6-1 Risk Assessment and Strategies

OBJECTIVES

- ***Explain the concept of risk.***
- ***List the three types of risk.***
- ***Explain what is meant by risk assessment.***
- ***Discuss four risk strategies.***

Chapter 6 is about managing risks. In this chapter, you will learn about the risks you face, how serious they are, and what you can do about them. Buying insurance is one option you can choose to help protect against risks. When you decide the risk is serious and the possible losses are great, then you might choose to transfer the risk. Income protection is one type of insurance. Health and life insurance are two good ways to protect income. Property can also be protected. Homeowner's or renter's insurance protects against loss of your house and personal items. Car insurance protects you from losses that might occur to your car and because of your car.

WHAT IS RISK?

Risk is the chance of injury, damage, or economic loss. Driving a car and snow skiing are examples of behaviors that involve risk. When you are driving a car, an accident with another car might occur. This accident could cause personal injury and damage to the car. You might have an accident while snow skiing, such as breaking your leg. There are many types of risk you will face now and in the future. Some risks are avoidable and have a small chance of happening. Other risks are unpredictable and unavoidable. Some risky events may cause serious losses if they happen.

A loss refers to some type of physical injury, damage to property, or absence of property or other assets. The loss might be personal in nature, such as a broken leg or an illness. The loss could be damage or removal of money or property. For example, you might lose money or property as a result of theft. Losses could be major and could have a significant effect on your future. Losing your job could mean that you cannot make payments on your house or car. This event could cause you to lose your house or have your car repossessed.

The likelihood of a risk actually resulting in a loss is called probability. Just because you take a risk does not mean you will always suffer a loss, nor does it mean you can always avoid a loss. You must decide whether or not the risk and its possible outcome are serious. If the possible loss is serious, you may be able to take steps to lessen the risk or the resulting loss.

PERSONAL RISK

Taking personal risk means you could lose something of personal value to you. For example, you might break your leg and then not be able to participate in an activity you really enjoy. Some personal risks are necessary. If you do not get out of bed in the morning, you can avoid many risks. However, not getting out of bed also means you will accomplish little. If you do not wear your coat and boots when it is cold and raining, you risk getting wet and cold. This may increase your chances of getting sick. The costs and outcomes of getting sick may not be serious if you are young and likely to recover quickly. For some people who have chronic illnesses, however, this personal risk must be taken seriously because the outcome can be deadly.

RISK OF FINANCIAL LOSS

Some risks will result in financial loss. Financial loss refers to a cost in terms of money. The loss can be big or small. Small possible losses should be assessed differently from large possible losses. For example, if you drive without a spare tire, you risk being unable to change a flat tire. Driving without a spare tire could be expensive if you have a flat and must pay someone to help you. The money you could lose must be compared to the cost of buying the spare tire. A large loss might result from driving without car insurance. If you get into an accident, the damage you could do to another vehicle or property could cost thousands of dollars. You might have to pay this money if you have no insurance. In some states, drivers are required to have insurance. If you drive without insurance, you risk being caught and having to pay a fine. Repeated offenses may result in losing your driver's license.

RISK OF FINANCIAL RESOURCES

Risk of future resources is a serious kind of risk; it could jeopardize your future. With this type of risk, more than current income is threatened. You may lose your ability to earn in the future or assets you acquire in the future. For example, you might do something that causes an injury to another person. That person might sue you and win a financial judgment. This

means that the court orders you to pay the person a certain amount of money. Because of the judgment, you could have your wages garnished or your assets taken away. This type of risk has a very grave outcome and should always be taken seriously.

RISK ASSESSMENT

The first step toward managing risks is assessing your risks. That means identifying what the risks are and deciding how serious they are. When you understand your risks and what you have to lose, you can make better choices. You may be able to take action to protect yourself from the serious outcomes that you could face. To assess your risks, you must first understand them.

RISK STRATEGIES

When the risk is serious, you will want to take some type of action to protect yourself. There are a number of ways to do this, such as reducing risk, avoiding risk, transferring risk, and self-insuring against risk.

REDUCING RISKS

The first strategy to consider is how you can lower the risk. Reducing risk means finding ways to change actions or events so that your chance for loss is less. For example, when you go snow skiing, you are taking a risk of personal injury. To reduce that risk, you could take skiing lessons. You could reduce your risk of financial loss by having health insurance to pay for any injuries you might suffer.

AVOIDING RISKS

If you decide that you cannot effectively reduce risk and that the potential harm is serious, you might choose to avoid the risk. Avoiding risk means you stop the behavior or avoid the situation that leads to the risk. In terms of snow skiing, you would choose not to take part in that activity. This would avoid the risk of injury from an accident. Sometimes, however, avoiding the risk means that you must not do things you really want or need to do. In this case, you might consider other risk strategies.

TRANSFERRING RISKS

When you face substantial risk that you cannot or do not wish to reduce or avoid, transferring risk is a good idea. You transfer the risk by buying insurance. The insurance company pays for the loss should it occur. Thus, you are transferring the risk of loss to the insurance company. For example, you could buy a homeowner's insurance policy that provides coverage against theft. If items are stolen from your home, you will be paid for the value of the items taken.

The price you pay for insurance is called a premium. The premium could be paid monthly, quarterly, semiannually, or annually. The premium is based on the possible loss to the insurance company. The more risk the insurer must take, the higher the premium. Sometimes the cost of the premium is very high, and you will look for ways to reduce the cost of insurance. For example, your homeowner's insurance premiums might be lower if you have a home security alarm system. Your car insurance premium might be lower if you choose to drive a reliable family car instead of a sports car.

ASSUMING RISKS

When the risk of loss is not great or when the cost of transferring the risk is too great in comparison to what you could lose, you might choose to self-insure. To self-insure means to set aside money to be used in the event of injury or loss of assets. Many people cannot afford to be totally self-insured. However, self-insurance is a good way for many people to assume responsibility for part of the risks they face. For example, you could choose not to have full-coverage automobile insurance on an old car. This will make your insurance premiums lower. If the car is destroyed in an accident that is your fault, you must pay to buy another car. However, your auto liability insurance would pay for damages to others that you cause in the accident.
Another option is to choose policies with high deductible amounts.

The deductible amount is the money you must pay before your insurance company begins to pay. You could choose to have a health insurance policy with a high deductible. This would give you lower premiums. You would pay from your self-insurance fund for doctor visits or other routine care. However, if you have a serious illness that involves high medical expenses, your insurance policy would pay these bills. This allows you to assume the risk for small or routine expenses and have the insurance company assume the risk for large expenses.

6-2 Income Protection

OBJECTIVES

- ***Explain the need for health insurance and the types of plans available.***
- ***Describe types of coverage available in health insurance plans.***
- ***List ways you can lower costs and manage health care spending.***
- ***Explain the need for disability coverage and the types of plans available.***
- ***Explain the need for life insurance and types of life insurance coverage.***

HEALTH INSURANCE

Health insurance is a plan for sharing the risk of medical costs from injury or illness. People need health insurance to help pay high medical expenses. Many people cannot afford to pay medical costs without the help of insurance. Some people have group health insurance bought through their employers. Some people have individual policies.

TYPES OF PLANS

Three basic types of health insurance plans are available. Health insurance plans have many characteristics in common. The better the coverage, the higher the premiums will be. Some employers may pay for a part of medical insurance premiums. However, employees are often asked to pay part or all of the cost. This is because of high and rising costs for health care.

Fee-For-Service Plans. A fee-for-service plan allows patients to choose doctors and other providers for medical services. The insurance policy has a deductible. The insured pays expenses equal to the deductible amount. Then the insurance company pays a percent, such as 80 percent, for covered services. The insured must pay the remaining amount. For example, if a policy has a $150 deductible, that means the insured must pay the first $150 of medical expenses. Then the insurance company starts paying for part of the amount above the deductible. A fee-for-service plan is often called unmanaged care. This type of coverage is often more expensive than managed care plans that offer fewer choices of doctors and other care providers.

Preferred Provider Organization Plans. A preferred provider organization (PPO) is a group of health care providers (doctors, hospitals, clinics, and labs) that work together to provide health care services. Patients choose caregivers from approved lists. Lists include doctors, hospitals, clinics, and labs that will bill the PPO for services. If you use a doctor or medical facility that is not on the approved list, the plan may pay reduced benefits or no benefits. Thus, you should review the list of approved caregivers and facilities when considering a PPO. The PPO plan usually has a co-pay. A co-pay is an amount you must pay each time you use a medical service. Co-pays are often $15 to $30 per visit.

Health Maintenance Organization Plans. A health maintenance organization (HMO) is a managed care group plan that has prepaid medical care. HMOs usually have their own facilities (clinics and hospitals) and offer a full range of services. Patients must choose doctors on the HMO staff, including one doctor to be the primary care doctor. To see a specialist, patients must get a referral from the primary care doctor. HMOs usually do not have deductibles. Patients pay a co-pay for each visit. An advantage to HMOs is their emphasis on preventive care. Preventive care includes routine physical exams and wellness programs. The goal is to help keep people healthy. Examples of preventive care include regular exams, dietary counseling, and a focus on healthy living. Many health plans have call-a-nurse programs. A skilled nurse is available by phone to answer health-related questions. This service helps people make good choices regarding health care. Some health plans also have education programs to inform people about ways to stay healthy.

TYPES OF HEALTH COVERAGE

Several types of health insurance plans are available. Some plans provide coverage for basic health care. Other plans provided coverage for serious injury or illness. Plans to help pay for dental and vision care expenses are also available.

Basic Health Care. Basic health care coverage includes medical, hospital, and surgery services. It pays for doctor fees, office visits, and lab work. Approved hospital costs and surgeries are also covered. Cosmetic and elective surgeries are usually not covered. Elective surgery is surgery you choose to have that is not medically necessary. A face-lift to improve appearance and laser eye surgery to improve vision are examples of elective surgery.

Major Medical. Major medical coverage protects against very serious injury or illness. It pays for services beyond basic health care. The coverage often goes to $1,000,000 or more. Examples of procedures covered include bone marrow transplants, organ transplants, and other care that often costs $500,000 or more.

Dental and Vision. Many group plans provide dental coverage. Dental plans often have deductibles and co-pays. They may have a total yearly benefit, such as $2,000. A typical plan includes services such as exams, x-rays, and fillings. Other services, such as crowns, bridges, and braces, often are covered at a lower rate or not at all. Cosmetic dental work is usually not covered. Vision coverage often provides for an eye exam and part or all of the cost of glasses. The insurance pays for lenses and frames and may even allow for prescription sunglasses. Some policies cover the cost of contact lenses, but often on a limited basis.

Catastrophic Illness. Catastrophic illness policies provide protection should you get cancer or some other disease or condition that might cost hundreds of thousands of dollars to treat. If you have a family history of such a disease, you may not be able to get the insurance. You should buy this type of policy (and all policies) only from a well-known, reputable company. These kinds of policies are sometimes sold as scams. When you try to collect, you find that the company will not pay or no longer exists.

MANAGING COSTS

The cost of health care is rising rapidly, making it difficult to pay rising premiums. Patients are paying higher co-pays and deductibles. Types of services provided are being limited. The cost of medicines is also rising. Many people are concerned about finding ways to manage the costs of health care. Whenever possible, patients should make sure medicines and treatments will be covered by their insurance before agreeing to use them. Some alternative or experimental treatments or medicines may not be covered.

Deductibles and Co-Pays. When deductibles and co-pays are higher, premiums are often lower. Having higher deductibles and co-pays is one way to reduce health insurance premiums. Money must be set aside, however, to pay for expenses up to the deductible amount.

Stop-Loss Provisions. A stop-loss provision provides 100 percent coverage after a certain amount of money has been paid for medical expenses. For example, a policy may have a $5,000 stop-loss provision. This means that when you have paid $5,000 in deductible plus coinsurance payments in a year, your covered expenses are then paid at 100 percent. This amount is paid rather than the 80 percent or other rate the insurance company would otherwise pay. A stop-loss provision is a good feature to have in a health insurance policy.

Health Savings Accounts. A health flexible spending arrangement (FSA) allows people to set aside money to pay for qualified medical expenses. The money set aside is not included in the amount on which federal income taxes are paid. The plans are often set up by employers as an employee benefit. Deductions are made from the employee's pay to fund the account. The employer may also contribute. The employee files claims to be paid from the account for qualified expenses. Amounts not used by the end of the year are forfeited. A health savings account (HSA) may also be set up individually rather than through an employer. This account is available to people with large deductibles, such as $1,000, on health care plans. The account holder puts money into an account (pretax). The money is then used to pay medical expenses. This reserve of money is a form of self-insuring with a tax benefit. Money not used in one year is carried forward to the next year and continues to grow tax-free. The major advantage of this type of plan is that people manage their own health care dollars.

DISABILITY INSURANCE

Disability insurance provides money to replace a portion of normal earnings when the insured is unable to work due to an injury or illness that is not job-related. (If a person is injured at work or becomes ill because of work conditions, workers' compensation provides coverage.) If the disability is temporary, short-term disability insurance provides coverage. When the disability is for a longer period, long-term disability insurance provides coverage.

SHORT-TERM DISABILITY INSURANCE

Short-term disability insurance usually begins after a waiting period of 30 days. The disabled person receives a portion of regular pay (such as 75 percent) for a short period of time. This time usually is 6 months to 2 years. Short-term disability insurance can be offered as a group policy. This type of coverage may be provided through an employer-sponsored health plan. It can also be bought as an individual policy. The coverage would likely be a part of a comprehensive health care package.

LONG-TERM DISABILITY INSURANCE

Long-term disability coverage usually begins in 6 months to 2 years. It continues until retirement. It pays a percentage of regular pay, such as 60 percent. The smaller the payment percentage, the lower the premium will be. Premiums are based on

the age of the employee and his or her salary. This insurance may be provided through an employer. Individual policies can also be purchased.

LIFE INSURANCE

Life insurance pays money when the insured person dies. The purpose of life insurance is to provide money to a beneficiary, the person designated to receive money. Some types of life insurance also build cash value, acting as a form of savings plan. Some reasons why people buy life insurance follow:

- To pay off a home mortgage and other debts at the time of death
- To provide money for a spouse and children to maintain their lifestyle
- To pay for education for children
- To make charitable bequests at death
- To accumulate savings
- To pay inheritance and estate taxes
- To provide cash value that can be borrowed later

Two common types of life insurance are term and permanent. Term life insurance provides a death benefit only. It does not build cash value. Permanent insurance provides a death benefit and builds cash value. An annuity can also be a type of life insurance policy. It may provide a death benefit, but it is really a type of investment plan.

TERM LIFE INSURANCE

Term life insurance is a policy that provides a death benefit. It is in effect for a specific period of time, such as 20 years. The insured must continue to pay premiums to keep the policy in effect. When the time period is over, the policy is no longer in effect. Term insurance is also called pure insurance because it does not build a cash value. If you have a 20-year term policy, you will have life insurance for 20 years. If you die within that time, the policy pays the stated sum, called the face value, to the beneficiary. If you do not die during the 20-year term, no insurance protection remains at the end of the term.

Renewable Term. Renewable term insurance is life insurance that can be renewed every year or for some other time period. The insured has the right to renew the policy until reaching a certain age, such as 93 or 95 years. The age limit can vary by the company and the type of policy. At each renewal, the premium goes up (because the risk of death increases).

Decreasing Term. With decreasing term insurance, the amount of coverage goes down each year. The premium remains the same. This type of insurance recognizes that as time goes by, the need for insurance is less. This may be because children are now adults, debts such as a home mortgage are paid, and there are fewer needs for the insurance benefit.

Level Term. With level term insurance, the death benefit does not change. However, the cost of the premiums goes up each year. This is because the policyholder gets older, and the risk of death is greater.

An advantage to term insurance is lower premiums than for a permanent policy. A disadvantage to term insurance is that it does not build cash value that can be withdrawn or borrowed against. However, the policyholder could invest the amount saved on premiums. The money invested would likely grow at a faster rate and result in more savings than the cash value of a permanent policy.

PERMANENT INSURANCE

There are several types of permanent life insurance. Permanent life insurance provides a death benefit and builds cash value. When a life insurance policy has a cash value, the insured can borrow against the policy. With some policies, the insured can cash in the policy. This means that the policyholder will receive the cash value of the policy, and the insurance benefit will no longer be in effect.

Whole Life. A common type of permanent insurance is called whole life insurance. It is also known as straight life or ordinary life insurance. The insured pays premiums as long as the policy is in effect. There is usually an age limit, such as 93 or 95 years, for how long the policy will remain in effect. The policy pays the face value to the beneficiary at the death of the insured. Life insurance benefits are not taxable to the beneficiary. The amount of the premium depends on the age of the insured at the time the policy is purchased. The premium is high enough to pay for the death benefit and also to add to the policy’s cash value. The cash value can be borrowed against by the insured. This type of loan does not have to be repaid, but it lowers the death benefit when the insured dies. The insured can choose to repay the loan.

Limited-Pay Life. Limited-pay life insurance is a policy on which the insured pays premiums for a limited period of time, such as 20 years. At the end of the period, the policy is paid up. The insured pays no more in premiums, but the life insurance remains in effect until the age limit of the policy. The policy will pay the face value when the insured dies as long as it is in effect. This type of life insurance also builds cash value.

Universal Life. Universal life insurance provides a death benefit. However, the premium and death benefit are not fixed. The policyholder can change the death benefit and the premiums during the life of the policy. The advantage of this type of plan is that it allows the policyholder to adjust the death benefit and premiums to fit changing needs.

Variable Life. Variable life insurance is a form of permanent insurance that provides a death benefit and builds cash value. The premiums are fixed. Part of the premium is invested in securities chosen by the policyholder. The rest of the premium is used for life insurance. The advantage of this type of policy is that the insured can decide how part of the premiums will be invested. The disadvantage is that the death benefit can vary depending on how well the investments do. However, a minimum death benefit is often guaranteed. Also, the insured cannot withdraw the cash value of the policy.

GROUP LIFE INSURANCE

When a life insurance policy is purchased through an employer or an organization, this is called group life insurance. Group life insurance has much lower premiums than individual policies. Individual policies are more expensive because there is more risk to the insurance company. With a group policy, a large number of people are insured. This lowers the risk to the insurance company and thus provides better coverage at lower prices. Sometimes life insurance policies are portable. Portable insurance can be taken with you when you leave your job. In other words, the group policy becomes an individual policy at the same premiums. Having this feature makes it possible for people who would not otherwise qualify to have life insurance.

6-3 Property Protection

OBJECTIVES

- ***Explain the need for homeowner's insurance and the types of coverage provided.***
- ***Explain the need for renter's insurance.***
- ***Explain the need for automobile insurance and the types of coverage provided.***
- ***Describe the purpose of an umbrella policy.***

HOMEOWNER'S INSURANCE

A homeowner's policy protects the policyholder from risk of loss in the home. It covers the building and its contents. This includes personal property, such as furniture, appliances, clothing, and home decorations.

TYPES OF COVERAGE

Policies can be purchased that provide fire insurance only. Most homeowners choose more than just protection from fire. Homeowner's insurance typically includes three types of coverage. This coverage is for fire and other hazards, criminal activity, and personal liability. Read the homeowner's policy carefully to see the types of items and risks that are covered. Expensive items such as jewelry, furs, antiques, computers, and rare coins may not be covered or may have limited coverage. Earthquake, hurricane, and flood protection often is not included. A special provision, called a rider, can be purchased to provide more coverage for expensive items or special risks.

Fire and Other Hazards. Fire, water, wind, and smoke can damage a house and its contents. The risk of this type of loss is unpredictable, and the consequences can be very serious. For example, if your house burned and you had no insurance, you would still owe a mortgage payment, but you would have no house to live in. For this reason, you may be required to have insurance as part of a mortgage agreement. Protection extends not just to your home but to a garage or shed, trees, plants, shrubs, and fences. The policy might also cover costs of lodging while your house is being repaired.

Criminal Activity. Your house could be broken into, vandalized, or suffer damage as a result of other criminal acts. You may not be able to prevent these things from happening. However, you can reduce the risk by locking windows and doors. You might also get a security alarm system and put your lights on a timer. This type of risk is unpredictable, and the consequences can be expensive.

Personal Liability. If someone is injured on your property, you are responsible for her or his injuries. For example, a guest may break his leg while getting into your hot tub. Your homeowner's policy would pay medical and other costs.

Acts of Nature. Some areas of the country can have hurricanes, floods, volcanoes, and earthquakes. These acts of nature can do a great deal of damage. Sometimes a private insurance company will provide coverage for these risks (at high premiums). You may also be able to buy insurance from the federal government to cover these risks. If you live in an area where you could suffer this type of loss, you should consider buying this type of coverage.

HOME INVENTORY

Before buying a homeowner's policy, read it carefully to see how you will be paid for damages. You may be paid for the replacement cost of an item or for the actual cash value of the item. The payment depends on the language in the insurance policy. To ensure that you will be able to replace stolen or damaged items, choose a policy that covers replacement costs. When items are stolen from your home or destroyed or damaged, you must file a claim with the insurance company in order to be paid for the items. Could you name all the items in your home if it was destroyed by fire? Do you know the value of all the items? Many people would not be able to give an accurate record of home items from memory. To be prepared in case you need to file a claim, you should create a home inventory. The inventory should list all the items of value in your home. Ideally, the inventory should include the number of items, when they were purchased, and the original cost. Record as much of this information as you can. Attach any receipts that you have for expensive items. Record serial numbers for items such as appliances and computers. The inventory should include a place to list the replacement cost of the item. That amount can be added just before a claim is filed so the price is current.

You may want to list items in alphabetical order; by room location; or by type, such as appliances, furniture, and so on. You may also want to take pictures of or videotape each room in your home to document the items it contains. Once the inventory is complete, store it in a safe place, such as a fireproof box or a safe deposit box. You could also keep a copy at a relative's home. Update the inventory regularly. Keeping the inventory in a spreadsheet or database program makes it easy to update. Special programs for creating home inventories are also available.

REDUCING COSTS

As with medical insurance, you can choose higher deductibles and save money on your property insurance. Of course, this means you are assuming more risk. Some people get discounts because they add security systems or have other features that reduce the risk to the insurance company.

RENTER'S INSURANCE

Renter's insurance protects renters from the risk of losing personal property. Loss could occur from fire, smoke, theft, freezing, water damage, or other hazards. A renter's policy covers the cost of repairing or replacing personal property. As with a homeowner's policy, check carefully to see what items and risks are covered. Check to see whether the policy pays replacement costs or actual cash value. Purchase a rider if you need coverage for very expensive items, such as jewelry or fine art. Prepare an inventory of items to use if a claim must be filed. As a renter, you are responsible for the inside of the apartment or house. If someone is injured, renter's insurance will pay for medical costs. Renter's insurance also protects your property in your car or at work. Renter's insurance is not expensive. It is a low-cost way to protect against loss of your personal property.

AUTOMOBILE INSURANCE

When you drive a car, there are serious risks to people and property. All states have financial responsibility laws. These laws require drivers to be prepared to pay for damages caused to others. One way to do so is to have automobile insurance. Automobile insurance protects the owner of a car from losses as a result of accidents. The cost of car insurance depends on many things, such as the model and style of car and the age and driving record of the insured. If your car is stolen or you are in an accident, call the police right away. Get a copy of the theft or accident police report for use in filing a claim. Call your insurance company to begin the claim process. If your car is damaged but can be driven, you may be required to get estimates for the repair work.

TYPES OF COVERAGE

If you have all of the following types of coverage, you have full coverage on your automobile. Unless you have a car loan, however, you are not required to have full coverage.

Liability. Liability coverage protects against loss as a result of injury to another person or damage to that person's property. It pays nothing for the insured person's own losses. Liability coverage is usually expressed with three numbers, such as 100/300/50. The 100 stands for how much will be paid for injuries to one person ($100,000). The 300 stands for the total that will be paid for all people in an accident ($300,000). The 50 stands for how much property damage will be paid ($50,000).

Collision. Collision coverage protects you from damage from being hit by another car or rolling over. It will pay for damage to your car if you are at fault. Collision coverage usually has a deductible. The deductible may be from $50 to $1,000. The higher the deductible, the lower the premium. Some states have no-fault insurance laws. Under no-fault laws, your auto insurance company will pay for your damages (up to your policy limits), regardless of who was at fault for the accident.

Comprehensive. Damage to your car from causes other than collision or rolling over is provided by comprehensive coverage. Examples of this damage include fire, theft, hail, water, falling objects, and vandalism. This insurance also has a deductible that can save you money in premiums.

Personal Injury. Personal injury protection pays for medical, hospital, and funeral costs of the insured, that person's family, and passengers. Discounts are available if you have airbags and other safety devices to reduce injuries.

Uninsured/Underinsured Motorist. When another person is driving while uninsured or without enough insurance (underinsured) and causes an accident, this insurance pays your costs. In other words, the other driver is at fault in an accident with you. This driver has no insurance or not enough insurance. Your policy will then pay your damages. This insurance also covers you when you are a pedestrian and get injured by an uninsured vehicle.

Towing/Rental Car. Full coverage often provides for towing charges when your car is not in running order. While your car is being fixed, your insurance may also cover the cost of a rental car. These types of coverage cost extra, but the premiums are fairly low compared to other types of coverage.

REDUCING COSTS

As with other types of insurance, the higher your deductibles, the lower the premiums. Other things you can do to lower car insurance costs include the following:

- Take driver training classes.
- Maintain a good driving record.
- Buy more than one insurance policy (both homeowner's and car insurance) from the same company.
- Get good grades in school.
- Have a car with a high safety rating.
- Install security devices on your car.
- Always pay your premiums on time.

UMBRELLA INSURANCE

An umbrella policy provides coverage in addition to car and home insurance. It protects you from catastrophic losses. Policy limits are often $1,000,000 or more. Umbrella insurance pays for accidental injuries caused to other persons while you are driving or in your home. It protects you from extraordinary losses. For example, you may be in an accident in which costs for another person's injuries exceed $500,000. This amount might be more than is covered by your liability car insurance. An umbrella policy is so named because it provides coverage above your other policies. You must have liability coverage on your home and car. When payment limits are reached on those policies, the umbrella policy takes over.

FOCUS ON: Driving Accidents

Most states have financial responsibility laws. These laws may require that drivers be insured or that they be able to pay for damages caused to others. The minimum coverage required in many states is liability insurance. Liability insurance protects others from the results of negligence. In spite of legal requirements, many people drive without insurance. Some cite the high cost of insurance as their reason. Others say that they are unable to buy reasonable coverage and they have to drive to get to work and other places they must go. There are so many uninsured motorists that drivers can buy extra coverage to protect against losses from an accident with one of them. Driving without insurance or without being able to pay for damages you cause to others is unethical. When you injure another person in an accident, you can be sued for damages. Sometimes people demand money even though they have not been injured. They fake injuries in order to get money from the insurance company. This practice is both illegal and unethical. There are people who stage accidents, causing your vehicle to rear-end theirs. When you hit another car from the rear, you are presumed guilty in many states. Always drive very carefully. Leave lots of room between you and the car in front of you. Defensive driving is a type of driving skill that helps you be aware of other vehicles and what might happen in traffic situations. Taking a defensive driving course can help to lessen the risk of loss from automobile accidents.

Chapter Summary

- ***Everyone takes risks that have potential consequences that may be serious. Risks may involve personal or financial loss.***
- ***Risk assessment is the process of identifying risks, their probability, their seriousness, and how to handle them.***
- ***Risk strategies include reducing risk, avoiding risk, transferring risk, and assuming risk.***
- ***Income protection is provided by health insurance, disability insurance, and life insurance.***
- ***Health insurance can be purchased as a fee-for-service, PPO, or HMO plan.***
- ***Types of health coverage include basic health care, major medical, dental and vision, and catastrophic illness.***
- ***There are many ways to manage health care costs, including use of deductibles, co-pays, and health savings accounts.***
- ***Disability insurance can be short-term (usually 6 months to 2 years) or long-term (to retirement).***
- ***There are two basic types of life insurance: term and permanent.***
- ***Term life insurance provides a benefit at the death of the insured .***
- ***Permanent life insurance provides a benefit at the death of the insured and also builds cash value.***
- ***Property insurance is for home and automobile protection.***
- ***Homeowner's insurance covers fire and other hazards, criminal activity, and personal liability. Renter's insurance provides similar coverage on the contents of a home but not on the structure. It also includes liability protection.***
- ***Automobile insurance may include liability, collision, comprehensive, personal injury, and uninsured/underinsured motorist coverage.***
- ***Having high deductibles on policies and taking actions to reduce risks can help lower costs for all types of insurance.***
- ***An umbrella policy protects you after your homeowner's or car insurance has paid the maximum amount.***