



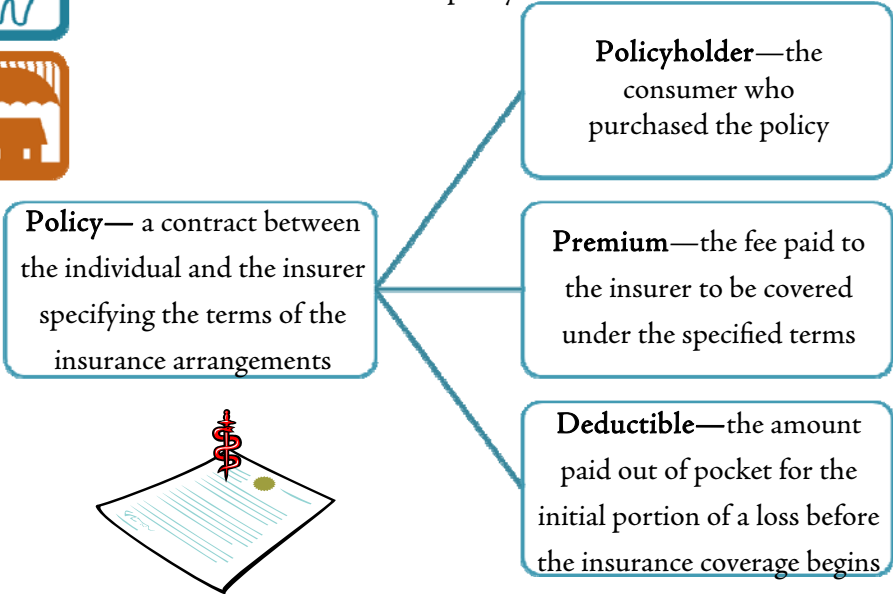
TYPES OF INSURANCE ESSENTIALS



WHAT IS INSURANCE?



Life is full of risks and accidents. People are at risk for getting injured while playing sports, riding in a car, or living in a house. **Risk** is uncertainty about a situation's outcome. Risk may be unpredictable events that lead to loss or damage. **Insurance** is an arrangement between an individual (consumer) and an insurer (insurance company) to protect the individual against risk. Insurance plays a large role in most individual's financial management plans. In 2007, the United States spent \$7,421 on health care for each man, woman, and child in the population. The purpose of insurance is to help individuals limit their financial losses when an accident occurs. It helps the individual to be prepared for the unexpected. To purchase insurance, consumers purchase a policy. The policy will state the premium and deductible amounts, which will vary depending on the type of insurance and the terms of the policy.



Types of Insurance:

- Automobile
- Health
- Life
- Disability
- Homeowner's/ Renter's

AUTOMOBILE INSURANCE

According to the United States Census Bureau, there were 10.6 million motor vehicle accidents in 2007. **Auto insurance** is an arrangement between an individual (consumer) and an insurer (insurance company) to protect the individual against risk from automobile accidents. The purpose of auto insurance is to help individuals limit their financial losses when an automobile accident occurs. Four types of coverage are available for automobile insurance.

1. **Liability insurance**—covers the insured if injuries or damages are caused to other people or their property; it is the minimum amount of insurance required by law for automobiles.

2. **Medical payment insurance**—covers injuries sustained by the driver of the insured vehicle or any passenger regardless of fault; also covers insured family members injured as passengers in any car or if they are injured while on foot as a pedestrian or while riding a bicycle.

3. **Uninsured or underinsured motorists insurance**—covers injury or damage to the driver, passengers, or the vehicle caused by a driver with insufficient insurance.

4. **Physical damage insurance**—covers damages caused to the vehicle; two optional forms of coverage are available:

- **Collision**—covers a collision with another object, car, or from a rollover.
- **Comprehensive**—covers all physical damage losses except collision and other specified losses.



HEALTH INSURANCE

Health care costs are extremely high and it can be hard for the average person to afford health care. Large medical expenses could wipe out an individual's savings. To protect individuals from this risk, health insurance may be purchased. **Health insurance** provides protection against financial losses resulting from injury, illness, and disability. Health insurance may include hospital, surgical, dental, vision, long-term care, prescription, and other major expenditures. Specific coverage depends upon the policy because the terms vary among different health care policies. Health insurance is purchased by an individual or through their employer. When an individual purchases health insurance, they are often seeking health insurance coverage for their dependents as well, which include spouses and children. Most health insurance policies offer dependent coverage, but there is no requirement for insurance companies to do so. In 2010, insurance companies that offer dependent coverage were required to allow children to stay on their parent's health care plan until age 26 without any stipulations. Therefore, young adults under the age of 26 that no longer live with their parents, are no longer a student, are married, or have children of their own can still be covered under their parent's health insurance.



The federal government provides the following website for consumers regarding health insurance:
<http://www.healthcare.gov/index.html>

LIFE INSURANCE

Life insurance is a contract between an insurer and policyholder specifying a sum to be paid to a beneficiary upon the insured's death. A **beneficiary** is the recipient of any policy proceeds if the insured person dies. The purpose is to provide money for family members or dependents when a wage earner dies. A **dependent** is a person who relies on someone else financially. Life insurance is not necessary if a person is single with no dependents. Life insurance is necessary for people who have a dependent spouse, dependent children, an aging or disabled dependent relative, or are business owners.

Sixty – eight percent of American adults have life insurance.

One out of ten people will become disabled before age 65.

DISABILITY INSURANCE

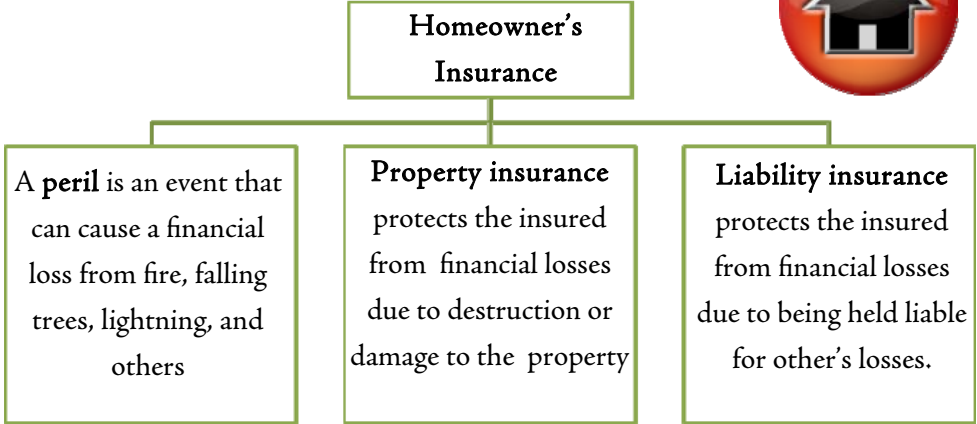
Disability insurance replaces a portion of one's income if they become unable to work due to illness or injury. The insurance typically pays between 60% – 70% of one's full time wage. It never pays 100% of the wages because then there is no incentive to go back to work. Factors such as the length or severity of a disability influence the percentage of income a person will receive. Many employers offer disability insurance as part of their benefits package.

HOMEOWNER'S/RENTER'S INSURANCE



According to the Insurance Education Foundation, a fire occurs in someone's home in the US every 74 seconds.

Homeowner's and renter's insurance can protect against this risk. **Homeowner's insurance** combines property and liability insurance into one policy to protect a home from damage costs due to perils.



Renter's insurance protects the insured from loss to the contents of the dwelling rather than the dwelling itself. It covers major perils, provides liability protection, and provides for additional living expenses if the dwelling is rendered uninhabitable by one of the covered perils. Renter's insurance is necessary because the landlord's insurance policy on the dwelling does not cover the renter's personal possessions.