

## 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
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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 your home is in a Special Flood Hazard Area, your mortgage lender will require flood insurance
- ❑ Visit <http://www.fema.gov/nfip/answe2d.shtm> 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/rates/rates.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 [INSWEB](#) 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>

### 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*

### What's the average annual cost of car insurance in your state?

Private Passenger Automobile Insurance State Average Expenditures and Average State Premiums			
	Average Expenditure		Average Expenditure
Alabama	632.24	Montana	509.58
Alaska	771.32	Nebraska	517.52
Arizona	817.65	Nevada	842.67
Arkansas	589.05	New Hampshire	621.50
California	717.98	New Jersey	1,138.28
Colorado	763.75	New Mexico	675.94
Connecticut	900.80	New York	959.77
Delaware	845.32	North Carolina	584.35
Dis. of Columbia	1,032.52	North Dakota	452.03
Florida	770.55	Ohio	581.47
Georgia	672.38	Oklahoma	575.40
Hawaii	797.49	Oregon	630.41
Idaho	494.02	Pennsylvania	721.91
Illinois	667.66	Rhode Island	851.79
Indiana	583.21	South Carolina	655.33
Iowa	458.98	South Dakota	479.24
Kansas	532.15	Tennessee	586.65
Kentucky	617.32	Texas	730.66
Louisiana	830.30	Utah	618.88
Maine	492.05	Vermont	534.37
Maryland	769.34	Virginia	563.74
Massachusetts	815.62	Washington	710.00
Michigan	736.71	West Virginia	724.58
Minnesota	679.62	Wisconsin	552.07
Mississippi	653.41	Wyoming	492.45
Missouri	611.48	Countrywide	704.32

Source: NAIC

### Can you reduced your premium? -Typical reasons for insurance discounts

- ☛ Away at school driver
- ☛ Carpool driver
- ☛ Good driving record
- ☛ Good student record
- ☛ Mature driver
- ☛ Multipolicy household
- ☛ Nonsmoking driver
- ☛ Retired 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

<i>Example</i>	<i>Cost</i>	<i>Basic payment</i>	<i>Overage</i>
Hospital bill	\$ 5,200.00	\$ 3,000.00	\$2,200
Office visits	840.00	-	840.00
Surgical services	2,400.00	1,900.00	500.00
Prescription drugs	760.00	-	760.00
<b>Total</b>	<b>\$ 9,200.00</b>	<b>\$ 4,900.00</b>	<b>\$ 4,300.00</b>
		Minus deductible	(100.00)
			\$ 4,200.00
			20%
			<b>\$ 840.00</b>

In this case, you pay \$850 out of pocket

### *What is long-term care coverage?*

- ⊕ Covers custodial care if you can not 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

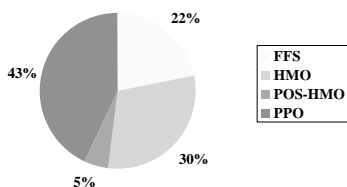
### *What is managed care?*

- Most health insurance programs provide some form of managed care
- ⊕ Primary physician serves at 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

## Market Shares of Health Care Providers



## 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
  - ✦ 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/>

## *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>

## *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/>
- ⊗ Medigap Insurance
  - ⊗ Fill in the gap in Medicare policies. For information, visit <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