of "pooled benefits." Under this policy, you may be allowed to use up to $100 a day toward your covered nursing home, assisted living, or home care expenses, until you have used up the $150,000 benefit. No policy is guaranteed to cover all expenses fully.

Some life insurance policies offer long-term care benefits. Under these accelerated or living benefits provisions, a portion of the life insurance benefit is paid to the policyholder for the cost of long-term care instead of to the beneficiary at the policyholder's death. Some companies make these benefits available to all policyholders; others offer them only to people buying new policies.

What Do Policies Cost?

Individual policies can cost from $250 per year to more that $3,900. The premium is based on your age, health, benefits selected, and deductible periods (the length of time you are willing to wait until benefits begin).

You can lower your costs for long-term care coverage by buying a policy at an early age and by carefully selecting both the level of benefits and the deductible period. In making your selection, bear in mind that while 45 percent of nursing home stays last three months or less, more than one-third last one year or longer. It is the costly longer stay that may be the devastating financial blow that you want to insure against.

A Summary of Features

The National Association of Insurance Commissioners has developed standards that protect consumers. Look for a policy including:

- At least one year of nursing home or home health care coverage, including intermediate and custodial care. Nursing home or home health care benefits should not be limited primarily to skilled care.
- Coverage for Alzheimer's disease, should the policyholder develop it after purchasing the policy.
- An inflation protection option. The policy should offer a choice among:
  - √ Automatically increasing the initial benefit level on an annual basis.
  - √ A guaranteed right to increase benefit levels periodically without providing evidence of insurability.
  - √ Covering a specific percentage of actual or reasonable charges.
- An "outline of coverage" that systematically describes the policy's benefits, limitations, and exclusions, and also allows you to compare it with others.
- A guarantee that the policy cannot be canceled, nonrenewed, or otherwise terminated because you get older or suffer deterioration in physical or mental health.
- The right to return the policy within 30 days after you have purchased it (if for any reason you do not want it) and to receive a premium refund.
- No requirement that policyholders:
  - √ First be hospitalized in order to receive nursing home benefits or home health care benefits.
  - √ First receive skilled nursing home care before receiving intermediate or custodial nursing home care.
  - √ First receive nursing home care before receiving benefits for home health care.

Source: America's Health Insurance Plans, http://www.hiaa.org

Risk Management Action Box

- Determine if your automobile liability coverage is adequate.
- Review your homeowner's insurance policy to determine the types of coverage and the perils covered.
- Complete a life insurance needs analysis.
- Update your list of beneficiaries.
- Calculate disability coverage needed.
- Determine need for long-term care insurance.

Worksheet 12: Auto Insurance Comparison

Always compare at least three companies before buying. Use this worksheet when you compare coverage and prices for auto insurance.

Name of company	________	________	________
Liability			
50/100/50 BI[1] & PD[2]	________	________	________
100/300/100 BI[1] & PD[2]	________	________	________
Collision			
$250 Deductible	________	________	________
$500 Deductible	________	________	________
Comprehensive			
$0 Deductible	________	________	________
$100 Deductible	________	________	________
$250 Deductible	________	________	________
$500 Deductible	________	________	________
Medical			
$5,000 per person	________	________	________
$10,000 per person	________	________	________
Uninsured			
50/100/50	________	________	________
100/300/100	________	________	________
Underinsured			
50/100/50	________	________	________
100/300/100	________	________	________
Towing & labor	________	________	________
Rental reimbursement	________	________	________
Other coverages	________	________	________
Discounts			
Multiple vehicles	________	________	________
Teen-agers w/good grades	________	________	________
Senior citizens	________	________	________
Air bags	________	________	________
Also carry homeowner's/renter's insurance	________	________	________
Premium			
Six-month premium	________	________	________
Annual premium	________	________	________

[1] BI-Bodily Injury
[2] PD-Property Damage

Worksheet 13: Homeowner's Insurance Comparison

Remember the "Rule of Three" — always compare at least three companies before buying. Use this worksheet when you compare coverages and prices for homeowner's insurance.

Name of company	________	________	________
Type of policy:			
HO1	________	________	________
HO2	________	________	________
HO3	________	________	________
HO4	________	________	________
HO5	________	________	________
HO6	________	________	________
HO8	________	________	________
Replacement cost	________	________	________
Deductible	________	________	________
Personal property	________	________	________
Other structures	________	________	________
Medical coverage	________	________	________
Liability	________	________	________
Loss of use	________	________	________
Personal articles floaters:			
________________	________	________	________
________________	________	________	________
________________	________	________	________
________________	________	________	________
________________	________	________	________
________________	________	________	________
Six-month premium	________	________	________
Annual premium	________	________	________

Worksheet 14: Health Insurance Comparison

Insurance plans vary. Before choosing a plan, decide what is most important to you. This checklist can help. Put a check in front of those services that are important to you. Use the Rule of Three and compare benefits and costs in three policies. On the checklist, write in the co-insurance or co-payment rate, and any limits on service. The most important service to be covered is hospitalization. If you are not covered for hospital care, then one illness could cost you thousands of dollars.

Name of company	________	________	________
Type of insurance	________	________	________
Fee-for-service	________	________	________
HMO	________	________	________
PPO	________	________	________
IPA	________	________	________
Deductible	________	________	________
Co-payment	________	________	________
Lifetime maximum	________	________	________
Guaranteed renewable	________	________	________
Type of coverage:			
Basic (hospital, surgical, medical)	________	________	________
Basic & major medical	________	________	________
Comprehensive	________	________	________
Treatments covered:			
In-patient hospital services	________	________	________
In-patient surgery	________	________	________
Physician's expense	________	________	________
Emergency accident treatment	________	________	________
Skilled nursing home care	________	________	________
Outpatient surgery	________	________	________
Outpatient diagnostic therapy	________	________	________
Maternity care	________	________	________
Ambulance	________	________	________
Home health care/hospice care	________	________	________
Mental illnesses	________	________	________
Substance abuse	________	________	________
Prescriptions	________	________	________
Preventive care	________	________	________
Pre-existing conditions	________	________	________
Alternative medicine/professionals	________	________	________
Dental care	________	________	________
Vision care	________	________	________
Other	________	________	________
Other	________	________	________
Annual premium	________	________	________
Monthly premium	________	________	________

Worksheet 15: Medicare Supplement/Medigap Comparison

Although the benefits of each standardized Medigap policy are the same no matter which insurance company sells it, the costs vary. Companies also differ in their level of customer service. Call different insurance companies and compare costs and services before you buy.

Name of company	________	________	________
Plan A	________	________	________
Plan B	________	________	________
Plan C	________	________	________
Plan D	________	________	________
Plan E	________	________	________
Plan F	________	________	________
Plan G	________	________	________
Plan H	________	________	________
Plan I	________	________	________
Plan J	________	________	________
Annual premium	________	________	________
Monthly premium	________	________	________

Worksheet 16: Life Insurance Calculator

Selecting the amount of insurance you need is hardly an exact science, because there are too many variables. This worksheet will provide a reasonable estimate.

Single (no current dependents)

If others are financially dependent on you, you may need life insurance. If no one is financially dependent on you, you probably do not need life insurance. However, if you have major financial commitments and obligations, or a family member is likely to be dependent on your future income, you may want to consider life insurance.

This chart will help you to determine how much, if any, life insurance you may need.

Expenses

1. Final expenses (one-time expenses incurred by your death)

a. Medical costs	$_______________
b. Burial/funeral costs	$_______________
c. Probate costs	$_______________
d. Federal estate taxes	$_______________
e. State inheritance taxes	$_______________
f. Legal fees, estate administration	$_______________
g. Other	$_______________
h. Total final expenses	$_______________

2. Outstanding debt (to be paid off at your death)

a. Credit card/consumer debt	$_______________
b. Car	$_______________
c. Mortgage	$_______________
d. Other	$_______________
e. Total outstanding debt	$_______________
TOTAL EXPENSES (line h + line e)	$_______________

Assets

1.	Cash and savings	$_______________
2.	Equity in real estate (if survivors will sell)	$_______________
3.	Securities	$_______________
4.	IRA and Keogh plans	$_______________
5.	Employer savings plans	$_______________
6.	Lump-sum employer pension benefits	$_______________
7.	Other sources	$_______________
8.	Total assets	$_______________

Life Insurance Needed (Or Not)

Assets	$_______________
Expenses	$_______________
Difference	$_______________

If total assets are greater than total projected expenses, you don't need any life insurance. If expenses are greater than assets, you may want to consider purchasing life insurance to make up the difference.

Adopted from *The ABC's of Managing Your Money* by Jonathan Pond CPA, 1993.

(Continued)

Single with dependents

You need insurance to protect your children. This worksheet provides an easy method to figure out the approximate amount.

1. Annual income your family will need upon your death $______________
2. Annual income your family will receive (Social Security, survivor's benefits, etc.) $______________
3. Subtract line 2 from line 1 for the total annual income shortfall $______________
4. The number of years until your youngest child reaches age 18 $______________
5. Multiply line 3 by line 4 $______________
6. Debts to be paid at your death (mortgage, credit cards, loans, funeral expenses, etc.) $______________
7. Children's educational needs $______________
8. Add lines 5, 6, & 7 to arrive at the total amount of cash needed $______________
9. List the total of your cash, investments, retirement distributions, current insurance, etc. $______________
10. Subtract line 9 from line 8 to arrive at the amount of additional life insurance needed $______________

Adapted from *Every Woman's Guide to Financial Security* by Ann Peterson and Stephen Rosenberg, CFP, 1994.

(Continued)

Married adult with dependents

This calculation determines the amount of money it would take, invested at 8 percent after taxes, to support your surviving spouse and children. This calculation assumes you want to live off the interest, rather than spend principal. You should do this calculation for each adult in the family.

1. Annual income you will need upon the death of your spouse $______________
2. Annual income you will receive (Social Security, your job, etc.) $______________
3. Subtract line 2 from line 1 for the total annual income shortfall $______________
4. Divide line 3 by .08 to determine amount of money you must invest to generate enough interest to make up the shortfall $______________
5. Children's educational needs $______________
6. Debts you want paid at your spouse's death (mortgage, credit cards, loans, and funeral expenses, etc.) $______________
7. Add lines 4, 5, & 6 to arrive at the total amount of cash needed $______________
8. List the total of your cash, investments, retirement distributions, current life insurance, etc. $______________
9. Subtract line 8 from line 7 to determine the amount of additional life insurance needed on your spouse $______________

Adapted from *Every Woman's Guide to Financial Security* by Ann Peterson and Stephen Rosenberg CFP, 1994.

Worksheet 17: Disability Income Needs

This worksheet will help you determine how much disability insurance you may need.

Resources needed

1. Total annual family living expenses $______________
2. Annual expenses that might go away if you become disabled, such as taxes, work-related expenses, entertainment, and travel $______________
3. Adjusted annual family living expenses (subtract line 2 from line 1) $______________

Resources available

4. Annual income from savings and investments (dividends and interest) $______________
5. Annual income from spouse's job $______________
6. Annual disability benefits provided by employer's policy $______________
7. Annual disability benefits provided by other disability policies currently owned or by Social Security $______________
8. Total available resources (add lines 4, 5, 6, and 7) $______________
9. Additional resources needed annually either from liquidating assets or additional disability insurance (subtract line 8 from line 3) $______________

Adapted from *The ABCs of Managing Your Money* by Iowa State University, University Extension, June 1996.

Worksheet 18: Long-Term Care Policy Checklist

The following checklist will help you compare policies you may be considering:

Name of company __________ __________ __________

1. What services are covered?
   - Nursing home care __________ __________ __________
   - Home health care __________ __________ __________
   - Assisted living facility __________ __________ __________
   - Adult daycare __________ __________ __________
   - Alternate care __________ __________ __________
   - Respite care __________ __________ __________
   - Other __________ __________ __________

2. Daily policy reimbursement for:
   - Nursing home care? __________ __________ __________
   - Home health care? __________ __________ __________
   - Assisted living facility? __________ __________ __________
   - Adult daycare? __________ __________ __________
   - Alternate care? __________ __________ __________
   - Respite care? __________ __________ __________
   - Other? __________ __________ __________

3. How long will the benefits last for:
   - Nursing home? __________ __________ __________
   - Home health care? __________ __________ __________
   - Assisted living facility? __________ __________ __________
   - Other? __________ __________ __________

4. Does the policy have a maximum lifetime benefit for:
   - Nursing home? __________ __________ __________
   - Home health care? __________ __________ __________
   - Assisted living facility? __________ __________ __________
   - Other? __________ __________ __________

5. Maximum length of coverage for each period for:
   - Nursing home __________ __________ __________
   - Home health care __________ __________ __________
   - Assisted living facility __________ __________ __________

6. How long must I wait before pre-existing conditions are covered?
   __________ __________ __________

7. Days to wait before benefits begin:
   - Nursing home care __________ __________ __________
   - Home health care __________ __________ __________
   - Assisted living facility __________ __________ __________
   - Other __________ __________ __________

(Continued)

8. Are Alzheimer's disease and other organic mental and nervous disorders covered? ______ ______ ______

9. Does the policy require:
   - Assessment of day-to-day living skills? ______ ______ ______
   - Assessment of cognitive Impairment? ______ ______ ______
   - Physician certification of need? ______ ______ ______
   - Prior hospital stay for:
     - Nursing home care? ______ ______ ______
     - Home health care? ______ ______ ______
   - Prior nursing home stay for:
     - Home health care? ______ ______ ______
     - Other? ______ ______ ______

10. Is the policy guaranteed renewable? ______ ______ ______

11. Age range for enrollment: ______ ______ ______

12. Waiver-of-premium provision for:
    - Nursing home care ______ ______ ______
    - Home health care ______ ______ ______

13. Length of confinement before premiums are waived ______ ______ ______

14. Nonforfeiture benefit? ______ ______ ______

15. Inflation adjustment feature? ______ ______ ______

16. Policy cost:
    - Per year ______ ______ ______
    - With inflation feature ______ ______ ______
    - Without inflation feature ______ ______ ______
    - Per month ______ ______ ______
    - With inflation feature ______ ______ ______
    - Without inflation feature ______ ______ ______

17. Is this valid in other states? ______ ______ ______

18. Is there a 30-day free look? ______ ______ ______

Resources

Unit 4: Focus on Risk Management

1) Swanson, P., Needles Fletcher, C., Sternweis, L., Freelove, T., and Stohlmeyer, M.
The ABCs of Managing Your Money.
[EDC-86N]
Iowa State University Extension
Ames, IA

2) *Basic Insurance Decisions*, HE-600
Purdue University Cooperative Extension Service
West Lafayette, IN 47907
888-EXT-INFO

3) *Buyers Guide to Insurance*
National Insurance Consumer Organization
121 N Payne Street
Alexandria, VA 22314
703-549-8050

4) Consolidated Omnibus Budget Reconciliation Act (COBRA), 1999
U.S. Department of Labor, Pension and Welfare Benefits Administration
200 Constitution Avenue, NW
Washington, DC 20210
800-998-7542
http://www.dol.gov/ebsa/faqs/faq_compliance_cobra.html

5) *Consumer Reports Magazine*
PO Box 53017
Boulder, CO 80321-3017
http://www.consumerreports.com

6) Disability Insurance Center
http://www.disability-insurance-center.com

7) Federal Reserve Bank of Dallas
800-333-4460 ext-5366
http://www.dallasfed.org

8) Health Insurance Association of America
http://www.aahp.org/template.cfm

9) *Health Insurance Consumer Guide for Indiana*
http://www.healthinsuranceinfo.net/in00.html

10) *Homeowner's Insurance: Types of Policies*, CFS-603
Purdue University Cooperative Extension Service
West Lafayette, IN 47907
888-EXT-INFO

11) Indiana Department of Insurance
311 W Washington St Suite 300
Indianapolis, IN 46204-2787
800-622-4461
http://www.state.in.us/idoi

12) The Insurance Guide
http://www.insure.com/

13) National Association of Insurance Commissioners
2301 McGee Suite 800
Kansas City, MO 64108-2604
816-842-3600
http://www.naic.org/

14) Peterson, Ann and Rosenberg, Stephen, CFP
Every Woman's Guide to Financial Security, 1997
Career Press
Franklin Lakes, NJ 07417

15) Pond, Jonathan D, CPA
The ABCs of Managing Your Money, 1993
National Endowment for Financial Education
Greenwood Village, CO 80111
(303) 741-6333

16) Guide to Health Insurance for People with Medicare: Choosing a Medigap Policy
U.S. Department of Health and Human Services Health Care Financing Administration
http://www.healthfinder.gov/docs/doc00610.htm

Materials available in the *Focus on Financial Management* series

Focus on Financial Management Workbook, CFS-727 ($25)

This printed workbook contains eight chapters designed to help middle-income adults increase their financial management knowledge. It is designed either for self-directed study or for participants who enroll in a *Focus on Financial Management* program. The workbook contains 24 worksheets to help participants conduct self-assessments and compile appropriate records.

Focus on Financial Management Coordinator's Guide, CFS-726 ($75)

This package contains the Coordinator's Guide and Workbook in print and on a CD so that a coordinator can present the eight 2½-hour sessions. The program coordinator is expected to organize and present the sessions and provide materials to the participants. The CD is available separately (CD-CFS-726) for $50.

Order online at www.extension.purdue.edu/store
or by e-mail to media.order@purdue.edu
or by telephone to (765) 494-6794 or 888-EXT-INFO (398-4636)
or by fax to (765) 496-1540
or by postal mail to:

Purdue Extension • The Education Store
231 S. University St.
West Lafayette, IN 47907-2094

The following individual chapters of the workbook are available free online.

- CFS-727-1-W, Unit 1: Focus on Getting Organized
  www.extension.purdue.edu/extmedia/CFS/CFS-727-1-W.pdf
- CFS-727-2-W, Unit 2: Focus on Money Personalities
  www.extension.purdue.edu/extmedia/CFS/CFS-727-2-W.pdf
- CFS-727-3-W, Unit 3: Focus on Your Net Worth
  www.extension.purdue.edu/extmedia/CFS/CFS-727-3-W.pdf
- CFS-727-4-W, Unit 4: Focus on Risk Management
  www.extension.purdue.edu/extmedia/CFS/CFS-727-4-W.pdf
- CFS-727-5-W, Unit 5: Focus on Savings and Investments
  www.extension.purdue.edu/extmedia/CFS/CFS-727-5-W.pdf
- CFS-727-6-W, Unit 6: Focus on Credit Cards
  www.extension.purdue.edu/extmedia/CFS/CFS-727-6-W.pdf
- CFS-727-7-W, Unit 7: Focus on Life's Challenges
  www.extension.purdue.edu/extmedia/CFS/CFS-727-7-W.pdf
- CFS-727-8-W, Unit 8: Focus on Retirement
  www.extension.purdue.edu/extmedia/CFS/CFS-727-8-W.pdf

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