Types of Insurance

What is Insurance?

Life is full of risks and accidents. People are at risk for getting injured when playing sports, riding in a car, or living in a house. **Risk** is uncertainty about a situation's outcome. Risk can be unpredictable events which 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. Almost one in twelve dollars in the United States economy is spent on insurance (Goldsmith, 2001). 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. When people buy insurance, they transfer part of the risk of financial loss to the insurance company.

Types of Insurance:

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

What is an Insurance Policy?

To purchase insurance, consumers purchase a policy:
Policy— a contract between the individual and the insurer specifying the terms of the insurance arrangements. The policy will state the premium and deductible amounts, which will vary depending on the type of insurance and the terms of the policy.

Premium—the fee paid to the insurer to be covered under the specified terms.
Deductible—the amount paid out of pocket by the policy holder for the initial portion of a loss before the insurance coverage begins.
Policyholder—the consumer who purchased the policy.

Automobile Insurance

According to the Insurance Education Foundation, there is a 70% chance a person will be involved in an automobile accident within the first three years of driving. **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.

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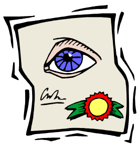
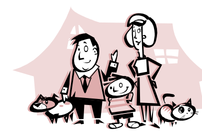
Health Insurance



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 can be purchased. **Health insurance** provides protection against financial losses resulting from injury, illness, and disability. The purpose is to provide coverage for medical expenses , emergency and routine. Health insurance may cover hospital, surgical, dental, vision, long-term care, prescription, and other major expenditures. The coverage depends upon the terms of the insurance policy. Health insurance may be purchased for an individual, a family, or through an employer. Some children may be covered under their parent's health insurance until they are 19 or while they are in college. According to *Personal Finance* (Goldsmith, 2001), most (61%) Americans have employer-based health insurance.

Life Insurance

70% of American adults have life insurance (Goldsmith, 2001). **Life insurance** is a contract specifying a sum to be paid to a beneficiary upon the insured's death. The **contract** is a policy which states the amount to be paid to the beneficiary upon the insured person'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 business owners.



Disability Insurance

One out of ten people will become disabled before age 65 (Insurance Education Foundation). To prevent the risk of losing income from a disability, insurance is available. **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 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 the 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. A **peril** is an event which can cause a financial loss from fire, falling trees, lightning, and others. **Property insurance** protects the insured from financial losses due to destruction or damage to the property or possessions. **Liability insurance** protects the insured from financial losses due to being held liable for other's losses. The homeowner's insurance should cover the replacement cost which will pay to rebuild the home if it is completely destroyed.

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.

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