

LESSON 6

# UNDERSTANDING INSURANCE

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## KEY POINTS

- ✓ The purpose of insurance is simply to transfer risk—this is your defensive game plan.
- ✓ There are eight types of insurance you actually need.
- ✓ No exceptions and no excuses—everyone 18 or older needs a written will.

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UNDERSTANDING  
INSURANCE



GUIDE  
Dave Ramsey

## THE ROLE OF INSURANCE

The purpose of insurance is to transfer \_\_\_\_\_ that we can't handle ourselves.

## INSURANCES TO AVOID

- Credit life insurance and credit disability insurance on debt you owe
- Mortgage life insurance
- Double indemnity for accidental death
- Cancer insurance
- Prepaid burial insurance
- Return of premium
- Waiver of premium
- Dental and vision insurance

## AUTO INSURANCE

If you have a full emergency fund in place, think \_\_\_\_\_ deductibles.

For \_\_\_\_\_ coverage on your auto insurance, you want three things: collision, comprehensive and liability.

### ANSWER KEY

Risk  
High  
Full

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**HOMEOWNERS AND RENTERS INSURANCE**

You want enough \_\_\_\_\_ insurance to to:

- Rebuild your home (extended dwelling coverage)
- Replace your stuff (personal property)
- Cover injuries and damages that happen on your property (liability)
- Reimburse your living expenses after the loss of an insured home (additional living expenses)

If you're renting, \_\_\_\_\_ get renters insurance.

**NOTES**

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**ANSWER KEY**

Homeowners  
Always

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**UMBRELLA POLICY**

You need an \_\_\_\_\_ policy if you have a net worth of at least half a million dollars.

**HEALTH INSURANCE**

With a traditional health insurance plan, \_\_\_\_\_ your deductible and/or coinsurance amount to bring your premiums down.

A Health Savings Account (HSA) works with a high-deductible health plan, and you can pay for medical expenses \_\_\_\_\_.

**LONG-TERM DISABILITY INSURANCE**

Long-term disability insurance \_\_\_\_\_ lost income if you're unable to work for a long period of time due to an illness or injury.

Find a policy that covers 60–70% of your annual \_\_\_\_\_.

**“People who win with money have a good *offense* and a good *defense*.”**

— DAVE RAMSEY

**ANSWER KEY**

Umbrella  
Raise  
Tax-free  
Covers  
Income

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**LONG-TERM CARE INSURANCE**

\_\_\_\_\_ - \_\_\_\_\_ care insurance covers assisted living care, in-home care and nursing home care.

Long-term care insurance is an absolute must if you are \_\_\_\_\_ years old or older.

**IDENTITY THEFT PROTECTION**

Good ID theft protection includes \_\_\_\_\_ services that assign a counselor to clean up the mess.

**WILLS**

Everyone 18 or older needs a \_\_\_\_\_.

**ANSWER KEY**

- Long-term
- 60
- Restoration
- Will

**NOTES**

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**LIFE INSURANCE**

Life insurance replaces income that's lost due to \_\_\_\_\_.

\_\_\_\_\_ life insurance is the only life insurance you should buy.

**“Cash value life insurance is the  
*payday lender* of the middle class.”**

— DAVE RAMSEY

\_\_\_\_\_ use life insurance as an investment.

Insurance is not a Baby Step. It's part of your \_\_\_\_\_.



\_\_\_\_\_

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\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**ANSWER KEY**

- Death
- Term
- Never
- Budget

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# WHOLE vs. TERM

## Life Insurance

**Here's an example:**  
 Joe is 30 years old and has \$180 budgeted per month to spend on life insurance.

	<b>BAD</b>	<b>BETTER</b>	<b>BEST</b>
	<b>WHOLE LIFE</b>	<b>20-YEAR TERM</b>	<b>20-YEAR TERM</b>
COVERAGE	\$250,000	\$250,000	<b>\$500,000</b>
PREMIUM	\$180/MO	\$13/MO	\$20/MO
INVESTMENTS	?	\$167/MO	\$160/MO
<b>INVESTMENT VALUES</b>			
AT AGE 50	\$24,000	\$144,561	\$138,501
AT AGE 70	\$65,000	\$1,436,222	\$1,376,019

Always buy a policy that covers 10–12 times your annual income before taxes!

# BUY THE RIGHT Coverage

Whether you drive a nice car or a beater, you want to make sure you're covered in case life decides to hit you . . . or your car. This is not the time to go cheap on your insurance policy! Work through Luke's scenario to find out why.

## ON HIS WAY TO WORK, LUKE HITS A CAR.

The driver of the other car experiences **\$30,000** in injury costs and the passenger experiences **\$75,000** in injury costs. Luke totals his car and the **\$50,000** car of the other driver. For each of the coverage options below, determine how much Luke will have to pay *after* his insurance pays their portion.

### COVERAGE OPTION #1

To save some money up front, Luke *skimps* on insurance (bad idea, Luke!) and gets the state minimum 25/50/15 liability policy.

### STATE MINIMUM COVERAGE LIMITS

25k // 
 50k // 
 15k

25/50/15	DRIVER	PASSENGER	DRIVER'S CAR
<b>TOTAL COST OF ACCIDENT</b>	\$ 30,000	\$ 75,000	\$ 50,000
<b>25/50/15 INSURANCE PAYS</b>	- \$ 25,000	- \$ 25,000	- \$ 15,000
<b>LUKE PAYS = \$</b>	<b>5,000</b>	<b>= \$ 50,000</b>	<b>= \$ 35,000</b>
<b>LUKE HAS TO PAY:</b>			\$ <input style="width: 80px; height: 20px;" type="text"/>

*And this doesn't even include the cost to replace his own car!*

## COVERAGE OPTION #2

Luke watched *Financial Peace University* and knows so much more about auto insurance than he did before. Then he met with a RamseyTrusted provider to learn about the best coverage option for him. Here's what he decided on:

### GOOD COVERAGE LIMITS FOR LUKE



#### Covers Injuries to Individuals

The maximum amount (in thousands of dollars) **per person** that will be covered

#### Covers the Total of All Injuries to People

The maximum amount (in thousands of dollars) **per accident** that will be covered

#### Covers Damage to Property

The maximum amount (in thousands of dollars) **per accident** that will be covered

Now, work the same scenario, but this time, Luke has a good **100/300/100** insurance policy.

100/300/100	DRIVER	PASSENGER	DRIVER'S CAR
TOTAL COST OF ACCIDENT	\$ 30,000	\$ 75,000	\$ 50,000
100/300/100 INSURANCE PAYS	- \$	- \$	- \$
LUKE PAYS	= \$	= \$	= \$
LUKE HAS TO PAY:			\$

*Maxes at \$300K*

*(of course, he still has to replace his own car.)*

Respond to the following question:



How did this Activity help you understand the importance of getting the right coverage?

# DISCUSSION

Whether you're taking the class online or in person, be honest with your answers and remember to encourage one another!



When have you let the *cost* of insurance dictate how *much* insurance you get in a certain policy? How does this lesson challenge you to think differently?



How do you see your fully funded emergency fund fitting into your insurance plan? How can you make sure you have the right balance between the two?



Everyone 18 or older needs a written will. Do you have a will? If not, what has been holding you back from getting one?



Can you imagine building wealth to the point where you can self-insure? Why or why not? How have the Baby Steps moved you closer to making that a reality?

# ACTION STEPS

It's time to live out what you just learned! Complete each of the Action Steps before the next lesson.



## REVIEW ALL OF YOUR COVERAGE

Take our Coverage Checkup in **Ramsey+** to see where you need to make adjustments to your insurance plan. We'll give you a prioritized list of what to add, drop or change. This includes your will! Then we'll connect you with the service providers we recommend to knock out each item on the list!



## CONNECT WITH A RAMSEYTRUSTED PROVIDER

After working through this lesson, if you already know you're missing insurance items or you're ready to get quotes for the best rates and coverage for you, then connect with one of our RamseyTrusted providers in **Ramsey+**.



## TRACK YOUR TRANSACTIONS IN EVERYDOLLAR

Are you sensing a pattern? That's right, you need to be tracking your transactions every single week. This is the best way to make sure you're spending and saving according to the budget you created.



## READ "TERM LIFE INSURANCE—THE WAY TO GO" ON THE NEXT PAGE

We're not too big on whole life insurance. In fact, we hate it. But you should get term life insurance ASAP. Read on to learn what kind of coverage you need, and get it in place today!

# Term Life INSURANCE

## THE WAY TO GO

Life insurance provides security, protection and peace of mind for your family should the unthinkable happen.

So, if someone depends on your income, you need life insurance. Plain and simple. And don't wait to get this done—do it today.

## WHOLE LIFE *vs.* TERM LIFE INSURANCE

Your two main options for life insurance are whole life coverage and term life. But which is better? The first is a total rip-off. The second is an inexpensive, safe plan to protect your family.

- 1 Whole life insurance** is more expensive and includes a “savings” plan with a terrible return. Basically, it tries to double up as an investment account and does a lousy job of it. With term life, you'll pay a fraction of the price. Then you can simply invest the difference you would have paid for whole life insurance—like Dave explained.
- 2 Term life insurance** is the easiest and least expensive way to protect your family after you're gone. Simply put, here's how it works: If you (or your spouse) die at any time during this term, your beneficiaries will receive a payout from the policy.

## **HOW LONG DO I NEED COVERAGE?**

Dave's general rule is to buy based on when your kids will be heading off to college and living on their own. Typical terms are 10, 15, 20 or 30 years.

**We recommend a 15- or 20-year term.**

For example, if you have a newborn in the house, then pick up a 20-year plan. If you have a 10-year-old, a 15-year plan would be a better option for you.

## **HOW MUCH COVERAGE DO I NEED?**

If you're getting a policy through work, we can almost guarantee it's not offering you enough coverage.

**Always have a policy that covers 10–12 times your annual pretax income.**

Say you're making \$50,000 a year. That means you need at least \$500,000 in coverage. That replaces your salary for your family if something happens to you.

And one quick note: Don't forget to get term life insurance for both spouses, even if one of you stays at home with the kids. Why? Because if the stay-at-home parent was gone, replacing that childcare and home upkeep would be expensive!

*Get the Right Coverage Today!*

Look, this stuff isn't easy to think about. But life is precious!

And the cost of not having a plan in place for the unthinkable is much higher than the cost of term life insurance. You need to keep your loved ones protected.

*Let us help!*

The ideal time to buy life insurance is now—before you need it. If you're ready to take the next step, connect with one of our **RamseyTrusted providers in Ramsey+** today!



Slow and **STEADY**  
wins the race.

— DAVE RAMSEY

