Village Bible Church

Financial Peace University

Week #6 Supplement

Insurance

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Necessary Insurance

Insurance is like a life jacket. It's a bit of a nuisance when you don't need it, but when you do need it, you're more than thankful to have it. Without it, you could be one car wreck, illness or house fire away from drowning—not in the ocean, but in debt.

But for something so essential to our financial well-being, insurance is a complicated—even uncomfortable—topic. So we've boiled your options down to the eight types of insurance policies you can't go without.

While each one is a must-have, you should consult with your insurance agent to help you find the right types of insurance customized to fit your needs.

1. Auto Insurance

Never drive around uninsured—not just because it's against the law, but also because the Insurance Information Institute reports the average loss per claim on cars is around $4,900. Imagine having to pay that kind of money out of pocket! There are several options to choose from when it comes to auto insurance, so there's no reason to go without it:

- Liability coverage. If you're responsible for an accident, your liability coverage will cover the costs of any injuries or property damage caused in the collision. Most states require you to carry a minimum amount of coverage, so check with your insurance agent to understand your basic requirement.
- Collision coverage. This covers the cost to repair or replace your car if it's damaged or destroyed in a wreck.
- Comprehensive coverage. This level of insurance covers your losses that aren't caused by a wreck such as theft, vandalism, flood, fire and hail.

Your insurance agent is a good resource to help you determine the level of protection you need based on the type of car you drive. **Read *How Much Car Insurance Do You Really Need?*** at the end of this packet.

2. Homeowners/Renters Insurance

Be sure your homeowners policy includes **extended dwelling coverage.** Extended dwelling coverage adds an extra layer of protection above your policy limits.

With extended dwelling coverage, the insurance company will replace or rebuild your property even if the cost exceeds your policy's coverage. There is a limit to how much they'll pay, however—usually 20–25% above the amount you're insured for unless you opt for more coverage. Keep in mind, the higher your home's value, the higher the need for extended dwelling coverage.

Also, check with your agent about what your policy covers and what it doesn't.

- **Flood Insurance:** Most homeowners don't know that flood insurance is excluded from their policies. Flood insurance is also different from water backup protection. Ask your agent to go over the details with you.
- ****Water Backup (sewer & sump-pump)**:** Avoid the stress associated with sewer back-ups, seepage issues or flood waters by purchasing targeted pump failure insurance coverage. Sump pump failure coverage takes the form of a rider or endorsement attached to a standard homeowner's insurance policy. In our area, this is the "add-on" that people end up most regretting not adding on! (p.s. Keep your sump-pump maintained. If it isn't found to be in good working order or if it's clogged with debris because you failed to keep it operational, your claim could be denied based on improper maintenance.)
- **Earthquake Coverage**. Yes, Illinois sits on the New Madrid Fault Line and earthquakes occur in Illinois about once every year - but damaging quakes are much less frequent. Minor damage from Illinois earthquakes is reported about once every 20 years.

If you're a renter, you're not off the hook for insurance. Without **renters insurance**, it's up to you to replace your belongings if they are lost in a fire, flood, burglary or some other disaster.

Remember, if your full emergency fund is in place, you can take a higher deductible and lower the premium on your policy to save money.

3. Umbrella Policy

An **umbrella policy** is a type of insurance that adds an extra layer of protection for you and your assets when you need coverage that exceeds the limits of your homeowners or auto insurance. For example, if you're at fault for a multiple-vehicle accident, medical bills and property damages could quickly add up to more than your auto insurance will cover. If you're sued for the difference, your savings, your home and even your future wages could be at stake!

Generally speaking, you should have liability coverage equal to your net worth + 2.5x your household income. (This is because in a lawsuit, your assets can be seized as well as 25% of your wages garnished for 10 years.)

If you're at the beginning of this process you probably have a low net worth and don't need an umbrella policy as your homeowners and auto policies probably come with a $250,000 - $500,000 liability coverage. But over time, as you get out of debt and begin saving and investing for retirement, your net worth will climb. For a few hundred dollars a year, an umbrella policy can increase your liability coverage from the standard $500,000 to $1.5 million. Talk with your insurance agent to determine the type of insurance coverage that's right for you and your family.

4. Health Insurance

Medical debt contributes to nearly half of all bankruptcies in America according to the Kaiser Family Foundation. If you're uninsured, you're leaving yourself vulnerable to potential financial catastrophe. One unexpected major medical emergency could amount to hundreds of thousands of dollars of expenses. Don't put yourself in that situation.

The high cost of medical insurance isn't an excuse to go without coverage—even if you don't go to the doctor often. One option is a high-deductible health insurance plan combined with a Health Savings Account (HSA). With a high-deductible plan, you're responsible for more of your up-front healthcare costs, but you'll pay a lower monthly premium.

A high-deductible health plan qualifies you to open an HSA—a tax-advantaged savings account specifically for paying medical expenses. Speak to an insurance agent about high-deductible health plan options you can combine with an HSA. Other HSA benefits include:

- Tax deduction. You can deduct HSA contributions from your gross pay or business income. In 2017, the tax deduction is $3,400 for singles and $6,750 for married couples.
- Tax-free growth. You can invest the funds you contribute to your HSA, and they grow tax-free to use now or in the future.

- Tax-free withdrawal. You can use the money tax-free on qualified medical expenses like health insurance deductibles, vision and dental expenses.

Some companies now offer high-deductible health plans with HSA accounts as well as traditional health insurance plans. Compare your options and see if a high-deductible plan could end up saving you money.

Health Cost Sharing Ministry Alternatives

Health cost sharing ministries have been around for 30 years and they offer an alternative to standard health insurance and are an eligible option under the national healthcare law. These aren't the same as health insurance, but for many families it provides the catastrophe coverage that is needed for a fraction of the cost (usually about $500 per month for a family).

Here's Dave Ramsey's take: https://youtu.be/RAjgCUcqXAM

Here's a simple explanation: https://youtu.be/rRJLZx53pl8

www.samaritanministries.org www.chministries.org www.medishare.org

5. Disability Insurance

Your most valuable asset isn't your house, car or retirement account. It's the ability to make a living. Disability insurance pays a portion of your income if you can't work for an extended period because of an illness or injury.

Long-term disability insurance protects you from loss of income if you are unable to work for a long period of time due to an illness or injury. Don't think a permanent disability could sideline you and your ability to work? According to the Social Security Administration, more than one in four 20-year-olds will experience a disability for 90 days or more before they reach 67. **Those odds are too high for you to skimp on long-term disability insurance**. If you're in your prime wage-earning years, a permanent disability could potentially derail your dreams of home ownership or paying for your kid's college.

Disability insurance can be expensive. When selecting disability insurance:

- Save money by not insuring a short-term (3-6 month) disability - especially when you have a fully funded emergency fund to cover such needs.
- Save money initially by limiting coverage to 5 years and increase to unlimited coverage as you are able to afford the higher premiums. Five years of disability income will give you time to retrain for a job that is compatible with the disability. You'll really want to move to unlimited long-term coverage as soon as possible, but starting with 5 years of coverage is better than none at all!

Many companies offer long-term disability insurance to their employees, so start there.

6. Term Life Insurance

Many of us take life insurance too lightly. The Insurance Information Institute reports that 30% of Americans carry no life insurance. Think about it: If you were to pass away unexpectedly, how would your spouse pay for monthly expenses without your income? In the dark moments of grief, the last thing your spouse should worry about is surviving financially in your absence. With a **term life insurance policy** for 10–12 times your yearly income, your family won't have to worry about making ends meet, losing their home or changing their college plans if you're not there to provide for them.

Make this a priority. Talk to your insurance agent about term life insurance today. It's affordable and will provide priceless security for your family.

What about singles with no dependents? If you have a ton of debt and no savings, consider a small term life insurance policy. A healthy 30-year-old can easily find an affordable policy that will at least pay off your debt and cover your burial expenses.

If you're debt-free and have enough cash to pay for your burial, you *can* hold off on life insurance, but why would you? The younger you are, the more affordable term life insurance is, so there's no reason to wait until you have a family to get insured. (See the article *Life Insurance* that follows.)

7. Long-Term Care Insurance

Long-term care insurance covers a range of services like nursing home care and in-home help with basic personal tasks like bathing, grooming and eating. Usually, long-term care refers to any ongoing assistance for those who have a chronic illness or disability. It's expensive, and long-term care costs are not generally covered by Medicare.

So who really needs long-term care? To protect your retirement savings from the expenses of long-term care, get long-term care coverage no later than age 60. Remember that while you're not likely to need long-term care before then, many factors—like your health and family history—go into your decision when to buy long-term care insurance—and how much you'll pay for it.

And even if you're not close to this stage of life, your parents might be, so take time to investigate their long-term care options too. **See *How to Talk to Your Parents About Money – page 10.***

8. Identity Theft Protection

Identity thieves stole $16 billion from 15.4 million US consumers last year. Cybercrime and identity fraud are real threats—even if you're careful about protecting your personal information. National retail stores are under constant attack by industrious hackers who break into their payment systems, leaving millions of people vulnerable to theft.

Think about it: With a few important bits of information about you, criminals have all they need to ruin your finances by taking out a mortgage in your name, receiving medical care or filing a false tax return.

Cleaning up an identity fraud situation could take years to handle on your own, so make sure your insurance includes restoration services that assign a qualified counselor to clean up the mess for you.

Identity theft insurance is often offered as a rider to your homeowner's policy and cost range from $25 to $60 per year. The insurance may include credit alerts, account and credit monitoring, and reimbursement for the costs associated with repairing your credit history if you become a victim.

It is important to remember that none of these companies promises to reimburse you for assets that you might lose to identity theft, but rather they just reimburse you for expenses you might incur in restoring your identity and credit.

Life Insurance

If you're like some people, you probably have insurance for everything under the sun—like your car, your home, and maybe even your cell phone. But do you have life insurance?

A recent study found that only 60% of Americans **have some type of life insurance.** That includes term life insurance, cash value life insurance, or even life insurance offered through a group plan from their employer. That's a pretty shocking statistic when you consider 100% of us aren't guaranteed a tomorrow.

Do I need life insurance?

Almost everybody needs life insurance. Don't believe us?

Life insurance can be important no matter what stage of life you're currently in. Here's why:

THE YOUNG PROFESSIONALS

If you're young, you might feel like you're invincible and will live forever. Life insurance is for old people, right? Wrong.

If you still have student loan debt weighing you down, it would be wise to have a small term life insurance policy in place to cover your debts upon your death. But if you're completely debt-free, with no dependents, then all you really need to worry about here is burial costs. That said, you probably have enough coverage with the life insurance policy offered through your employer.

While you don't need life insurance in the same way that a family of five would, here's another way to look at it: Life moves pretty fast. You won't always be this young—sorry to break it to you. It goes without saying that the more young and healthy you are when you buy term life insurance, the cheaper your plan will be. Just keep that in mind as you get closer to getting married and building a family.

THE NEWLYWEDS

Congratulations! You're just starting your new life together. Between all the legal forms, change of address notices, and wedding thank-you cards taking up your time, it's easy to forget other details that need your attention—like term life insurance. But go ahead and add it to your list!

If the two of you are paying off debt, your untimely passing would mean your new spouse would be stuck footing that bill by themselves. *Yikes!* Don't leave your mate unprepared to deal with your student loans and credit card bills.

It's not just you anymore! You're a team, and one of the best things you can do for your spouse (other than faithfully loving them until death do you part) is to provide security for them through term life insurance.

THE PARENTS

Ever since the moment you held your child for the first time, you've wanted to do everything within your power to protect them. As a parent, it's fairly easy to see why you need life insurance. You want to have the peace and security of knowing your family would be provided for if something were to happen to one of you. You would also want to minimize any disruption to the lifestyle of the household and make certain your children's college education is covered. Trust us, you want and need this peace of mind.

But what if one of you is a stay-at-home parent?

Some people make the mistake of not getting a life insurance policy on themselves or their spouse because they're the stay-at-home parent. They think since they aren't bringing in an income that can be measured in dollar signs, they don't need life insurance. But that couldn't be further from the truth.

As a stay-at-home parent, your impact on your children and the benefit you bring to the household is invaluable. If the stay-at-home parent were to pass away, your family would immediately take a financial hit. That parent's absence would cause a large portion of the working parent's income to shift in order to cover the high cost of child care. Ouch! Child care costs aren't cheap these days! Don't leave your family to manage that kind of strain on their own.

THE RETIREES

At this point, you might already have a hefty retirement savings in place. And whether you're single or married, your death may not have a negative impact on the finances of anyone else. You could even be well on your way to becoming self-insured! That's a great place to be! But what if you're still working the Baby Steps and don't have your retirement savings set just yet?

Having a life insurance plan in this stage of life is only necessary if you still have dependents who rely on you to eat and have a roof over their heads. Let's say you are still paying off your house and trying to add to your retirement savings. If you died today, and your spouse no longer had your income to rely upon, would the amount in your savings be enough to take care of them?

How does life insurance work?

So, how does this life insurance stuff work anyway? Life insurance exists for the unthinkable—the untimely death of you or your spouse. It will cover loss of income, funeral expenses, and other financial needs that might come up after one of you passes away.

You enter into a contract with your policy holder (the life insurance company) and pay a premium each month to keep the policy valid. If you or your spouse dies, the insurance company will pay the policy amount to the beneficiaries (those you've selected to inherit your money).

What types of life insurance are there?

When it all boils down, there are basically two different types of life insurance options—those that exist for a predetermined term and those that last through your entire life. These two types of life insurance are commonly known as term life insurance and cash value life insurance (sometimes called civil or whole life).

TERM LIFE INSURANCE

Term life insurance provides coverage for a specific amount of time. If you or your spouse passes away at any time during this term (usually 20–30 years), your beneficiaries will receive a payout from the term life insurance policy.

Term life insurance plans are much more affordable than whole life insurance plans. That's because the term life policy has no cash value until you or your spouse passes away. In other words, it's not worth anything *unless* one of you were to die during the course of the term. Then that's when you receive money.

Of course, the hope here is you'll never have to use your term life insurance policy at all—but if something does happen, at least you know your family will be taken care of.

CASH VALUE LIFE INSURANCE (WHOLE LIFE, UNIVERSAL AND VARIABLE LIFE)

A lot of people think cash value life insurance will help them retire wealthy. But the truth is, cash value life insurance is usually not a great financial option for most people.

Cash value insurance lasts throughout your entire lifetime. You might think it's a good thing to have life insurance coverage for that long, but here's the truth: **If you practice the principles we teach, you won't need life insurance *forever*.** Ultimately, you'll be self-insured. Why? Because you'll have zero debt, a full emergency fund, and a hefty amount of money in your investments.

And not to mention, the premiums on cash value life insurance are generally more expensive than term life insurance. Cash value life insurance costs more because it's designed to do just that—build cash value. But keep in mind that a life insurance policy shouldn't be an investment or money-making scheme—it's simply meant to provide security, protection and peace of mind for your family should the unthinkable happen.

The best plan for most people: Term Life Insurance

So, you know it's time to take the next step and get life insurance, but maybe you still aren't sure where to start. The answer is simple—term life insurance is the best option to protect you and your family. Remember, life insurance is protection and security for you and your family, not an investment.

Some situations where whole life could be appropriate

While term life insurance is the best bet for most families, whole life may be appropriate for some people (usually high net-worth individuals). It's true that some whole life programs are high cost and low performance, but there are also some that are effective in specific situations:

- Need coverage that lasts for your entire life
- Want the payments to stay the same (called level premiums)
- Want a guaranteed return on the cash value that builds up within the policy

Steven Elwell: For very-high-income people who have maxed out their 401(k) plans, IRA and Roth IRA options, a whole life insurance savings strategy can make sense, especially if they have a need for life insurance. Another viable option for high-income individuals could be the use of a tax-deferred, nonqualified annuity if they don't have a need for life insurance. (Consult a fee-only advisor, if possible. These advisors don't make commissions from sales, so they can recommend financial products objectively.)

Damon Gonzalez: I typically recommend this strategy to people who are already maxing out their 401(k) plans, Roth IRAs (if they are eligible) and 529 plans (if they have children). The cash value is protected from creditors in many states. It also makes sense for someone who has built a good nest egg and wants to diversify part of his or her portfolio into permanent insurance. If you are in a high tax bracket, are risk-averse and will be happy with bond-like (low) returns, you should look at whole life.

Steven Piascik likes the whole-life for high-net-worth individuals because it can provide tax-free income it has an investment component that allows its value to grow tax-deferred.

Kevin Mercadante: Six reasons whole life insurance might make sense:
www.cashmoneylife.com/reasons-to-buy-whole-life-insurance

NerdWallet.com

5 Term Life Insurance Mistakes to Avoid

BUYING TOO LITTLE TO REPLACE INCOME

Always buy ten to twelve times your income in life insurance coverage. That small policy you're getting through work, which might be one year's worth of coverage, isn't near enough.

If you're the primary source of income in your household, then your spouse and kids need to be taken care of for a long time if something happens to you. Making sure you have plenty of coverage will allow them to live comfortably and maintain their lifestyle until they figure out the next step in their lives.

By investing the insurance proceeds, you can earn a rate of return that replaces your lost earnings and provide security. Just as important, **don't forget to get coverage for both spouses.** Even stay-at-home parents need to have term life insurance.

WAITING TOO LONG TO GET COVERAGE

If you wait too long to buy life insurance, **you leave your family vulnerable if something unexpected happens to you.** Term life insurance premiums generally increase as you get older, so buying sooner rather than later can save you money.

The older we get, the more at risk we are for health issues. That will increase the cost of your life insurance, or even make you ineligible to purchase it. Many people think they should wait until they are debt free to buy life insurance, but that's when your family is the most vulnerable. **As you reduce debt and increase savings, you slowly begin to reduce your need for life insurance as well.**

BUYING FOR TOO SHORT OF A TERM

You might be trying to save a few dollars by choosing shorter term coverage. But what happens if you buy a ten-year policy and you have medical issues ten years from now that raise the cost of your next plan—or worse, make it so you can't get coverage at all? **That will cost you even more in the long run.**

So how long should you buy for? Dave Ramsey's general rule of thumb is to buy based on when your kids will be heading off to college and living on their own. In other words, if you plan on having children in the future, then a 30-year plan might make sense for you. If you have a newborn in the house and don't expect any more children, then a 20-year plan would be a better option.

BUYING TOO MANY RIDERS

Some people fall for policy riders that increase their premium and pay extra commission to their agents, but offer very little value.

Some of the more popular riders might include income replacement, waiver of premium, critical illness and accidental death. You'll buy because they have an emotional value attached to them, but they have very little actual benefit.

FAILING TO OCCASIONALLY REVIEW YOUR LIFE INSURANCE POLICY

It's always a smart idea to go over your term life insurance policy to make sure you have **exactly what you need for your current situation.** Your coverage might have been fine 10 years ago, but that doesn't mean it works for you now.

Make sure you have enough insurance to take care of your changing needs. Maybe you had a child, bought a new home, got a raise at work, quit smoking, or had other health improvements. These life-changing events can either help you save money or require additional coverage.

Life insurance is a major part of a healthy financial plan. **Don't put off buying term life, or you could find yourself in a major financial hole one day**.

How To Talk To Your Parents About Money

THE SUBJECT: PARENTS MAKING THEIR WILL AND ESTATE PLAN

No one wants to talk about death—especially the people who are closest to it. And as if the estate conversation isn't awkward enough, a mother or father might think their kids are trying to figure out how much they will get as an inheritance. To the parent, it sounds like the child values the "stuff" more than the person who raised them.

> **How to address it**: Keep the focus of the conversation on getting an estate plan done, not on what is being left to whom. Tell Mom and Dad you are not concerned about that; they can leave what they want to whomever they want, and you don't care how that shakes out.
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> Also, you can talk to each parent about how doing the will can ensure that the second parent is taken care of in case something happens to the first. When you put the focus on taking care of the surviving spouse, the conversation has a different feel.

THE SUBJECT: PARENTS PAYING OFF DEBT

Throw a rock out the window and you'll likely hit someone who thinks it's too late for them to start saving for retirement or paying off debt. **That's very dangerous thinking because it ensures they will stay broke.** If your parents' financial situation has beaten them down, let's get them to start beating back.

> **How to address it**: Focus on good news instead of bad. If you are concerned about your parents' current financial state, a way to broach the subject is to talk about how much better things are for you (and your family) since you started getting out of debt and making a budget—after you've done so, of course.
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> Maybe it's your communication level, your sense of freedom, your reduced stress and so on. That would probably be well received by your parents; after all, who wouldn't want to hear that their son or daughter is doing well?
>
> At the same time, when parents hear good financial news, their ears perk up. If they want to change the way they handle money to achieve similar results, it becomes their choice, not "taking the kid's advice." It may take some time, but keep at it.

THE SUBJECT: PARENTS MOVING INTO ASSISTED LIVING

This one is probably the granddaddy of them all. No one wants to be told that it's time to leave the house they've lived in for so long and go to assisted living or a nursing home. In their mind, they think it's the start of the final act, and they aren't ready to bow out yet.

> **How to address it**: Just like when you went off on your own for the first time, you must realize that they are adults and you can't treat them like kids. Don't tell them that they "have" to do this because that will only cause friction and pushback. You must be diplomatic.
>
> It's a better idea to sell them on it. If they are having trouble getting around the house, then find a good facility with an active community (preferably one with people they know, if that's possible) and talk about how great this place is. It does all the work for Mom and Dad, and they can really start enjoying life. You may even consider adopting their family pet so they know that he/she will be in good hands. **Make it their idea and they'll buy in more.**
>
> A big hurdle (albeit a softer one) is that parents may not want to use their life savings on their own care. They'd prefer to leave it to the kids. First, do NOT tell them that's a bad or stupid reason to not move into a home or facility. **Tell them instead you appreciate the thought, but it's their money, not yours.** You'll be fine (especially if you've started your Baby Steps) and are not waiting on their money.

These subjects will always be touchy and emotional, so expect that when you talk about them. Remember to speak adult-to-adult with parents about money and financial matters. It will make things easier for both of you.

How Much Car Insurance Do You Need?

We spend a lot of time talking about health insurance and life insurance, but what about car insurance?

Who's going to pay for repairs on that "remodeled" SUV when your teenager accidentally drives it through the garage door? Or what if your uncle forgets to put your car in park and it rolls into the neighbor's brand-new convertible? Would you be covered, or would you have an angry neighbor and a financial mess on your hands?

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. To protect yourself, it's important to know the types of insurance, how car insurance works, and how much car insurance you really need!

But, before we talk about the difference between basic, extended and premium auto insurance options—and which ones are right for you—let's cover some basic insurance terms.

The Lowdown: Car Insurance Terms Explained

DEDUCTIBLE

The deductible is the portion of the damages you'll have to pay for before your coverage kicks in. Let's say you have a fender bender and the repairs cost $2,500. If your deductible is $500, all you have to pay toward that repair is $500. Insurance would cover the remaining $2,000.

Auto insurance deductibles typically apply per claim. So, if you have another fender bender two months later, you'll have to pay your deductible again. But, in most cases, $500 is a steal compared to what could potentially have to come out of your pocket!

On the other hand, if you have a $1,000 deductible and only need $750 worth of repairs, you're responsible for the entire amount because the repair cost doesn't exceed your deductible.

You will likely have two different deductibles under your auto insurance policy—one for collision and one for comprehensive coverage.

"The average driver files a collision claim once every three years, and a comprehensive claim once every 10 years. Increasing a collision deductible on your auto policy from $200 to $500 can save up to 30% annually."

CAR INSURANCE PREMIUM

A car insurance premium is simply the dollar amount you pay for your coverage. Depending on your insurance company, you may pay monthly, quarterly, semiannually or even annually. Car insurance premiums can vary based on things like your deductible, your age, the make and age of your car, your driving history, and the type of insurance you purchase.

COVERAGE LIMIT

Your coverage limit is the maximum amount your policy will pay for each type of coverage you have. Work with your agent to make sure you have the maximum amount of coverage. If you exceed your policy's limits, you'll be responsible for any remaining costs.

NO-FAULT AND AT-FAULT

Illinois (and 37 other states) are at-fault states—which means someone must be deemed "at fault," even if it appears that both drivers are equally responsible for the accident. There are 12 states with no-fault insurance laws – where the auto insurance automatically pays toward your claim for medical payments for you or your family, up to a certain limit, regardless of whether you're at fault or not.

Types of Auto Insurance Coverage

BASIC COVERAGE

So how much car insurance do you really need to protect you, your passengers, and your car? Three of the most important types of auto insurance you can have are **liability, comprehensive and collision coverage**. Think of these as the basics—or coverage you can't afford to do without.

LIABILITY COVERAGE

Though liability coverage doesn't protect you or your car, it does protect your wallet! If you're in an accident that's deemed "your fault," liability insurance covers third-party costs you'd typically be responsible for—medical or auto-repair costs that others might sustain due to the accident.

So how much liability insurance should you have? That can be answered in two words—*a lot!* Even if your state doesn't require liability insurance, it's a good idea to have at least $500,000 worth of coverage that encompasses both types of liability coverage—**property damage liability** and **bodily injury liability**. That way you're covered for costs related to getting the other driver's car fixed (property damage) as well as costs related to their lost wages or medical bills (bodily injury) that resulted from an accident where you're at fault.

Without liability coverage, you would be responsible for paying the other driver's property damage and bodily injury costs out of your pocket. That could put you at serious risk financially—and potentially even cause your future wages to be garnished until the damages are paid. No matter what kind of car you drive, **liability auto insurance is a definite must-have.**

HOW DOES MY CAR INSURANCE COVERAGE BREAK DOWN?

When looking at your auto insurance coverage limits, you may see something like $250,000/$500,000/$250,000 or 250/500/250 for your liability coverage. Clear as a bell, right?

Don't panic—you're safe—there's *no* math involved. Here is how it would break down:

- $250,000 of coverage for bodily injury (per person)
- $500,000 of coverage for bodily injury (per accident)
- $250,000 of coverage for property damage (per accident)

COMPREHENSIVE COVERAGE

Remember that hail storm last year that left a lasting impression on the hood of your car? Or that time your car wasn't where you parked it because someone else decided to claim it as their own? With comprehensive coverage, you're covered! Whether it's theft or damage from a fire, a storm, a natural disaster, or even a limb falling on your car, comprehensive coverage will pay to replace or repair your car as long as the damage isn't due to a collision.

Like liability insurance, comprehensive coverage is inexpensive—so you'll want to have it whether you're driving a beater or a brand-new car.

COLLISION COVERAGE

Whether it's the kids screaming in the back seat that makes you hit the brakes a second too late or the black ice that turns your sedan into a slip and slide . . . accidents happen. **The good news is, no matter who is at fault, collision coverage pays to repair or replace your car if you're in an accident with another vehicle, object, or even yourself.**

You may be wondering, *But what about liability insurance—wouldn't that cover any damage to my car?* The answer: Only if another driver is at fault and they have enough liability insurance to cover the damages. That's why nearly 70% of drivers make the decision to purchase collision coverage.

Let’s say your car is totaled in a wreck that happens to be your fault. The other driver’s liability coverage (if they even have it) won’t pay for your car repairs because they’re not "liable" (at fault) for the wreck—you are. Without collision coverage, you’d have to pay out of pocket to repair or replace your own car. Ouch!

You may be tempted to skip out on collision coverage to save money if you drive a beater, but can you really afford to? If you’re planning to retire your beater to the junkyard and have enough savings to replace it, opting out of collision coverage may be the right move for you. To be safe, make sure to consult with your insurance agent to find out if skipping collision coverage is a risk you can afford to take.

EXTENDED COVERAGE

So now that you have your basic auto insurance covered, what about an extra layer of protection? You’ll find plenty of options for extended auto insurance coverage, but do you really need them?

For the most part, a healthy emergency fund is a better option than paying for extended coverage you may never use.

MEDICAL EXPENSES COVERAGE (MEDPAY)

Whether you’re covered by health insurance or not, Medical Expenses Coverage (MedPay) covers reasonable medical expenses for you, your passengers or any family members associated with an auto accident—no matter who’s at fault.

PERSONAL INJURY PROTECTION (PIP)

Personal Injury Protection (PIP) is similar to MedPay but **has more comprehensive coverage, higher coverage limits, and a higher premium**.[4] Unlike MedPay, though, PIP generally has a deductible.

Here are some things PIP may cover for you:

- Medical expenses
- Funeral costs
- Physical or occupational therapy
- "Substitute services" like child care or lawn care (if your accident left you unable to take care of your family or household chores)
- Approximately 60–80% of lost wages
- Funds to hire subcontractors to complete your work (if you’re self-employed)

PIP usually offers immediate non-taxable coverage up to the threshold set by your auto insurance and would need to be exhausted before you have to tap into MedPay or your own health insurance policy.

But you can probably skip it—and avoid paying for additional medical coverage that could significantly raise your premium. Just make sure that, in addition to your health insurance, you have long-term disability coverage *and* a fully funded emergency fund.

GUARANTEED AUTO PROTECTION (GAP)

With the cost of new cars continuing to climb, the average length of a car loan has expanded to six years or more, making GAP insurance more popular than ever.[5] Let’s pretend you had a momentary loss of all good sense and, instead of paying cash, you financed a brand-new SUV. If you got into an accident as you pulled out of the dealership’s lot, collision and comprehensive insurance would only cover the actual market value of the SUV. That means you’d be responsible for up to 25% of the SUV’s value that you lost the second you drove it off the car lot.[6] *Yikes!* GAP insurance would fill in the "gap" by covering not only the newly reduced market value of your SUV, but also the remainder of what you still owe on it.

Our recommendation? Skip GAP insurance and save yourself a financial headache by buying a used car with CASH. If you already have a car loan, **make it your goal to pay it off** as quickly as possible so you can drop the GAP coverage and lower your premium.

UNINSURED (UM) AND UNDERINSURED (UIM) MOTORIST

According to the Insurance Research Council, about one in eight motorists drive around uninsured.[7] Uninsured Motorist Insurance (UM) covers damage to your car and medical expenses (for you and your passengers) that result from a hit-and-run driver or a driver who's uninsured.

But what if you're hit by a driver who has insurance, just not enough? Underinsured Motorist Insurance (UIM) covers you when you're in an accident caused by a driver whose insurance coverage falls below the state's required minimums.

Occasionally you'll find Uninsured Motorist Property Damage, or UMPD, packaged with UM and UIM. Though it usually has a lower deductible than collision coverage, you probably don't need both UMPD and collision coverage since they essentially perform the same function.

If UM, UIM and UMPD coverages aren't required by your state, they're likely not something you need to add to your auto insurance policy if you already have health insurance and collision coverage in place.

Even if your state doesn't require you to have car insurance coverage, you may still be held liable for property damage or bodily injury if you cause an accident.

PREMIUM COVERAGE

Though it comes with all the bells and whistles, premium auto insurance coverage may also come at a premium cost. Here are some of the most common types of optional premium auto insurance coverage and how they may or may not be a good fit for you.

Mechanical Breakdown

If you're on a first-name basis with your mechanic, you may be tempted to sign up for Mechanical Breakdown insurance because it allows you to choose where your car is repaired, as long as the mechanic is licensed. Our advice? Save your money and skip this coverage. If you still want to use your favorite mechanic, use your emergency fund to pay for emergency repairs—that's what it's there for!

Rental Reimbursement

So how exactly do you make do without a car after an accident? Who's going to pick up the kids from school or take you to work the next day? That's where Rental Reimbursement coverage was designed to come in. It covers the cost of a rental car (up to a specific dollar amount and number of days) while your car is being repaired for any damages covered by your insurance.

Pay-Per-Mile Coverage

If your car tends to sit in the garage collecting dust, you may be interested in Pay-Per-Mile coverage. With this coverage, a GPS device is installed in your car so you're billed per mile, rather than an annual estimate. For drivers who don't put a lot of miles on their car, this could be a real money saver!

Roadside Assistance

Remember that time you coasted down the interstate on empty, praying you'd make it to the closest gas station? Or that time you hit a pothole and were left with two flat tires? With Roadside Assistance coverage, you'd be covered. This covers having fuel brought to you, getting your battery jumped, having your car towed to the nearest repair shop, or fixing a dead battery. It's helpful coverage to have in case you find yourself in a pinch!

Umbrella Insurance

You may be wondering, *Why would I purchase an umbrella liability policy if I already have liability insurance?* Umbrella insurance (or personal liability insurance) is an extra layer of liability coverage that kicks in after you've met the limits of your current policy. Coverage is typically available from $1 million to $5 million. In addition to protecting your assets and paying for any damages you're legally responsible for in the event of an accident, umbrella insurance normally offers a wider form of protection than liability insurance for things like legal fees, false arrests and even slander. If your net worth is $500K or above, umbrella insurance is an absolute MUST to protect your assets!

Custom Equipment

If you've permanently installed "aftermarket" or "performance" parts on your car, you could carry Custom Equipment coverage to help repair or replace enhancements like custom running boards, stereo systems, or even a custom paint job.

OEM Endorsement

To save money, insurance companies often use "aftermarket" parts when they replace or repair parts on your vehicle. OEM Endorsement coverage ensures OEM (Original Equipment Manufacturer) parts—the same parts your manufacturer safety tested and used to originally build your vehicle—are used on your car.

Forgiveness Coverage (Accident Forgiveness or Minor Violation Forgiveness)

Did you know that just one at-fault accident can cause your insurance premiums to increase an average of 41%? Though Forgiveness coverage may not be able to turn back time and undo an accident, it can essentially wipe your slate clean by "forgiving" your first at-fault accident. Depending on your insurance company, this coverage may only apply once per policy term, or it may take years of safe driving to go into effect.

Glass Coverage

If you live next to a golf course, you may have found yourself wishing you had glass coverage to pay for the cost of fixing or replacing the windows on your car. Some insurance companies offer glass coverage with no deductible, but the cost of the added coverage may outweigh the benefits, especially with some policies only covering the windshield. Our advice? Park your car in the garage and save yourself the extra money for coverage you probably don't need!

Should I Choose a High or a Low Deductible?

Now that you know what a deductible is, it's time to determine if you can afford yours.

If you choose a high deductible, your insurance company looks at you as a *lower* risk and will reward you with a lower premium. If you choose a low deductible, your premium will be higher because you represent a *greater* risk to the insurance company.

High Deductible → Viewed as a *LOWER* risk by insurance = Lower Premium ($)

We recommend a $1,000 deductible because that usually means you'll pay a lower premium. And since the first Baby Step is to save up a $1,000 **emergency fund**, you'll have the savings on hand to cover your deductible. Before you sign up for a $1,000 deductible, however, work with your insurance agent to make sure it's worth the extra risk by conducting a break-even analysis as you compare rates. By raising your deductible from $500 to $1,000, for example, you increase your risk by $500. If that reduces your annual premium by $50, you'll have to go 10 years without an accident to break even—not a great deal. But, if increasing your deductible knocks $150 off your annual premium, you'll break even in just over three years, which makes more sense.

"A higher deductible reduces your premium because you pay more out of pocket if you have a claim. Hiking your deductible from $200 to $500 can cut your premium on collision by 15–30%. Go to $1,000 and you could save 40%."

What About a Disappearing Deductible?

Some insurance companies offer "disappearing deductibles" at an additional cost for drivers with a long history of safe driving. The deductible decreases every year you're accident free. What's important to remember is that the deductible *reappears in full* the second you get into an accident.

A good rule of thumb is to insure for what could financially devastate you, rather than what inconveniences you. So, a disappearing deductible may not be the reward it claims to be. Factoring in the cost of the coverage, you are better off saving that money to put toward your debt snowball or emergency fund.

Should I File a Claim?

If your car needs $250 worth of work thanks to a fender bender, should you file a claim? Isn't that what you have car insurance for? Yes . . . and no. Frequent small claims are red flags that could cause your premium to go up. Plus, if you have a $1,000 deductible on a repair that costs $250, it doesn't make sense to file the claim. **Your emergency fund is there for a reason!** Pick your battles carefully and file a claim only when it makes sense.

"Safeguarding your financial security is only one of the reasons it makes sense to purchase car insurance. And the more you know about auto insurance, the smarter the choices you'll make when it comes time to renew or buy that new policy."

Make Sure Your Insurance Agent Knows

Countless factors affect the type of insurance you need and the premium you'll pay. Below is a list of key information your insurance agent needs to know to not only pick the right policies for you, but to also save you some hard-earned money in the long run!

- If you're married—it could help lower your premium!
- If you use your car for both business and personal use, even if it's a small side business.
- If you plan to travel out of state frequently.
- If you have a **teen driver** who makes good grades or has completed Driver's Education.
- Who exactly you want included on your policy.
- If you have a college degree—some carriers will give you a discounted rate.
- If your car is leased, or if you still owe money on it.
- If you own a home—it could qualify you for a discount.
- Your occupation and the occupations of others on your policy, or if you are or have been in the military—you may qualify for a discount.
- If you park your car in a garage—it may qualify you for a discount on comprehensive insurance.
- If you have any anti-theft devices installed in your car.
- If you'd prefer to get paperless statements—it may qualify you for an additional discount.
- If you want any household members excluded from your policy.

Articles in this packet were drawn from a variety of sources, but mostly www.daveramsey.com and NerdWallet.com.