

Key Takeaways

Lesson 6: Understanding Insurance

Purpose of Insurance

- Insurance transfers risk for things we can't handle ourselves. You can handle a flat tire. You do need homeowners' insurance in case your house burns down!
- The only case when these insurances are less important is if you have enough money piled up to cover the cost yourself (aka, you're self-insured).
- If you have a full emergency fund in place, you should consider moving your insurance policies to higher deductibles. When you raise your deductible, you save on the premiums.

The 8 Types of Insurance You Need

1. Auto Insurance

- ✓ Collision
- ✓ Comprehensive
- ✓ Liability



3. Umbrella

- ✓ If your net worth is at least \$500,000



2. Homeowners/Rental Insurance

- ✓ 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)



Make sure you review/update your homeowners insurance policy as the value of your home increases. The policy *does not* automatically increase in value alongside your home value increasing!

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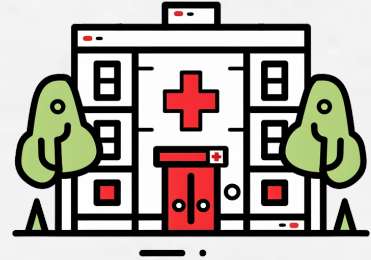
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4. Health

HSA (Health Savings Account)

- Works with a high-deductible health plan, and you can pay for medical expenses tax-free.
- Higher deductible, most don't have a copay, and they have a lower out-of-pocket max, and a lower premium.



PPO (Preferred Provider Organization)

- Lower deductible, with a copay, max out-of-pocket, and a higher premium.

5. Long-Term Disability

- Bigger financial problem than death.
- Most underinsured area of all insurance.
- Policy should cover 60-70% of your annual income.
- Usually lasts for five years.



6. Long-Term Care

- Covers assisted living, in-home care, and nursing home care.

7. Identity Theft Protection

- Includes restoration services that assigns a counselor to clean up the mess.

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8. Term Life

- Term life insurance is the only type of life insurance you need.
- Take out a term life policy for yourself and your spouse. Each policy should cover 10-12 times your income.
- If your spouse doesn't work outside of the home, you need \$250,000-\$400,000 in a policy to cover expenses like childcare, etc.

Example:

Joe is 30 years old and has \$180 budgeted per month to spend on life insurance.

	BAD	BETTER	BEST
	WHOLE LIFE	20-YEAR TERM	20-YEAR TERM
Coverage	\$250,000	\$250,000	\$500,000
Premium	\$180/mo	\$13/mo	\$20/mo
Investments	?	\$167/mo	\$160/mo
INVESTMENT VALUES			
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!

Wills

- Everyone over 18 or older needs a will.
- This is how you say "I love you" to your family.
- If you don't write down what your will is upon your death, and you testify to that, in your state where you live, some judge is going to decide on your behalf!