Chapter 13.
Property and Liability Insurance

Chapter Objectives
- To understand the foundations of insurance
- To learn the primary components of the homeowners' and auto insurance packages
- To learn how to evaluate your auto and home insurance needs
- To be able to find and fill any gaps in your homeowners’ and auto coverage

What is risk?
- Two types of risks
  - Speculative risk
    - opportunity for both gain and loss
  - Pure risk
    - only the opportunity of loss as the result of accidental circumstances

How to manage pure risks?
- Risk reduction: burglar alarms
- Risk avoidance: avoid smoking
- Risk retention: take earthquake risk
- Risk transfer: buy insurance

What are the fundamental insurance concepts?
- Pooling of risk
  - Group members share the cost of the insurance reserve by paying a premium.
- Adverse selection
  - Tendency for those with higher than average risk to seek or continue insurance coverage
- Insurable Interest
  - An interest in which you can experience financial loss and for which you can purchase insurance
- Underwriting
  - Process of selecting and classifying risk exposure
- Indemnification
  - Restoration of the financial state that existed before you incurred a loss

Homeowners’ Policies
- What kinds of risks are covered? - Two types
  - All risk coverage - covers all risks that are not specifically excluded in the policy
  - Named perils coverage - covers only risks that are specifically mentioned
- How much will be reimbursed if loss occurs? - Two types
  - Replacement cost - amount needed to replace new for old, with no deduction for depreciation
  - Actual cash value - market value, equal to replacement cost less depreciation
**What are the major policy clauses?**

- Replacement Cost Provision
  - If you insure less than 80% of the total value of your house, then the reimbursement amount is reduced.

- Inflation Guard Endorsement
  - Increases face amount of dwelling protection to reflect rising market prices.

- Deductible Clause
  - Limits payments to damages that exceed a given dollar loss.

- Mortgage Clause
  - Insurance payments for structural damage are made to the mortgage holder.

- Other Insurance and Apportionment Clause
  - Prevents insured from collecting more than 100% of the loss.

- Subrogation Clause
  - Places your right to sue for recovery after the insurer's

**What are the different types of coverage?**

- **Property Coverage**
  - loss of dwelling unit and personal belongings, such as fire damage.

- **Liability Coverage**
  - protection from the financial harm your negligence causes others, such as somebody falling and getting injured while walking on your slippery driveway.

**What are the details of property coverage?**

- **Coverage A** Dwelling Protection
- **Coverage B** Appurtenant Structures
  - such as a storage shed
- **Coverage C** Contents - Unscheduled Personal Property
- **Coverage D** Loss of Use such as hotel expenses when the house is being repaired

Here is an example of property coverage for a $100,000 face amount:

- Dwelling $100,000
- Appurtenant structure (10%) $10,000
- Unscheduled property
  - On premises (50%) $50,000
  - Off premises (5%) $5,000
- Additional living expenses (20%) $20,000

Total coverage: $185,000

**What are usually excluded from property loss coverage?**

- articles in a floater
- animals, birds, or fish
- motorized land vehicles
- aircraft and parts
- property of roomers, boarders and tenants
- property of apartment rented to others
- business records and equipment
- credit cards and fund transfer cards

**What are the details of liability coverage?**

- **Coverage E** - Personal Liability
  - up to limits, provides protection against legally obligated expenses for bodily injury and property damage -$300,000 minimum coverage is recommended

- **Coverage F** - Medical Payments Coverage
  - small amount of medical coverage to insure prompt attention to bodily injury of others - Most policies limit this to $500-$1000 per person.
What are excluded from the liability coverage?
- Slander and libel
- Business related liabilities
- Automobile related liabilities

How to deal with risks excluded from a standard policy?
- Specialized Insurance
  - Endorsement - an amendment, extending or changing the underlying insurance coverage
    - Examples: replacement cost coverage endorsement on personal property, inflation guard endorsement, small business pursuit endorsement
  - Floater - contains scheduled property; property described in terms of type, quality, and value
    - Examples: wedding ring, a valuable collection
  - Umbrella Policy - extends limits on an underlying homeowners' policy and a family auto policy

Flood Insurance - federally guaranteed insurance sold through private insurance companies.
- Price set by the government
- If you home is in a Special Flood Hazard Area, your mortgage lender will require flood insurance
- Visit http://www.fema.gov/nfip/answeb2d.shtml for more information

Earthquake Insurance - high premium and high deductible. But you need to have it if you live in an earthquake hazard area.
- Visit http://quake.wr.usgs.gov/prepare/factsheets/RiskMaps/ to check earthquake risk in your area
- Visit the California Earthquake Authority to look up rates http://www.earthquakeauthority.com/cates/sales.html#top

How to select homeowners’ insurance?
- Step 1 - Determine needed amount and coverage
  - 80% of market value is common
- Step 2 - Determine the type of needed insurance
- Step 3 - Shop around: talk to a insurance broker or several insurers and compare prices, get information the web: visit INWEB and Yahoo
- Step 4 - Check out the insurance company
- Step 5 - After purchase, annually review your insurance needs

For some comparison information on Homeowner's insurance in Utah, check out http://www.insurance.state.ut.us/AutoHOcomp.htm

How to make sure you can collect on a loss?
- Document your property before the loss
- Notify the relevant authorities and contact the insurer immediately after the loss
- Evaluate your loss before you accept a settlement offer

Checklist for College Students
- Are you covered under your parents homeowners’ policy?
- Do you have adequate overall protection?
- Have you taken a personal inventory?
- Do you exceed the limits on specific classes of property?
Automobile insurance – who needs it?

- If you drive a car, you need it.
- What’s Utah’s mandated minimum liability?
  - 25/50/15
  - Meaning:
    - First number: bodily injury liability maximum for one person injured in an accident is $25,000.
    - Second number: bodily injury liability maximum for all injuries in one accident is $50,000.
    - Third number: property damage liability maximum for one accident is $15,000.
- For other states, go to [http://moneycentral.msn.com/content/Insurance/Insureyourcar/P35266.asp](http://moneycentral.msn.com/content/Insurance/Insureyourcar/P35266.asp)

What are the major types of coverage?

- Part A - Liability
  - most important component
- Part B - Medical Payments
  - payments to insure prompt treatment of injuries of the car
- Part C - Uninsured Motorists
  - needed coverage that also covers underinsured motorists
- Part D - Damage to Your Auto
  - the need for collision is determined by the value of the car

What is no-fault insurance? – Utah is a no-fault state

- Allows you to recover from your own insurer, regardless of who is at fault
- Verbal threshold
  - may sue for reimbursement if injury satisfies definition
- Monetary threshold
  - may sue for medical expenses that exceed stated amount
- Personal Injury Protection (PIP)
  - mandatory requirement in no-fault states

How is the cost of auto insurance determined?

- The Rate Base
  - determined by your personal characteristics, your driving record, your car make and model, and where you live
- High risk drivers may have to purchase expensive insurance in the shared (assigned risk) market

Can you reduced your premium?

- Typical reasons for insurance discounts
  - Away at school driver
  - Multipolicy household
  - Carpool driver
  - Nonsmoking driver
  - Good driving record
  - Retired driver
  - Good student record
  - Mature driver
Chapter 14
Health and Disability Insurance

Chapter Objectives
- To describe the separate components of basic health care coverage
- To discuss the need for major medical insurance
- To list the important providers and insurers of health care
- To compare and evaluate health care insurance plans
- To list sources of disability income
- To estimate your disability insurance needs

What are the different types of health care insurance coverage?
- Basic Health Care Coverage
- Major Medical Coverage
- Long-Term Care Coverage
- Dental Insurance
- Specific Disease and Accident Insurance

What is basic health care coverage?
- Hospital Insurance
  - Room & board and other medical expenses while in the hospital
- Surgical insurance
  - Covers fees for operating surgeon and anesthesiologist
- Physician’s expense insurance
  - Payments for general nonsurgical care at the office or hospital

What is major medical coverage?
- Provides protection after limits on basic health care coverage have been exceeded
- Typical co-insurance clause
  - Insurer pays 80% of covered expenses
  - Dollar limit on out-of-pocket expenses

An example of major medical coverage

<table>
<thead>
<tr>
<th>Example</th>
<th>Cost</th>
<th>Basic payment</th>
<th>Overage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital bill</td>
<td>$5,200.00</td>
<td>$3,000.00</td>
<td>$2,200</td>
</tr>
<tr>
<td>Office visits</td>
<td>840.00</td>
<td>-</td>
<td>840.00</td>
</tr>
<tr>
<td>Surgical services</td>
<td>2,400.00</td>
<td>1,900.00</td>
<td>500.00</td>
</tr>
<tr>
<td>Prescription drugs</td>
<td>760.00</td>
<td>-</td>
<td>760.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$9,200.00</td>
<td>$4,900.00</td>
<td>$4,300.00</td>
</tr>
</tbody>
</table>

| Minus deductible | $4,200.00 |
|-------------------| 20%         |
| **Total**         | $840.00     |

In this case, you pay $850 out of pocket.
What is long-term care coverage?
- Covers custodial care if you cannot take care of yourself
- Most commercial insurers
  - Indemnity policies
  - “Activity of daily living” as eligibility requirements

What is dental insurance?
- Typically covers most preventive care with co-insurance on corrective treatments.
- Less important than basic health care insurance

What is specific disease and accident insurance?
- Only pays under specific circumstances
- Typically it is high cost insurance that is inconsistent with financial planning objectives

What are the important policy provisions?
- Preexisting conditions clause
  - Excludes from coverage certain preexisting conditions that existed before the policy was issued
- Guaranteed renewability
  - Guarantees coverage up to a specified age
- Policy limits
  - Limits the payout for a given illness or accident with a lifetime or annual maximum
- Waiver of premium
  - Waives premium should you be unable to work because of illness or injury
- Exclusions
  - Excludes certain illness or injury from coverage
  - Ex., self-inflicted injuries, or injuries covered under workers’ compensation

What is managed care?
- Most health insurance programs provide some form of managed care
- Primary physician serves as the gatekeeper for other specialized medical services
- Attempts to hold down health care costs by limiting unnecessary procedures

What are the different types of health insurance providers?
- Fee-for-Service Organizations (FFS)
- Health Maintenance Organizations (HMOs)
- Preferred Provider Organizations (PPO)
- Medicare & Medicaid
- Workers’ Compensation
What are FFS organizations?
- The patient selects a provider of medical care and is then reimbursed for covered medical expenses.

What are HMOs?
- Provide comprehensive health care services on a prepaid basis.
- Both a provider and insurer of health care.
- Typically broad coverage.
- Typically lower deductibles and co-insurance payments than fee-for-service health insurance.

What are different the types of HMOs?
- Group-staff HMO provides services through groups of physicians working on a salaried contractual basis.
- Individual Practice Arrangement (IPA) physicians maintain own offices and are reimbursed for services performed.
- Point of Service Plans (POS) may select non-HMO provider at added cost.

What are PPOs?
- Only a provider, not an insurer.
- Works directly with employer or insurer to provide services.
- May be able to use non-PPO providers at added cost.

What is Medicaid?
- Medicaid its joint federal-state sponsored program covering medical expenses of the indigent.
- Each state is a little different. For information about Utah’s Medicaid program, visit http://health.utah.gov/medicaid/.
- For general information about Medicaid, visit http://www.kff.org/content/2003/2236/.
**What is Medicare?**
- Federal program
- **Eligibility**
  - For people 65 or over
  - For people receiving disability benefits for at least 24 months
  - For people with permanent kidney failure
- Has two parts:
  - PART A - Hospital Insurance covers most inpatient hospital expenses.
  - PART B - Medical Insurance covers doctor bills and other outpatient medical expenses.
- For more information visit [http://www.medicare.gov/](http://www.medicare.gov/)

**What is workers compensation?**
- State programs providing health and disability income coverage for work-related illnesses and injuries
- For more information regarding Utah’s Workers compensation, visit [http://www.labor.state.ut.us/indacc/Pamphlets/workcomp/workcomp.htm](http://www.labor.state.ut.us/indacc/Pamphlets/workcomp/workcomp.htm)

**How to select health care insurance?**
- Group or Individual Coverage
  - Group coverage is usually less expensive
- Managed Care or Traditional Insurance
  - Managed care has more restrictions, but better coverage
- The Insurance Company
  - Check the financial soundness. For ratings, visit [http://info.insure.com/ratings/](http://info.insure.com/ratings/)
- Medigap Insurance
  - Fill in the gap in Medicare policies. For information, visit [http://www.medicare.gov/medigap/default.asp](http://www.medicare.gov/medigap/default.asp)

**Checklist when Shopping for Private Insurance**
- Comparison shop
- Recognize preexisting conditions
- Be aware of maximum benefits and major medical coverage
- Check your right to renew
- Research the agent and the company
- Don’t put up with high pressure tactics

**Disability – How likely is it to happen?**
- From 2000 Census Data
  - 49.7 million Americans age 5 and older are disabled. That is about 1 in every 5 Americans.
  - 7% of boys and 4% of girls are disabled
  - 20% of men and 18% of women ages 16 to 64 have disabilities
  - 43% of women and 40% of men 65 or older have disabilities.

**What are the disability income protection options?**
- Accident Insurance
  - Pays a set dollar amount in the event of physical dismemberment
- Disability Income Insurance
  - Partially replaces income during period of defined disability
- Pension Plans
  - May pay out benefits on disability
Social Security
- Must have a physical condition that prevents you from engaging in substantial gainful work that is expected to last 12 months or result in death
- For more information, visit http://www.ssa.gov/dibplan/index.htm

Workers Compensation
- governed by state laws that set terms

Waiver of Premium or Payment Clauses
- may waive premiums on life and health policies

What are the important disability insurance policy clauses?

Definition of Disability
- determines how disabled you must be before you collect benefits

Elimination or Waiting Period
- time between the onset of the disability and the beginning of benefits

Benefit Period
- determines how long benefits will be paid out

Coordination of Benefits Clause
- ensures that benefits from more than one source do not exceed a certain percentage of your pre-injury income

Social Insurance Substitute
- increases your benefit when social insurance is not forthcoming

Provision for Rehabilitation
- continuation of benefits during rehabilitation

Renewability
- policy may be renewed without evidence of insurability

Option to Purchase Rider
- allows you to purchase additional insurance in the future without evidence of insurability