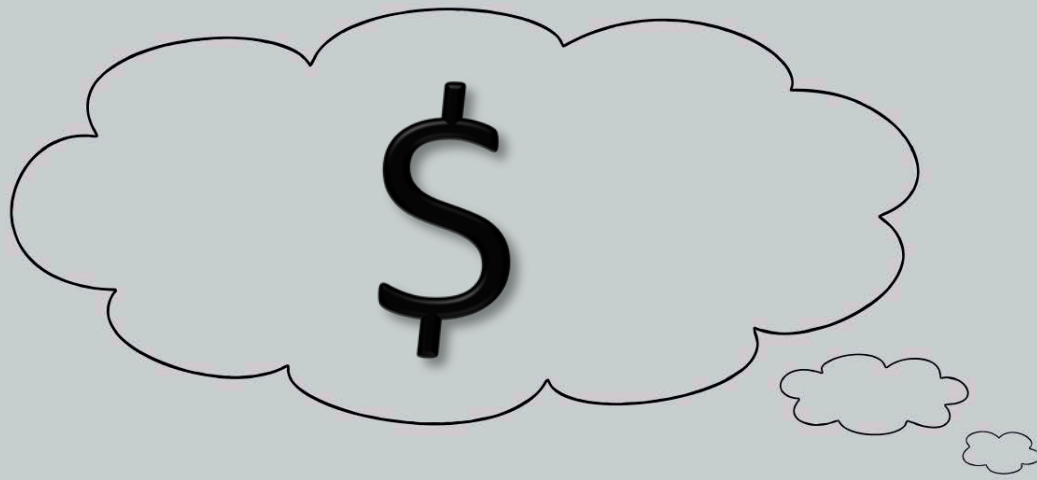


# Financial Psychology





# Financial Psychology

In this unit you will develop an understanding of how your financial psychology relates to achieving your financial and lifestyle goals. You will explore these concepts by looking in-depth at how your personality, goals, dreams, and emotions can affect your attitude toward money.

# The Most Important Thing

## Warm-Up Activity

Take a moment to reflect on the following quote:

“Money frees you from doing things you dislike. Since I dislike doing nearly everything, money is handy.” ~*Groucho Marx*

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## Lesson Activity: Money Motivation

**BELIEF STATEMENT:** I believe the most important thing money can buy is \_\_\_\_\_

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## THE BEN FRANKLIN CLOSE

Reasons For	Reasons Against

# The Most Important Thing

## Lesson Questions

1. What is the most important factor determining your overall financial success?
  - a. Your current net worth.
  - b. Accumulation of material goods.
  - c. Developing financial skills.
  - d. Freedom from want.
2. Which of the following supports your motivation to acquire money and attain your financial goals?
  - a. Your dreams and personal goals.
  - b. Graduating from school.
  - c. Living without negative emotions.
  - d. Living without stressors.
3. What is motivation?
  - a. The drive to do something.
  - b. Drive to do nothing.
  - c. Lack of energy.
  - d. None of the above.

## Essential Questions

What motivates you to get money? \_\_\_\_\_

\_\_\_\_\_

Why do these things motivate you to obtain money? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

How does your motivation affect your desire to earn money? \_\_\_\_\_

\_\_\_\_\_

Can your motivation for money affect your wants and needs in life? \_\_\_\_\_

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## Money and Emotions

### Warm-Up Activity

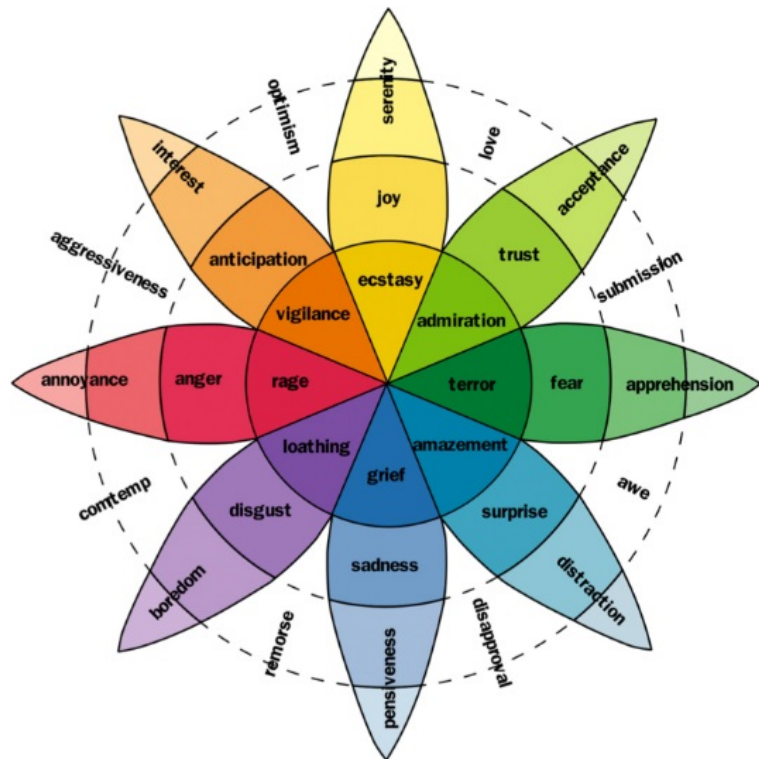
Describe how the following scenario makes you feel:

You are at the mall with your friends. You only have \$10 cash. You want to go to lunch with your friends but the cheapest item on the restaurant menu costs \$15.

### Wheel of Emotions

Lots of emotions are involved in making money and financial decisions. According to Robert Plutchik's Wheel of Emotions theory, there are eight basic emotions.

1. Trust → this also includes admiration and acceptance.
2. Fear → the feeling of being afraid, shocked, or scared.
3. Surprise → how you feel when something unexpected happens.
4. Sadness → feeling sad. Other words that describe sadness are sorrow, grief, and depression.
5. Disgust → feeling something is wrong or dirty.
6. Anger → feeling angry or enraged.
7. Anticipation → the sense of looking forward positively to something which is going to happen.
8. Joy → feeling happy, glad.



# Money and Emotions

## Lesson Activity: How Do You Feel About That?

Follow the instructions provided by your instructor.

In your small group, create a skit/role-play that addresses each of the three scenarios below. Be sure to answer this question in the skit:

How would you feel about each situation?

### SCENARIOS

Your girlfriend or boyfriend wants to go out for a nice dinner to celebrate your anniversary.



All your friends are taking a trip to Costa Rica for a week.

A close relative is graduating from college and you want to buy her a great gift to honor her accomplishment.



## Lesson Questions

1. Which of the following emotions could influence a person to make an incorrect financial decision?
  - a. Fear
  - b. Joy
  - c. Sadness
  - d. All of the above.
2. How can you avoid having negative feelings about money?
  - a. Delay setting up a savings plan to avoid stress.
  - b. Delay setting up a spending plan to avoid arguments.
  - c. Think about your dreams and hope everything works out.
  - d. Only spend the money you have.
3. Cultural values have little effect on the formation of an individual's lifestyle and financial choices.
  - a. True
  - b. False
4. My personal emotions can be affected by my financial situation.
  - a. True
  - b. False

Essential Questions

How does my financial situation affect my emotions?

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How do my emotions affect my financial situation?

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Why is it important to know how money and emotions affect each other?

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## Goals

### Warm-Up Activity

What is a goal? \_\_\_\_\_

What is the difference between goals and dreams? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

A dream exists only in your head. Think of your dream as a target. Unless you shoot an arrow toward that target, you'll never hit it. Dreams are your ideas of success; goals define the action you must take in order to make dreams real. Goals are expressions of your personal dreams about your ideal future. They are statements of anticipated outcomes you are looking to achieve.

Setting goals and priorities, and then following through with active plans to make them happen, is the essential process for turning dreams into reality. Goals are basically your dreams written down with a solid plan to reach them. The simple act of writing down what you want from life helps keep you focused and in control. How your life pans out is entirely your choice—so write your goals out now, and create a plan to achieve them.

#### HOW TO SET GOALS TO ACHIEVE YOUR DREAMS

- ☐ Daydream about how you want to live your life and the lifestyle that you picture for yourself.
- ☐ Get these daydreams down in writing — just write. Do not judge.
- ☐ Organize your goals on paper by the date you want to accomplish them.
- ☐ Create a rough plan to accomplish your goals.
- ☐ Review your goals often — every day would be excellent!
- ☐ See it. Believe it. And think about achieving your goals.

You have the ability to get whatever you want in life. Setting goals may sound simple, but that simple action will make a tremendous impact on all areas of your life.

## Lesson Activity: I Want It!

I want it!

The best way to get what you want is to set a plan to achieve it.

- What is it that you really want to buy in the next 5-10 years?
- What are you going to do to get there?
- Make your plan today to get started!

I really want ...

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I will buy what I want by using the following plan:

- This month I will \_\_\_\_\_
- Next month I will \_\_\_\_\_
- Within 6 months I will \_\_\_\_\_  
\_\_\_\_\_
- This year I will \_\_\_\_\_  
\_\_\_\_\_
- Next year I will \_\_\_\_\_  
\_\_\_\_\_
- Two years from now I will \_\_\_\_\_  
\_\_\_\_\_
- In 5 years I will \_\_\_\_\_  
\_\_\_\_\_
- In 10 years \_\_\_\_\_  
\_\_\_\_\_
- In 25 years \_\_\_\_\_  
\_\_\_\_\_

## ■ Creating Life and Financial Goals

What's standing between you and your dreams, your future success? **NOTHING** — if you can set goals and make an actionable plan for achieving them!

If you've ever aspired to be comfortably secure or financially independent — even to be a millionaire! — reaching those aspirations requires goal- setting. Just like in sports, you can't score without a goal, right?!

Successful people have written goals. You will achieve a higher percentage of your goals by imagining the successful achievement of those goals. When you write your goals and use mental imagery to focus your thinking, you can actually rewire your brain so the neurons form new connections and make new pathways. This helps you achieve a higher percentage of your goals.

Setting goals for financial planning and life success has many benefits, for example:

- **MOTIVATION.** Goals motivate you. Your life is moving toward some- thing instead of floating to nowhere.
- **SAVING VS. SPENDING.** How much of your monthly paycheck should you save? How much should you spend on shoes and music? Good questions—and without a set goal, you might see your shoe and iPod flourish while your finances suffer.
- **FREEDOM.** Once you've set a goal — believe it or not — you become liberated from constantly worrying and wondering what you're going to do with your life. Plan and set goals when you're young, or else wake up when you're 95 years old and say, "Hey! What happened to my life, my money, and my dreams?"
- **SCORING.** You achieve success by scoring. How can you score if you don't even know where the goal is? Set goals, achieve them, and feel rewarded. Planning ahead makes scoring so much easier.

Goal-setting can improve every area of your life. For a well-balanced life, set goals in each of the following areas:

- Family/Relationships
- Physical Health and Well-being
- Giving Back
- Fun & Toys
- Spiritual Self
- Money/Career
- Personal Growth

## ■ The S.M.A.R.T. Guidelines

Turning your dreams into reachable objectives takes some thought, but there's a proven technique. Use the **S.M.A.R.T** guidelines:

### **S – SPECIFIC, SIGNIFICANT**

Be **specific**. Describe what you want to accomplish in clear and specific terms. If you can really visualize your goal, it's easier to achieve.

*Example:* If you're saving money to buy a car, it's much easier to keep to that savings plan when you have the model, color, and features picked out

**Significant**. Make sure your goals are for what *you* want. Goals should match your personal interests and values.

### **M– MEASURABLE, MOTIVATIONAL.**

**Measurable**. You must be able to measure your goals; that is, you will know when you get there.

*Example:* "I will have a net worth of \$2.5 million by my 40<sup>th</sup> birthday."

**Motivational**. Your goals should motivate you to move to the next level — and beyond!

### **A – ATTAINABLE.**

Goals must be **attainable**.

*Example:* Wanting to be President is a tough goal, but possible. Wanting to be Spiderman is a fantasy; you'll never get there.

### **R – RESULT-ORIENTED, REASONS.**

**Result-oriented**: Phrase your goals in the positive. "I accomplished. I have. I am enjoying." Positive phrases direct your mind to focus on outcomes. When your mind is on board, the rest comes naturally.

*Example:* I will earn enough money by next January to afford the \$1,000 vacation I've always wanted.

**Reasons**: Why do you want to accomplish the goal? Deciding on the reasons behind each goal provides inspiration. For instance, if your goal is to be financially-free, some reasons behind that goal might be:

- Spend more time with family or friends.
- Feel more secure about your future.
- Free time to do favorite activities — travel, sports, etc.
- Stand out among friends and associates.
- Be able to afford things you want.
- Ability to help family members and take care of loved ones.

The reasons behind a goal are the fuel that keeps you motivated to accomplish all your hopes, and more!

## T – TIME DRIVEN.

Good goals are time-driven. In other words, give yourself a deadline. For your plans to operate smoothly, you need to write down specific dates. You need a sensible time frame in order to work toward a goal and track your progress along the way.

*Example:* “I have paid of my \$2,300 credit card by Memorial Day, and will be enjoying myself on vacation”

## Lesson Activity: Writing S.M.A.R.T. Goals

Remember that your goals must fit together. Goals should be headed in the same direction, not contradictory. For instance, having two goals of “saving up enough money by the end of summer to buy a LED Smart TV” and “taking the summer off to travel” contradict each other—you would only be able to accomplish one or the other. You must decide which is more important to you: TV or travel?

POORLY WRITTEN GOALS	WELL WRITTEN GOALS
<input type="checkbox"/> I want to have more money for vacation.	<input type="checkbox"/> I will have saved \$5,000 by New Years’ Day and will reward myself with a trip to Hawaii with my family.
<input type="checkbox"/> I’ll try to invest more.	<input type="checkbox"/> I will take a class on investing and find a trusted advisor by my birthday this year.
<input type="checkbox"/> I’ll pay my credit cards and hospital bills.	<input type="checkbox"/> By focusing on keeping expenses low, I will pay in full my \$4,200 credit card bill and cleared my hospital bills from my credit by the end of this year.

YOUR SMART GOALS

## MAKE IT HAPPEN!

Once you've written down your goals using the S.M.A.R.T. guidelines, follow these steps:

- **Plan of Attack.** Write down each step you need to take toward accomplishing the goal. These step-by-step plans may sound corny, but they work. Reaching goals is like climbing stairs: without steps, how can we ever move up? Build steps in your staircase of life. Suddenly the next level will seem that much closer!
- **Review your goals often.** Write your goals on the back of an index card and tape it to the mirror where you brush your teeth. Put an identical card by your bedside table and another on the dash of your car. Look at your goals daily. Keep them in the forefront of your mind.
- **See it, believe it.** Visualize your goals coming true. The body goes only where the mind has already been. That means you must see, hear, smell, touch, and feel what it will be like to accomplish your goals. Visualization is like daydreaming with a purpose. By imagining yourself already accomplishing your goal, you are well on the road to success.
- **What you think about, you become.** You have the ability to get whatever you want in life. All you need to do is change your thoughts. The law of attraction says you will get whatever you think about, whether wanted or unwanted.

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## Lesson Question:

1. To set a good goal, you should
  - a. Set a clear timeline for achieving the goal.
  - b. Identify what you are willing to give up in order to attain the goal.
  - c. Both a. and b.
  - d. Neither a. nor b.
2. Goals
  - a. Are just dreams.
  - b. Should only be long-term.
  - c. Should only be short-term.
  - d. Should be specific and achievable.
3. Setting financial goals
  - a. Is not really necessary.
  - b. Is only important if you own a business.
  - c. Is only necessary once per year.
  - d. Is required in order to achieve financial security.

Essential Questions:

How are dreams and goals related?

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What do goals have to do with finances?

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What is the importance of setting goals to reach your dreams?

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# Risk Management & Insurance





# Risk Management & Insurance

In this section you will develop an understanding of insurance and ways to manage risk. Within this instruction you will learn about the various types of insurance including medical, car, and renter's insurance and will understand why purchasing insurance is necessary.

## What Is Insurance?

### Warm-up Activity:

What do you think insurance is? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

### What is Insurance?

Insurance is a form of risk management. When you buy insurance you pay a relatively small amount of money (*called a premium*) on a regular basis (*monthly or annually*) to an insurance company. By paying the insurance premium, you protect yourself against a large, unpredictable expense (*called a loss or claim*) that you might incur if something bad (*like an accident, illness, or injury*) happened to you. Basically, insurance transfers the risk from you to the insurance company for a fee.

Essentially, insurance is an agreement that states something is protected if it is damaged, hurt, or stolen. When you purchase insurance on something it can protect your investment. If anything happens to the insured item that's covered by the policy, you can receive funds from the insurance company to have the item replaced or fixed, or receive a cash settlement.

### Insurance Categories

There are several basic categories of insurance. Three of the most common forms are Liability, Property, and Life.

**LIABILITY INSURANCE** protects you from having to pay for damages or injuries caused to other people. For example, if you have a car accident and cause damage to the other person's car, you may be held liable for the cost to repair the car. Or if the other person is injured in the crash, you might be held liable for his or her hospitalization and/or medical expenses. If someone slips and falls on an icy sidewalk that sits on property that you own, you could be held responsible for that person's injuries. But if you have liability insurance, much of the expense for these damages is transferred to the insurance company.

**PROPERTY INSURANCE** covers loss or damage to your physical stuff. For example, you would buy property insurance to cover your house in case it's damaged in a fire or flood. You also can get property insurance that covers the cost of your belongings if they're damaged or stolen.

# What Is Insurance?

Renter's insurance, which protects the belongings of people who rent their living spaces, is another type of property insurance.

**LIFE INSURANCE** is an agreement between you and the insurance company where you pay a regular premium so that, if you die, the company will pay a specified sum of money to the person (or people) you choose. A person who is the breadwinner for a family usually buys life insurance to make sure his or her dependents are secure if something happens to the breadwinner.

Some life insurance policies allow you to borrow against the total benefit. That means life insurance can play a role in your financial planning—you could use the loan to purchase assets, for example.

## Why Do You Need Insurance?

Insurance protects your financial future by reducing your risk. If you have an accident or a major health problem and no insurance, you could be faced with a huge bill to pay. If you're unable to pay that bill, your credit rating will be damaged.

Insurance not only protects you and the people around you, it's also good for the economy. Banks won't lend out money unless they have a pretty good chance of getting it back, so they want their investments to be protected. Thus insurance provides extra protection for the lending process. Having insurance makes it more likely that you'll get a loan, and is required to get a loan in many cases (like when you finance a car).

In today's age, having—at the very least—both automobile and health insurance is vitally important, both to your personal well-being and to your finances.

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### Lesson Activity: Insurance Game

The class will be divided into small groups to play a game. Follow your instructor's directions.

- You will receive 20 raffle tickets.
- Before the game starts, you will have the option to spend three tickets to buy car, medical, and renter's insurance (one ticket each).
- If you don't buy insurance, you will have to spend tickets every time something happens.
- Students in each group will alternate turns rolling the dice and follow the guidelines below.

If student rolls:	Circumstances	Consequence With insurance	Consequence Without insurance
<b>Doubles</b>	Nothing happens. They are safe.	Get 1 extra ticket	Get 1 extra ticket
<b>3</b>	They fall and hurt their leg	Pay 1 ticket	Pay 4 tickets
<b>4</b>	They get into a car accident.	Pay 1 ticket	Pay 6 tickets
<b>5</b>	Their apartment is broken into and they need to replace their electronics.	Pay 1 ticket	Pay 5 tickets
<b>6</b>	They get the flu and need prescription antibiotics and blood tests	Pay 1 ticket	Pay 4 tickets
<b>7</b>	Someone hits their car in the parking lot	Pay 1 ticket	Pay 3 tickets
<b>8</b>	A pipe burst in their apartment and ruins their couch and TV	Pay 1 ticket	Pay 6 tickets
<b>9</b>	A rock hits their car and breaks the windshield	Pay 1 ticket	Pay 5 tickets
<b>10</b>	They trip and fall and sprain their ankle. They need crutches, an x-ray and pain medication	Pay 1 ticket	Pay 8 tickets
<b>11</b>	They want to get a flu shot for protection	Pay 1 ticket	Pay 3 tickets
<b>12</b>	The roof collapses and damages all their belongings	Pay 1 ticket	Pay 10 tickets

The student with the most tickets at the end of the game wins!

## Lesson Questions: What is Insurance?

- Why does purchasing insurance help protect your investment?
  - Insurance may pay for all of any loss.
  - Insurance may pay for losses that are insured.
  - Purchasing insurance is the law.
  - Purchasing insurance is necessary if you do not have the money to pay for losses.
- If the risk of something happening is low, why should people purchase automobile insurance?
  - They shouldn't if they don't want to.
  - They shouldn't if they can pay for damages.
  - It may be required by state law and protect them from lawsuit.
  - It may be easier to be sued and have their wages garnished.

# What Is Insurance?

## Essential Questions

What is insurance? \_\_\_\_\_

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Why is it important to have insurance? \_\_\_\_\_

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For what items do you need insurance coverage? \_\_\_\_\_

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## What Insurance Do I Need? The Basics

### Warm-up Activity

What type of bill is the leading cause of bankruptcy? \_\_\_\_\_

How could this bill be avoided? \_\_\_\_\_

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### Why Do I Need Insurance?

Insurance helps protect you and your finances from many of life's problems. Today it is more important than ever to have automobile and health insurance (at the very minimum). There are many types of insurance coverage available; it's up to you to decide which policies you need. The information in this chapter will help.

Lack of health insurance is one of the biggest reasons behind people's decisions to file bankruptcy. And with all the expensive cars on the road today, even a little fender bender without insurance can mean you'll be making payments to the courts for years.

### Types of Insurance

- **Health insurance** is a must. If you rarely get sick, look for cheaper forms of insurance that just protect you in case of a major medical emergency. **Dental insurance** is health coverage that also is recommended; dental policies are pretty cheap.
- **Automobile insurance** is a must if you drive or own a car. Talk to your insurance agent to ensure that you have enough coverage.
- **Renter's insurance** is important for non-homeowners who have nice things. (If you have a 20-year-old TV and a couch you found in the alley, renter's insurance may not be so important.)

### Auto Insurance

If you own or drive a car, get and maintain car insurance; it's vital. Without insurance, you are taking a huge risk—risk to yourself, to others, and to your future finances.

# What Insurance Do I Need: I

Let's say you have no car insurance and you get in an accident. If you're at fault and caused \$80,000 in damages and medical costs, the courts could determine that you're responsible to pay. They can garnish your wages (automatically take money from your paycheck) to repay the money you owe. A court-ordered garnishment for \$80,000 would severely stifle your income for many years to come.

Shopping for insurance takes time, but you can use the Internet to obtain lots of quotes fast. However, be sure to read each policy and its special provisions carefully to make sure the policies you're evaluating are comparable.

To help lower auto insurance costs, try the following:

- **Good driver discounts** – Your insurance premiums increase every time you're cited for a traffic violation or get in an accident. If you maintain a good driving record, you'll receive insurance discounts.
- **Good car** – Sports cars or four-wheel-drive vehicles cost more to insure. Insurance companies figure those customers are likely to drive fast or off-road, posing greater risk.
- **Longevity discounts** – Many insurance companies offer lower premiums to customers who have established a long-term relationship with the company.

You bear ultimate responsibility to make sure you're covered and protected. Driving without insurance puts your lifestyle and future finances at risk.

## Health Insurance

Paying health insurance premiums might seem like a waste of money, especially to healthy people. But health insurance protects you from sky-high medical bills if you become unexpectedly ill or injured.

You may be tempted to think, "I never get sick," and opt out of paying for health insurance. That's a mistake. If you forego insurance, any catastrophic accident or illness could bankrupt you. It happens all the time.

**Health Insurance Explained.** Health insurance is a form of risk management used to protect individuals against an unpredictable health loss. An insurance policy is a contract between an individual and an insurance company that transfers responsibility for such a loss from the individual to the insurance company—for a fee (called a premium). All health insurance policies are not alike. Each individual should take time to review and understand his or her insurance policies. Following are the most important aspects to consider:

- **Doctor and medical facilities availability.**  
Make sure the doctors, hospitals, and medical groups you want to use are contracted with your insurance company.



- **Premium** (monthly cost). The monthly fee should be affordable; you should be able to maintain that premium over time within your budget.
- **Deductible.** The amount you must pay out-of-pocket before the health insurance plan pays its share.
- **Co-payment.** The amount you have to pay before the health plan pays. The co-payment is a lot like a deductible, but is applied to individual services that are usually waived from the deductible (except for prescription drugs).
- **Exclusions.** Not all services are covered in every plan. A lot of new plans don't cover maternity or brand-name prescriptions. Exclusions can reduce premiums, but also your options for covered healthcare.
- **Out-of-pocket maximums.** This is the amount where, once you have paid this much, your obligation ends under co-insurance and the insurance company pays 100% of any additional costs.
  - For example, you have an insurance policy that requires you to pay 20% of all medical bills. If you are in a severe car accident resulting in total medical bills of \$100,000 you would need to pay \$20,000 if you did not have an out of pocket maximum.
  - Now let's assume the same scenario, but you have a \$5,000 out of pocket maximum. You would then pay 20% on the first \$25,000 of medical bills (totaling \$5,000) then the insurance company would take care of the remaining \$75,000.

Health insurance policies can be confusing. Find an insurance agent who specializes in health coverage and meet with him or her to review the details. You'll pay no more going through an agent than you would by purchasing direct.

**GROUP POLICIES.** Many consumers have health care coverage from their employers. Others have medical care paid through a government program such as Medicare, Medicaid, or the Veterans Health Administration. And if you lose group coverage from an employer, you may be able to purchase continued health care coverage temporarily under the Consolidated Omnibus Budget Reconciliation Act (COBRA). Visit <http://www.dol.gov/dol/topic/health-plans/cobra.htm> for more information.

**MEDICARE AND MEDICAID.** These health insurance programs cover seniors, the disabled, or those with low incomes.

- Medicaid provides health insurance for people with low income, children, and pregnant women. Eligibility is determined differently by state.

## **AFFORDABLE CARE ACT (ACA)**

The 2010 Affordable Care Act (ACA) puts in place comprehensive health insurance reforms that will roll out over several years. Most provisions take effect by 2014. A timeline is available at [healthcare.gov/law/timeline](http://healthcare.gov/law/timeline). The ACA is intended to:

- lower health care costs;
- provide more health care choices; and
- enhance the quality of health care for all Americans.

- Medicare provides health insurance for people who are 65 years or older, some younger people with disabilities, and those with kidney failure.
- Contact the Centers for Medicare & Medicaid Service for more information on benefits.
- Most states also offer free or low-cost coverage for children who have no health insurance. Visit [www.insurekidsnow.gov](http://www.insurekidsnow.gov) or call 1877-KIDS-NOW (543-7669) for more information. [www.yahoo.com](http://www.yahoo.com)

## **Dental Insurance**

Dental insurance also protects you from unplanned costs. If you have healthy teeth, you might be able to live without this coverage for a while, but if you have a history of cavities, periodontal disease, or other oral problems, dental coverage is important.

## **Renter's Insurance**

Renter's insurance protects non-homeowners in the event of theft or fire, and renter's coverage is relatively inexpensive. The insurance company will ask you to take inventory of your belongings and indicate what it would cost to replace them. If you just have an old couch and some clothes, you probably don't want to add the expense of this insurance. But if you have designer clothes, computers, nice furniture, jewelry, and other expensive items, looking into renter's insurance is a good idea.

## Lesson Activity: What's that Insurance?

Create your own definitions for health (medical), automobile, and renter's insurance.

**YOUR DEFINITION for Health (Medical) Insurance** \_\_\_\_\_

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**YOUR DEFINITION for Automobile Insurance** \_\_\_\_\_

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**YOUR DEFINITION for Renter's Insurance** \_\_\_\_\_

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# What Insurance Do I Need: I

## Lesson Questions

1. What type of insurance can protect against lawsuit, wage garnishments, and/or credit problems?
  - a. Automobile
  - b. Renter's
  - c. Health
  - d. All of the above
2. Which of the following is an important factor to consider when choosing a health insurance policy?
  - a. The availability of COBRA coverage.
  - b. Doctor and medical facility availability and convenience.
  - c. The Affordable Care Act.
  - d. The National Committee for Quality Assurance.
3. What was the primary goal of the 2010 Affordable Care Act?
  - a. To provide and enhance quality health care for all Americans.
  - b. To reduce the co-payments charged by HMOs.
  - c. To protect rental units from fire damage.
  - d. To encourage more health care companies to allow people to sign up online.

## Essential Questions

What are the three basic types of insurance that I need to obtain?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

What type of bill is the leading cause of bankruptcy and can be prevented by insurance?

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## What Insurance Do I Need? (Advanced)

### Warm-up Activity:

Besides the three basics (automobile, health, and renter's), name some other types of insurance.

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### Advanced Insurance Knowledge

Besides the basics of Auto, health and renter's insurance, there are a few more types of insurance that become important to have once people own properties, become established in their careers or gain dependents. More advanced insurance knowledge covers life, disability, property, and long-term care insurance, as well as wills and trusts.

### Life Insurance

Life insurance helps protect you and your family in case of an unexpected circumstance. Even if dying seems like a remote possibility at your life stage, this inexpensive protection may be good to have. The benefit would help your family pay for your funeral and cover other costs in the event of your death.

Life insurance takes another role in our financial plan: it can serve as an investment vehicle. Consult with a life insurance provider or agent to learn more about how you and your family may benefit from life insurance.

# What Insurance Do I Need: II

There are two main types of life insurance:

1. **Term Life Insurance** pays a death benefit when someone dies; provides coverage for a limited time period; and does not accrue cash value. There are four kinds of term insurance.
  - Annual Renewable Term
  - Level Premium Term
  - Decreasing Term
  - Return of Premium Term
2. **Permanent Life Insurance** pays a death benefit, can be continued for a longer period of time/full lifetime, planned level premium, and may accumulate cash value. Permanent life is sold under many different names.
  - Whole Life
  - Universal Life
  - Variable Life
  - Indexed Life

TERM LIFE INSURANCE PROS AND CONS	
PRO'S	CON'S
<ul style="list-style-type: none"><li>• Premiums are lower.</li><li>• Specific needs are insured that will disappear over time, such as mortgages or loans.</li><li>• Many term insurance policies can be exchanged for or converted to a permanent policy during the term period.</li></ul>	<ul style="list-style-type: none"><li>• The older you get, the higher your premiums becomes.</li><li>• Coverage ceases when the term ends.</li></ul>
PERMANENT LIFE INSURANCE PROS AND CONS	
PRO'S	CON'S
<ul style="list-style-type: none"><li>• As long as the necessary premiums are paid, protection can be guaranteed for life.</li><li>• Premium payments can be fixed or flexible to meet personal financial needs.</li><li>• The policy can accumulate a cash value that can typically be borrowed against.</li><li>• The policy may be surrendered partially or wholly for the cash value, or it may be converted to an annuity.</li><li>• A "rider" (additional feature) can be added to a policy.</li><li>• It pre-funds rising insurance costs.</li></ul>	<ul style="list-style-type: none"><li>• Higher premium payments.</li><li>• It may be more costly than term insurance if you don't keep it long enough.</li><li>• Policy loans must be paid back with interest or else the beneficiary will receive a reduced death benefit.</li><li>• The cash value accumulates on a tax-deferred basis in most cases.</li></ul>

## Lesson Activity: Life Insurance Amount Worksheet

### INCOME REPLACEMENT

1. **Annual income needed.** How much annual income would your family need if you died today? Let's start with your current **monthly** expenses. If you don't monitor these numbers closely already, take this opportunity to get to know them now.

Mortgage/Rent	\$_____	
Car payment(s)	\$_____	
Groceries	\$_____	
Clothing	\$_____	
Utility bills	\$_____	
Transportation	\$_____	
Child care	\$_____	
Medical/Dental expenses	\$_____	
Travel/Entertainment	\$_____	
Everything else	\$_____	
<b>MONTHLY SUBTOTAL</b>	\$_____	X 12 = \$_____ (1)

2. **Income that would continue after your death.** Include all pensions, dividends, interest, current (or estimated) Social Security benefits, and all other sources of income.

**MONTHLY SUBTOTAL**      \$\_\_\_\_\_      X 12 = \$\_\_\_\_\_ (2)

3. **Subtract line 2 from the total in line 1.** This is the minimum amount your life insurance needs to cover one year if you passed away today.      \$\_\_\_\_\_ (3)

4. **Multiply line 3 by the appropriate factor below.** For now, let's assume that you're insuring your income for a set amount of time. That time period may be based on your life expectancy or on the amount of time your dependents will actually be dependent (for example, through college).

#### Req. # Years    Multiplier

10 years.....	8.1
15 years.....	11.1
20 years.....	13.6
25 years.....	15.6
30 years.....	17.3
35 years.....	18.7
40 years.....	20.0

Let's say you were insuring \$65,000 for **10 years** because in 8 years, all of your kids will be out of college: **\$65,000 times 8.1 = \$526,500**. Why 8.1? It's a safe assumption that your family will need only 60% to 80% of your income for basic living expenses, and that their needs will decrease over time. What amount, then, is needed to provide income for your required number of years?

\$\_\_\_\_\_ (3) X \_\_\_\_\_ (approx. multiplier) =  
\$\_\_\_\_\_ (4)

*(Continued on Next Page)*

# What Insurance Do I Need: II

## EXPENSES

5. **Funeral expenses.** The average cost of an adult funeral is about \$10,000. Use this figure or do research to determine a more accurate number based on your preferences and region. \$\_\_\_\_\_ (5)
6. **Administrative expenses.** Also referred to as an emergency fund or final expenses. These types of expenses can vary when cleaning up the affairs of the deceased (adviser fees, lawyer fees, and filing taxes, for example) but this number should be approximately 6 months (50%) of your annual salary. \$\_\_\_\_\_ (6)
7. **Mortgage and other outstanding debts.** Include here any outstanding mortgage principal, credit card debt, car loans, home equity loans, student loans, etc. \$\_\_\_\_\_ (7)
8. **Education costs.** If you plan to cover the costs of college or private education for your child(ren) or other dependent(s), consider those costs here. Multiply the average cost you researched and any current or future costs for private education by the number of children. \$\_\_\_\_\_ (8)
9. **Multiply line 8 by the appropriate years before college age.** Like line 4 above, the factors account for a decreasing need. For example, if you planned on sending two children—one age 8 and the other age 13—to public college (based on an average cost (at the time of writing) of \$60,852, you would calculate
- \$60,852 X 0.82 = \$49,899  
\$60,852 X 0.68 = \$41,379  
which equals \$91,278
- | Req. # | Years       | Multiplier |
|--------|-------------|------------|
| 5      | years.....  | 82%        |
| 10     | years ..... | 68%        |
| 15     | years ..... | 56%        |
| 20     | years ..... | 46%        |
- \$60,852 X \_\_\_\_\_ (approx. multiplier) = \$\_\_\_\_\_.  
\$60,852 X \_\_\_\_\_ (approx. multiplier) = \$\_\_\_\_\_.  
Repeat calculation for each child/dependent, and add to get total: \$\_\_\_\_\_ (9)
10. **TOTAL EXPENSES.** Add lines 4, 5, 6, 7, and 9: \$\_\_\_\_\_ (10)

(Continued on Next Page)



## ASSETS

Now for your assets. Keep in mind that the value of your current assets may be considerably different from their value at the time of your death. The respective values of such assets as real estate, a family business, or other big investments may be significantly discounted due to quick, forced sale or liquidation.

11. **Current Assets.** Bank accounts, money market accounts, CDs, stocks, bonds, mutual funds, real estate. \$\_\_\_\_\_ (11)
12. **Retirement savings.** IRAs, 401(k)s, Keoghs, pension and profit-sharing plans. \$\_\_\_\_\_ (12)
13. **Present amount of life insurance.** Include existing policies and group life insurance through your employer that you believe will continue. \$\_\_\_\_\_ (13)
14. **Total income-producing assets.** Add lines 11, 12, and 13. \$\_\_\_\_\_ (14)
15. **TOTAL LIFE INSURANCE NEEDED.**  
Subtract line 14 from line 10. \$\_\_\_\_\_ (15)

## Disability Income Insurance

Many people overlook disability coverage. While your own death may seem unlikely, the chances of becoming disabled – unable to work for an extended time – are greater than most people realize. Statistically, 25% of American workers become disabled at some time during their careers!

You could have a car accident or a bad tumble while jet skiing. Disability coverage in a typical policy is adequate to replace about half your income if you suffer an accident or health emergency that prevents you from working for an extended period.

Consider what would happen if you were unable to work for six months. You would still have to pay your rent or mortgage, make your car payments, and deal with a host of other expenses – those bills aren't just going to go away. Think about it.

Coverage for medical, dental, life, and disability insurance through your employer will be limited to your time of employment. If you change jobs, compare benefits so you understand any changes. For example, you may have to pay more for your health insurance at the next employer, or the coverage may not be as generous. And if you take time off from work between jobs, you must plan for an inevitable gap in insurance coverage—especially health insurance.

Insurance helps you reduce risk and protect your financial future. Make sure you have the right coverage so you, your family, and your money are safe.

# What Insurance Do I Need: II

## Social Security Disability Income (SSDI)

The Social Security Administration (SSA) provides long-term disability benefits based on your salary and the number of years you have worked and contributed to the Social Security system.

Social Security Disability Income Insurance (SSDI) replaces only a limited portion of your salary. It does not affect most people's contracts because the waiting period before you can collect is 12 months, and the qualifications to receive benefits are very strict.

To learn more about SSDI and to read Social Security's fact sheets as well as actuarial publications, go to [www.ssa.gov/disability](http://www.ssa.gov/disability).

## Employer Group Disability

Employers often provide a basic coverage amount for long-term disability. You may be automatically enrolled, or you will be given the option to join at your employer's open enrollment period.

Sometimes employers offer the option of paying on either a pre-tax or a post-tax basis.

- If you pay on a pre-tax basis, your benefits will be subject to income tax upon collection of benefits.
- If you pay post-tax, your benefits will not be subject to income tax as they have already been taxed.
- Some employers also allow you to purchase additional coverage.

Keep in mind that this coverage is typically not portable and you can usually only get it with a medical exam at the time you're first offered coverage.

Even if you have group long-term disability, your coverage is most likely less than you think it is. A supplemental policy can provide you with a significant amount of additional coverage.

- The majority of group plans pay a pre-tax benefit, which means that any benefits are subject to income tax when you collect them.
- There is usually a maximum monthly benefit.
- Bonuses and commissions typically are not covered.

Every disability insurance policy has certain core parameters that differ from company to company.

You should become familiar with some of the common terms and phrases used in disability insurance policies:

**Benefit Amount.** This is the maximum monthly benefit for your policy. The worksheet below and the life insurance section we covered previously will help you determine your need.

**Occupational Disability Definition.** The definition of disability is the most important part of the policy because everything else stems from it. Some policies pay benefits only if you are unable to perform the duties of any occupation for which you are reasonably qualified by training, experience, and education. However, depending on the definition of disability being used, the own occupation rider is usually not necessary and can significantly add to your premium.

**Elimination Period.** This is the number of days you must pay for covered services before the insurance company will make payments. It is also known as a “waiting” period, and is comparable to a deductible.

**Benefit Period.** This is the length of time for which your benefit will be paid. This is usually a set number of years (example: 5 years) or to age X (such as to age 65). Most policies allow a policy holder to continue the coverage past age 65 with a decreased benefit period of 1 or 2 years.

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## Lesson Activity: Calculate Group Disability Coverage

For group disability coverage, use the formula below to calculate current coverage and how much additional individual disability insurance coverage may be available to you. Most plans provide 50 to 60% of your current annual salary. Most plans have a maximum benefit cap; use your policy’s cap, if that applies.

1. Multiply your current annual gross income by the percent of salary provided by your policy \$ \_\_\_\_\_ (a)
2. Enter your estimated income taxes that will be due on your after-tax, long-term disability benefit (usually 35-40%) \$ \_\_\_\_\_ (b)
3. Subtract (b) from (a).  
This is the value of your current group disability coverage \$ \_\_\_\_\_ (c)

An individual disability program will usually need to replace about 70%+ of your after-tax income.

# What Insurance Do I Need: II

## Policy Riders

Most insurance policies have riders, or extra options, which you can choose to augment the policy. Some common riders:

- Non-cancelable (guarantees against future premium increases)
- Residual or partial disability rider
- Extended/transition benefit
- Cost income provision, cost of living adjustment
- Future increase option
- Catastrophic disability benefit rider
- Supplemental social insurance rider.

Most policies are ***guaranteed renewable***.

**THIS IS VERY IMPORTANT.**

“**Guaranteed Renewable**” guarantees that the insurer cannot terminate the policy as long as the premiums are paid, and the insured doesn’t have to reapply at any point to continue coverage. Premiums cannot be raised based on an individual’s circumstances (although) they can be increased for an entire class of policyholders. No other aspect of the policy can be changed.

## Long-term Care Insurance

Long-term Care insurance coverage pays for expenses that are not covered by health insurance and/or Medicare. The amount of long-term care insurance you will need depends on whether or not you can go without insurance (self-insure) plus how much the daily cost of care will be in the location where you live. Explore the coverage you may need and what you have in other assets, and balance those with a premium that you can afford (even if increased by 25%).

Every Long-term Care insurance policy has certain core definitions and parameters that differ from company to company. Long-term Care policies allow you to customize various components to fit your needs and budget. It’s important to understand each component and how it fits into your financial plan. When you comparison shop for long-term care insurance, the components should be the same so you get as close as possible to an “apples-to-apples” comparison.

- **MAXIMUM DAILY (OR MONTHLY) BENEFIT.** The maximum specified dollar amount that will be paid on a daily basis for services covered under a policy. Research facilities and services in the area you plan to live during retirement to find out the current daily cost of care.

- **ELIMINATION PERIOD.** The number of days that you must pay for covered services before the insurance company will make payments (also known as a waiting period; comparable to a deductible). Policies have different definitions for elimination period.
- **BENEFIT PERIOD.** The number of days for which benefits will be paid. Most current policies allow you to carry over unused benefits. For example, if you are using half of your daily maximum benefit, your benefit period would be twice as long.
- **INFLATION RIDER.** An inflation rider increases your benefit to keep pace with inflationary increases in the cost of long-term care. Typically options are none, 5% simple and 5% compound.
- **OTHER RIDERS.** Other riders include assisted living benefits, survivorship benefits, restoration of benefits and non-forfeiture benefits.
- **DISCOUNTS.** Always ask what discounts are available. Common discounts are for Preferred Health & Marital/Couples Discount. Companies will usually offer a discount to married couples, couples that share a child, and domestic partners.

## Property Insurance

Property or homeowner's insurance covers damages to your home, garage, and outbuildings, plus loss of furniture and personal property due to damage or theft (both at home and away from home). Homeowner's insurance pays for additional living expenses if you rent temporary quarters while your house is being repaired.

### What Property Insurance Usually Covers

- Most homeowner's policies will not protect you from flood, hurricane, or earthquake damage. You can purchase coverage for these situations by adding an earthquake or flood endorsement to your insurance policy, or through the National Flood Insurance Program (NFIP).
- Homeowner's insurance includes liability for bodily injury and property damage you may cause to others through negligence, for accidents happening in and around your home, or accidents happening away from home for which you are responsible.
- Homeowner's insurance also pays for injuries occurring in and around your home to people other than you or your family. Medical payments coverage insures claims for injuries outside your home caused by you, a family member living with you, or your pet.
- Homeowner's policies generally provide limited coverage for money, gold, jewelry, stamp and coin collections.

# What Insurance Do I Need: II

Be sure to ask about exclusions, that is, find out exactly what losses and items are NOT covered. If you want full coverage, tell the insurance company at the time your policy is written. Ask whether the policy excludes or limits coverage for damage by water, earthquakes, earth movement, mold, construction defects, or other common dangers. Take good notes. Store all your policy information in a safe place.

## ■ Umbrella Policies

You can add more personal liability coverage with a standalone “umbrella” policy. Umbrella policies represent a cost-effective way to increase your liability coverage by \$1 million or more, in case you are at fault in an accident or someone is injured on your property. The umbrella policy supplements the insurance you already have for home, auto, and other personal property.

## ■ Choosing the Right Agent

While much of your health, life, and disability insurance may be covered through your employer, you will be responsible to choose your own automobile insurance. And if you are unemployed or self-employed, you’ll have to shop for all types of insurance coverage that you need. Choosing an insurance agent to help you understand your options is a good idea.

Many people choose insurance based on the cheapest rates. But going for the lowest rate can actually cost you more in the long run if you go with a substandard company that won’t come through when you need it. Pick an established insurance company with competitive rates, one that offers all types of insurance (auto, home, renter’s, and life).

Find an experienced agent who knows the business inside and out and has a proven track record. A knowledgeable agent can help you pick the best insurance to protect both you and your bank account. You won’t pay any more by going through an agent than you would buying direct.

## Monitoring your Policies

Life changes. So it's important to monitor all your insurance policies to make sure they still fit your current situation, especially if you've had a change in income or employment.

### Disability Insurance

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**EXCLUSIONS.** Sometimes a disability excludes a certain illness or injury. The exclusion can be removed after a certain period. For example, if you have knee surgery, the insurance company may exclude any disabilities related to the knee for a certain period of time. However, the insurance companies usually do not remove an exclusion automatically; you must request removal.

**CHANGE IN EMPLOYER.** Have you gained or lost your group long-term disability coverage, or is it the same?

**CHANGE IN INCOME LEVEL.** Has your income increased or decreased? Your disability benefit should be adjusted accordingly either by increasing coverage or decreasing coverage.

**FUTURE PURCHASE (OR INCREASE) OPTIONS.** Do you have these options? When are they available and are you eligible? Know the terms and make sure to take advantage if you are eligible. The insurance company typically will notify you, but there is no guarantee that they will do so.

### Life Insurance

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Life insurance doesn't end at purchase. Policies are living things, and there are many components that affect their performance. This is particularly true with permanent policies that build cash value over time.

For example, if you've taken out policy loans or have a Universal/Variable/Equity Indexed, etc. policy — which require vigilant attention to premium payments and the investment portfolio — stay aware of how much money it will take to keep those policies in force.

If your TERM INSURANCE is more than a couple of years old and you're in good health, consider looking at current available options; term rates may have decreased.

- Know when your guaranteed premium ends and the last date to convert your policy to permanent.
- Check the marketplace — ask an advisor or consult a website with access to multiple companies.

# What Insurance Do I Need: II

To begin the monitoring process on PERMANENT INSURANCE, get in touch with your life insurance carrier and request a current “in-force illustration.”

An in-force illustration projects future performance of a life insurance policy using current values, rather than the projections at the time of the policy issue.

Permanent life insurance policies are made up of various components that impact policy performance, including earnings (interest rates/dividend rates, etc), mortality costs, cost of insurance charges, and expense charge.

In-force illustrations are the ONLY WAY to find out if your life insurance policy is performing as you expect. An in-force illustration will help you answer the following questions:

- Is the policy fully funded? In other words, will it continue to maturity (maximum age) with current premiums, based on current assumptions?
- If the policy is not fully funded, what is the premium required to fund the policy to maturity, based on current assumptions?
- Is the policy overfunded? Have you paid in more than required?
- Can you terminate premiums and still have the policy continue to maturity, based on current assumptions?

If your policy is not performing as expected, it can be due to one or more of the following:

- Lower than expected earnings (interest rate, dividends, etc.);
- Higher than expected mortality costs or cost of insurance;
- Higher than projected expense charges.

By understanding, maintaining, and monitoring your policy, you will avoid any unpleasant surprises in the future and ensure that the right policy will be there for you when you need it.

## Long-Term Care Insurance

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Find out the types of care covered under your policy. Many older long-term care policies did not pay for any type of home care or relatively newer types of care like adult day care.

If your premium is increased, there are several options you can consider.

1. Do nothing. Keep everything as is and pay the new premium.
  - Can you afford this new premium?
  - Are the benefits still worth the extra premium?
2. Adjust different components of the policy to reduce the premium.  
(Ask yourself if you make any of these changes to the policy, will the coverage still be worthwhile?)
  - Reduce the daily benefit amount



- Increase the waiting period
  - Shorten the benefit period
  - Change your inflation rider – if you have a compound inflation rider, can you change a simple inflation rider? Can you reduce the inflation rider percentage (for example, from 5% to 4%)?
  - Change/remove other riders?
3. If your policy has a contingent, non-forfeiture benefit, consider taking it if you cannot afford the premiums (provides a paid-up, reduced pool of benefits).
  4. Cancel the policy.

## Property (Homeowner's) Insurance

Raising your deductible is the best way to keep your premium affordable without reducing your protection.

- **Consider a higher deductible.** Increasing your deductible by just a few hundred dollars can make a big difference in your premium.
- **Ask your insurance agent about discounts.** You may be able to get a lower premium if your home has safety features like deadbolt locks, smoke detectors, an alarm system, storm shutters, or a fire-retardant roof. Persons over 55 years old or long-term customers may get discounts.
- **Insure your house — NOT the land under it.** After a disaster, the land is still there. If you do not subtract the value of the land when deciding how much homeowner's insurance to buy, you will pay more than you should.
- **Act now.** Don't wait until you have a loss to find out if you have the right type and amount of insurance.
- **Get replacement coverage — not an "actual cash value" policy.** Make certain you purchase enough coverage to replace what is insured. An "Actual Cash Value" policy is cheaper but pays only what your property is worth at the time of loss – your cost minus depreciation for age and wear.
- **Ask about special coverage.** You may have to pay extra for computers, cameras, jewelry, art, antiques, musical instruments, stamp collections, etc.

## What Insurance Do I Need: II

Remember that flood and earthquake damage are not covered by a standard homeowner's policy. The cost of a separate earthquake policy will depend on the likelihood of earthquakes in your area.

Homeowners who live in areas prone to flooding should take advantage of the National Flood Insurance Program. For more information on homeowner's insurance in your state, contact your state insurance regulator. Shopping around can save you hundreds of dollars a year.



## Lesson Questions

1. Which of the following represents an important difference between term life and permanent life insurance?
  - a. Term life is cancelable, while permanent life is non-cancelable.
  - b. Term life does not accrue cash value, while permanent life may build cash value over time.
  - c. Term life must be purchased through an agent, while permanent life may be bought directly from the company.
  - d. You can add a policy rider to term life, but not to permanent life insurance.
2. In an insurance policy, an exclusion is:
  - a. A cause of loss that is always covered by the policy.
  - b. A cause of loss that is not covered by the policy.
  - c. A special type of coverage.
  - d. A type of coverage that changes over time.
3. The only way to accurately assess whether your life insurance policy is performing as expected is to:
  - a. Obtain a current in-force illustration from the company.
  - b. Track the value of the company's stock in the stock market.
  - c. Check the company's rating on the A.M. Best website.
  - d. Cancel your policy.
4. What is an "umbrella" policy?
  - a. An insurance policy that covers properties you own.
  - b. An insurance policy that provides coverage in the event of death.
  - c. An insurance policy that provides additional coverage on the insurance policies you already have.
  - d. An insurance policy that protects your assets and exists in the form of a will or trust.
5. What does long-term care insurance cover?
  - a. Your income if you are unable to work for an extended time.
  - b. Your loved ones in the case of your death.
  - c. Health expenses for retirees that are not covered by health insurance or Medicare.
  - d. An accident that occurs due to your negligence.

# What Insurance Do I Need: II

## Essential Questions

What is the purpose of each of the following types of insurance?

Life Insurance \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Disability Insurance \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Long-term Care Insurance \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Property Insurance \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

What are two important reasons to monitor your insurance policies over time?

1. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## Choosing an Insurance Company

### Warm-up Activity:

What are some ways to evaluate an insurance company? \_\_\_\_\_

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### Rating Agencies

An insurance policy is a long-term commitment. It's important to choose a company that is financially stable. You can determine an insurance company's financial strength by looking at rating agency assessments.

Rating agencies evaluate insurance companies by examining their financial condition and operating performance, using specific criteria.

- Ratings agencies evaluate a company's financial strength and ability to meet obligations to policyholders.
- Third-party agencies rate companies on a regular basis and offer their ratings and analyses online for free. However, not all insurance companies are rated by all the agencies.
- There are four main rating agencies and their rating systems vary in stringency and methodology. However, all four agencies consider financial leverage, management stability, recent performance, overall financial health, and factors like competition, diversification, and market presence.

# Choosing an Insurance Company

## Websites for the Top Four Rating Agencies

- ☐ AM Best..... [www.ambest.com](http://www.ambest.com)
- ☐ Fitch..... [www.fitchratings.com](http://www.fitchratings.com)
- ☐ Moody's ..... [www.moody.com](http://www.moody.com)
- ☐ Standard & Poor's ..... [www.standardandpoors.com](http://www.standardandpoors.com)

A good strategy is to identify top-rated companies that offer the type of policy you want. Don't worry too much about details. An insurance company with a top rating from at least three of the four agencies is in great standing. Here are some other important questions to ask:

- **Does the insurance company hold itself to official ethical standards?**  
Each carrier adheres both to its own ethical practices and to basic guidelines dictated by each state's respective insurance department.
- **How many complaints have been filed against the company, and what were those complaints about?** While most insurance company records won't be spotless, some definitely are worse than others. State insurance departments maintain data about complaints filed against an insurance company, as well as pending class-action lawsuits.

To find your state's Department of Insurance, go to the website of the National Association of Insurance Commissioners (NAIC) at [www.naic.org](http://www.naic.org). Also, run an online search for the company name to find out if people have posted negative comments on unofficial review sites.

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## Lesson Activity: Get an Agency's Rating

You will need a computer with Internet access to complete this activity.

1. Conduct an online search for a company that sells a particular kind of insurance in your area by entering in your browser search box the term  
"[type] insurance [your city] [your state]."

**Examples:** auto insurance Mapleton, Illinois;  
health insurance Los Angeles, California".

2. Next, choose three insurance companies listed in the first page of your search results. Choose companies with which you already do business, ones you have heard of, or ones indicated as having good reviews (for example, on Yelp or Google Reviews).
3. Then go to the A.M. Best Company's consumer insurance page at <http://www3.ambest.com/consumers/>.

At the top of the page you will see a search box with the question, “How Does Your Insurer Rate?”

4. Enter the name of one of the insurance companies you obtained in your earlier search results and click the “Find” button. The website will bring up the Standard & Poor’s financial strength rating for that insurer.
5. Repeat the process for your other two companies.

You should choose a company with at least an “A” rating to meet your insurance needs.

## ■ Choosing an Agent

Insurance is an advanced and complex topic. While it’s important to educate yourself, it also makes sense to pay an experienced professional to advise you.

A qualified insurance adviser can give you an objective opinion and help you weed through all the options. Alternatively, you could go to a website that offers policy comparisons. Companies offer the same premium, no matter how you buy an insurance policy – whether through an agent or on the company website.

- Choose an advisor who represents multiple companies. An agent who represents only one company can offer you only that company’s products – which may not necessarily be the best products in the marketplace or your personal needs.
- An agent will charge you a fee or commission that’s based on the total policy premium. Ask questions up front as to the rate. Beware of paying both a fee and commission. You can negotiate fees and sometimes commissions.

### REMEMBER

Becoming educated helps you get the right insurance for your needs.

- ☐ You are in charge.
- ☐ It’s your money.

If what’s offered is not absolutely right for you, say, “No!”

# Choosing an Insurance Company

## State Compliance

Any person selling insurance must be licensed, just like attorneys and doctors. Insurance salespeople must pass an exam administered by the state department of insurance, and also must take regular continuing education seminars to maintain licensure.

- The agent you choose must be licensed in the state where you either work or live.
- Find a directory of state departments on [www.naic.org.com](http://www.naic.org.com).
- Resources and compliance standards are more lax in some states than in others.
- On most state insurance departments' websites, you can research whether an insurance representative is licensed.

## Professional Designations

Life insurance agents may earn professional designations, including

- Chartered Life Underwriter (CLU) and
- Life Underwriter Training Council Fellow (LUTCF).

Agents who are also financial planners might have credentials like

- Chartered Financial Consultant (CFC),
- Certified Financial Planner (CFP), or
- Personal Financial Specialist (CPA–PF).

These designations indicate advanced training and passing rigorous exams. They let you know the agent is serious about professional development.

- CLU is the only designation that specifically focuses strictly on life insurance and is by far the most comprehensive in the life insurance arena.
- A Chartered Property Casualty Underwriter (CPCU) can help with topics related to homeowners and auto insurance.

## Insurance Tips

- Shop around. If you're rejected, be sure you understand why. Also find out the reasons why a premium changes.
- Check rating services for companies you're considering.
- Choose the appropriate type and amount of insurance for your property and lifestyle. Get adequate coverage for disability, long-term care, flood, earthquake, etc. At the same time, cut out any unnecessary riders. Review your policies every year.



- Be honest when you fill out applications. If you fib or omit anything, your entire policy may be void (usually at claim time).
- Take advantage of discounts.
- Read your policy carefully and understand all the terms.
- Cover yourself. Premium notices may not always reach you in the mail. Save copies of your insurance policies, notes, and other important documents in a safe location – either electronically or outside the home.
- Reduce your risks. Some ideas include
  - Quit smoking
  - Eat healthfully and exercise regularly
  - Perform household maintenance that reduce hazards such as fire hazards or potential water damage.
  - Drive safely (watch your speed and avoid tailgating)
- Paying your premiums more often can reduce the total cost.
- Increase your deductible. Generally you'll see significant savings if you're willing to pay more out-of-pocket when you make a claim.

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## Lesson Questions

1. The four insurance ratings agencies rate an insurance company's .
  - a. License status.
  - b. Available discounts.
  - c. Compliance with state laws.
  - d. Financial strength.
2. What must insurance salespeople do to remain compliant with state laws?
  - a. Pass a licensing exam and take ongoing professional development courses.
  - b. Register with the four ratings agencies.
  - c. Earn important professional designations.
  - d. Eat a healthy diet and exercise regularly.

# Choosing an Insurance Company

3. Besides financial stability, which of the following is an important consideration when choosing an insurance company?
  - a. Its long-term commitment to the community.
  - b. Its adherence to ethical standards of practice.
  - c. Whether its stock is publicly available.
  - d. Its marketing strategies.

## Essential Questions

Why should I obtain a financial strength rating for an insurance company with which I am considering doing business? \_\_\_\_\_

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What other questions should I ask to evaluate an insurance company? \_\_\_\_\_

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What credentials should I look for in an insurance agent? \_\_\_\_\_

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## Estate Planning

### Warm-up Activity:

If you were on vacation in Europe and unexpectedly needed to ask a family member to watch your house and pay your bills, would you have a clear plan that would tell them how to do it?

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### Wills and Trusts

When a person passes away without a will or living trust, the state decides how to distribute their assets. If they have children under the age of 18, the state also decides where the children go.

- A **will** or **trust** is a way to plan ahead, just like when people create financial plans for the immediate future. A will or trust is a financial plan for distributing a person's assets when that person is no longer here.
- **Living trusts** pass a person's assets to his or her heirs without going through probate. Avoiding probate saves many costs associated with probate courts and potential taxes. Avoiding probate also helps maintain privacy.

It's important to have *both* a will and a trust. Get your wishes down on paper and be as clear as possible.

Wills and trusts are designed to make it easy for your relatives by listing out all your account information and a clear accounting of how you want your assets distributed. A lot of family fights are caused by disagreement over "who gets what." Don't place your family in a difficult financial situation. If your budget is tight, don't ask for an expensive funeral.

A good general rule is that once you own anything of value, you should write out a will.

## Lesson Activity: Write a Simple Will

Do you trust the state with your kids, your money, or your possessions? If not, then write a will right now. Use the following form:

SIMPLE WILL	
<input type="checkbox"/>	In case I pass away, I want <u>[guardian of choice]</u> to look after my children.
<input type="checkbox"/>	In case I pass away, I want <u>[name(s) of intended heir(s)]</u> to inherit <u>[item(s)]</u> _____ _____
	<u>[name(s) of intended heir(s)]</u> to inherit <u>[item(s)]</u> _____ _____
Additional Notes: _____ _____ _____ _____ _____	
_____ Signature	_____ Date
_____ Witness	_____ Date

## Lesson Activity: Estate Planning

How will having an Estate Plan help me?

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How can having a will or trust help my loved ones?

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## Lesson Questions

1. If a person passes away without having written a will or trust, who will decide what happens to that person's assets?
  - a. The person's family.
  - b. The state.
  - c. The life insurance company.
  - d. The county sheriff's office.
2. What is probate?
  - a. The process of administering a person's estate when no will or trust is in place.
  - b. A document kept in the custody of a third party.
  - c. An asset held by a lender as collateral.
  - d. An area or amount of land or property.
3. Which of the following is a good reason to avoid probate?
  - a. To make sure your beneficiaries have been designated.
  - b. To provide adequately for your dependents.

- c. Because your estate plan is not fully developed.
- d. So your heirs will not have to pay probate court fees and taxes.

Essential Questions

What is a will? \_\_\_\_\_

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What is a trust? \_\_\_\_\_

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What are the steps that should be included in the estate planning process? \_\_\_\_\_

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