

# Chapter 5

## Insurance

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# Do I need life insurance?

Yes!



If there are other  
people dependent  
upon you financially

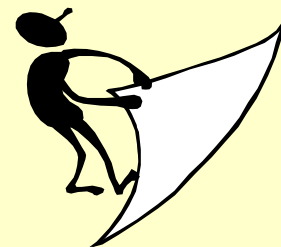
# Do I need life insurance?

**No!**



If there are no other  
people dependent  
upon you financially

**Are there some  
exceptions to this?**

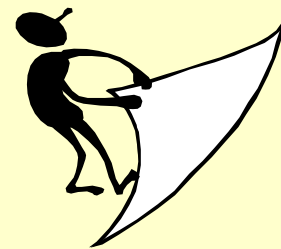


- Life insurance on children is not needed except maybe a small term policy for burial expenses
- You need life insurance if you have young children who would need care if you were not here
- If you are single with no dependants you need a small term policy to cover burial expenses
- If your family has a history of chronic diseases, you should have insurance while you are still insurable

# **How much life insurance do I need?**

The goal is to have enough insurance so that your beneficiaries could live off of the interest after the benefit is invested

# How do I calculate how much life insurance I need?



1. How much money would your dependants need annually to maintain their standard of living should you die?

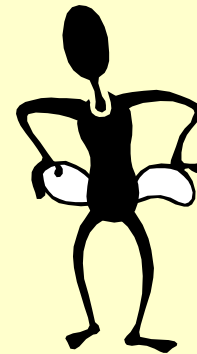
2. Subtract the income they would make without insurance

3. How much would they need at a 5% return to yield #2?

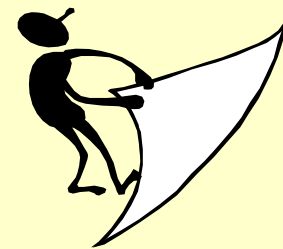


# What is term life insurance?

Term life insurance is  
pure insurance with no  
cash build up



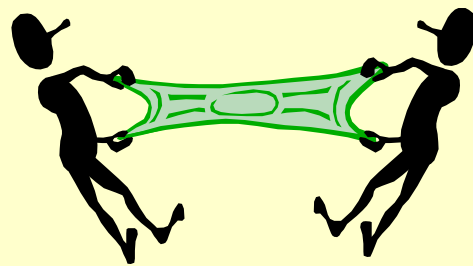
# What are the three kinds of term life insurance?



- **Level Premium** - premium and coverage stays the same for a set number of years
- **Decreasing Term** - coverage declines yearly but the premiums stay the same
- **Annual Renewable Term** - face value stays the same but the premiums increase yearly

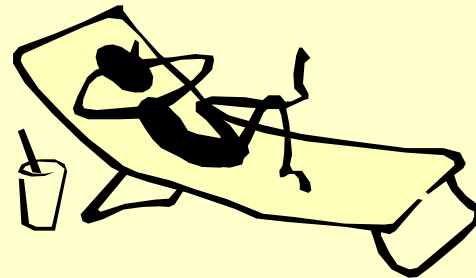
# What is whole life insurance?

Insurance with face-value  
and a cash-value features



# What is face value?

The insurance



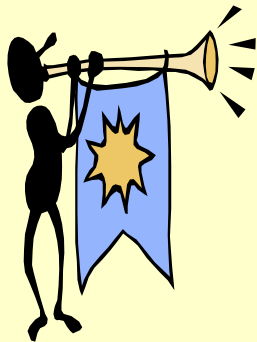
# What is cash value?

Money held in reserve to pay your death benefit



# Who is a beneficiary?

A person who receives money from your life insurance when you die



**The face-value of a whole life insurance policy is \$100,000, the cash value is \$30,000, how much will my beneficiary get?**

Most often, the \$100,000 face value, but not any of the cash value



**If I cancel a whole life policy do I get the cash-value back?**

**Yes!**

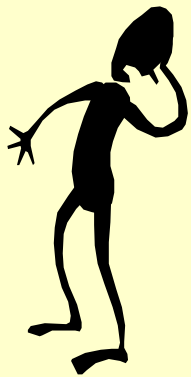


Usually you are entitled to the insurance or the cash-build up

**If I cash in a whole life policy do I get all of the cash-value?**

**No!**

There are usually surrender charges, commissions and fees

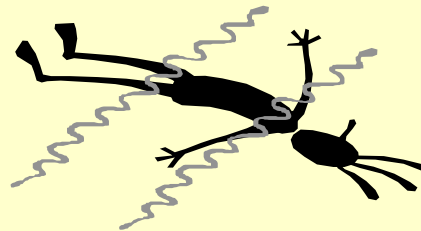


# What is a vanishing premium policy?

Payments are inflated in the early years to build up cash-value, money is then taken from cash-value in later years to make the premium payments

# What is a double indemnity policy?

A policy will pay double the face-value if the insured dies accidentally



# **What's the problem with double indemnity?**

When the insured is injured and dies at a later time, did the person die because of the accident or from natural causes?

# What is universal life insurance?

A combination of term insurance and a tax sheltered savings account that pays interest

# **What's the return on universal life insurance?**

The insurance company guarantees a minimum return, beyond that the return will fluctuate according to market forces

# What is a mortality charge?

Each year more money is taken out of savings each month to cover the cost of insurance



# What is a frontload policy?

To cover expenses 5 to 9 %  
is deducted from your  
premium before it is applied  
to the savings portion

# What is a backload policy?

A surrender charge applied if the policy is canceled or a withdrawal is made

# How expensive are backloads?

Could be as high as 150%  
of the first year premium  
and diminishes and  
disappears between the  
10th and 15 years

# **If I withdraw money from a universal policy what happens?**

- If you withdraw all of it you cancel the policy
- If you withdraw a part of it you reduce your death benefit

# **With a universal policy what happens to my savings when I die?**

- With option B your beneficiaries receive the savings portion as well
- With option A your beneficiaries receive only the face value

**Why would I choose  
option A over option B?**

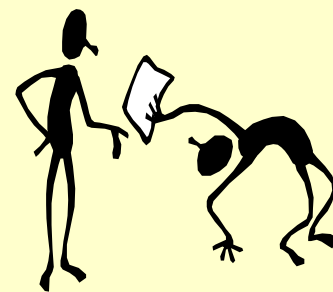
A Universal Policy with  
option B is more  
expensive than option A

# **What is variable life insurance?**

You get to chose the  
investments made with  
the cash-value portion  
of the policy

**With whole, universal,  
or variable life can I  
lose my coverage?**

Not if you continue making  
payments on time





**Once the term is up, can  
the insurance company  
cancel the policy?**

**YES**

# Can I convert a term to a cash-value policy?

Only if your term policy has a convertible clause in it

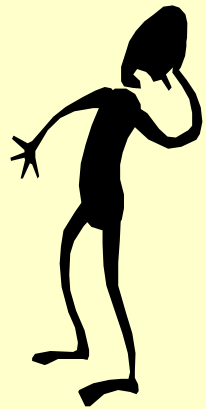


# **Why would I want to convert my term to a cash-value policy?**

Your term policy may  
not be renewed beyond  
65 years of age

# If I convert do I get full life insurance coverage?

No!



A \$100,000 term policy may only convert to a \$75,000 whole life policy

# **What is the interest-adjusted net cost index?**

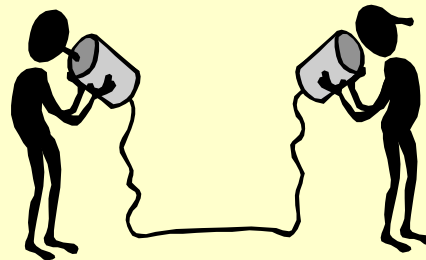
This is an industry accepted method for determining the true cost of insurance over the long run

# What does the Interest-adjusted Net cost index consider?

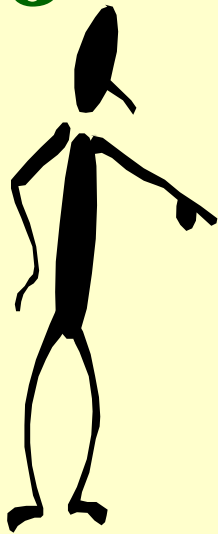
- premium paid
- interest earned
- dividends paid
- timing of payments
- timing of receipts

# Where do I get the interest-adjusted net cost index?

Ask your insurance agent  
or insurance company



**Is a low number good or bad with the interest-adjusted net cost index?**



The lower the number the better



# Which insurance do agents make the most money on?

More money is made selling Whole Life



# What is an in-force-policy ledger?

This is an annual brief summary and status of your policy



# What is a viatical settlement?

A terminally ill person sells all or a part of his/her life insurance policy to a Viatical Company who then becomes the beneficiary

**What if I am at fault for  
an automobile accident  
and have no insurance?**

You could pay a part of your  
income to cover the liability  
for the rest of your life

# What is bodily injury liability?

This covers you when injury occurs to people in other cars, your car and pedestrians during an accident that is your fault

**Does bodily injury liability cover members of my family driving other cars?**

**YES**



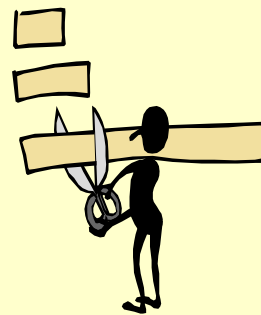
# What is property damage liability?

This covers damage done by you to other people's property



# What is a single-limit automobile policy?

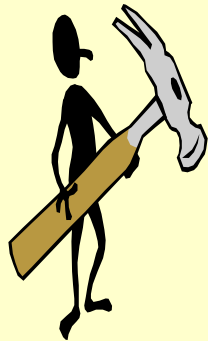
The quotation is 2 numbers





**What is the first number  
in a single-limit policy?**

Bodily injury liability

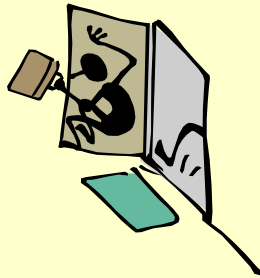


# **What is a split-limit automobile policy?**

A split limit policy is when  
the quotation is 3 numbers

# What are the first two numbers in a split-limit policy?

The first two are  
bodily injury liability



# Is a single-limit or a split-limit policy best?

A single limit policy is better than a split limit policy because it will cover more per person injured

# What is a deductible?

A deductible is how much you pay when you file a claim



# What is the advantage of a high deductible?

The higher the deductible, the less costly the insurance

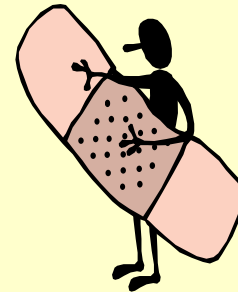


**For the same money is it  
better to have a low  
deductible or more insurance?**

It is usually better to  
have a high deductible  
and more insurance

# Is there an exception?

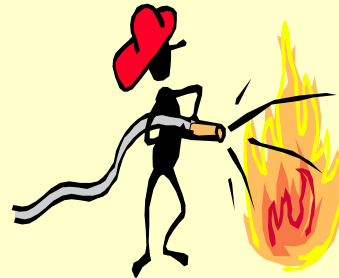
If your medical expenses are frequent pay the extra money for a low deductible





# What is comprehensive insurance?

Comprehensive insurance  
covers damage done to a  
parked car



# What is collision insurance?

Covers the damage  
done to your car when  
while it is moving

**If I total a car how much  
will I receive from the  
insurance company?**

You receive only what the  
trade in value is according  
to the NADA book at the  
time of the accident

# Should I pay for medical coverage on my auto policy?

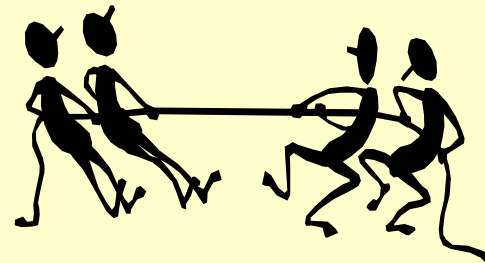
**Yes!**

If you do not have  
health insurance



# What if I already have health insurance?

Then it depends on your present coverage



# Should I pay for towing coverage?

This is usually a good  
coverage for the money



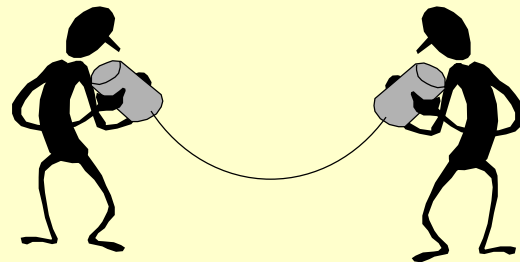
# **Should I pay for rental reimbursement coverage?**

YES, if you are dependent on your car and would have no other way to get to work or school

If you have backup transportation, the answer depends on the cost

# What should I do after an accident?

Call the police or 911





# When should I contact my insurance company after an accident?

After you document the specifics



# What information do I need at the accident?

- Write down the specifics of the accident
- Get telephone numbers
- Names of everyone involved

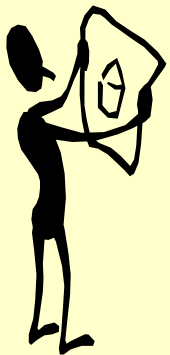
# What is a release from my insurance company?

Upon signing the release the settlement is final



# What is homeowner's insurance?

Insurance that protects  
your home and  
belongings from damage  
or destruction



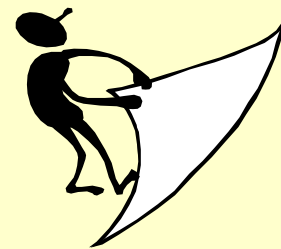
# What can be covered by homeowner's insurance?

- Liability on personal property
- Legal fees
- Physical damage to your boat
- Automobile break-ins
- Physical damage to the house

**My dog bit a neighbor,  
my child hurt a  
playmate & I broke a  
neighbors window, are  
these things covered?**

**YES**

# What is not covered by homeowner's insurance?



- Job related accidents
- Intentional harm to persons
- Accidents operating a vehicle
- Impact of a flood
- Simple neglect of maintenance
- Damage from war



**My house is on a flood plain, can I get insurance?**

**YES, you can buy  
separate flood insurance**



**Will my homeowner's insurance cover all my personal belongings?**

Not usually, if you have valuable belongings you should get a *personal article's floater* on your homeowner's policy

# Should I buy replacement or present value coverage?

It's a little more expensive  
but replacement value is a  
better coverage

# **What is umbrella liability coverage?**

It covers bodily injury and legal costs when a claim is made against you

# **Does umbrella liability coverage protect me away from home?**

It protect you away from home when your negligence causes harm to someone else

# Is umbrella liability coverage good to have?

Yes!

If your net worth is more than \$50,000



# How expensive is umbrella liability?

One million dollars  
worth of liability  
coverage will cost you  
about \$100 per year

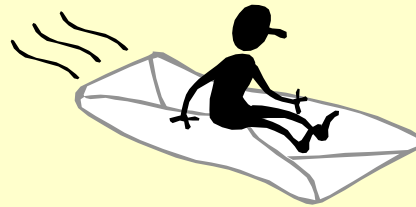
# Where can I buy an umbrella policy?

As a supplement to your homeowner's or automobile policy when these policies are from the same company



# What is renter's insurance?

This is similar to a  
homeowner's policy



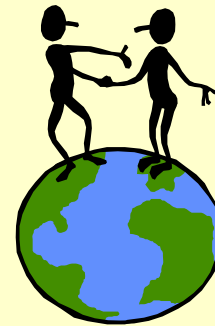
# What is health insurance?

Health insurance pays  
for doctor, hospital and  
drug expenses



# What is the best way to buy health insurance?

As a member of a large group



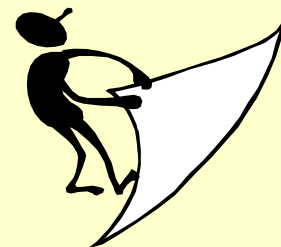
# What happens if I leave the group?

You are still covered for  
18 months, but at a higher  
premiums



# What is individual basic medical expense insurance?

pays for some portion of ...



- Inpatient & outpatient surgery
- In hospital medical visits
- Lab tests and X-rays
- Hospital room
- Operating room

# Do I get full coverage?

Not usually



A 31 day  
limit on hospital  
stays & 80%  
coverage is standard

# What is major medical coverage?

Provides additional protection beyond basic medical against costs of serious illness



# **What is hospital confinement indemnity insurance?**

Pays a fixed amount per day, week, or month while you are in the hospital regardless of costs

# **Should I buy hospital confinement indemnity insurance?**

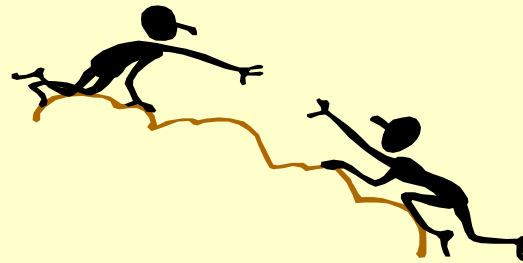
Perhaps as a supplemental  
policy to pay for deductibles  
on your basic insurance

# **What is limited benefit insurance?**

Covers only the  
expenses of a specific  
illness, such as cancer

# Should I buy limited benefit insurance?

Only if you are not able to get basic insurance



# What is accident insurance?

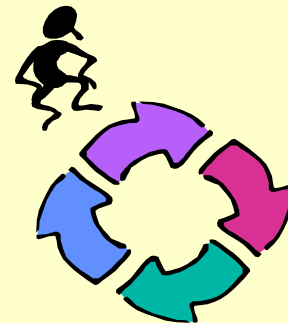
These policies cover death,  
loss of limb or sight,  
disability and medical care  
due to an accident

# **What is intensive care insurance?**

These policies cover expenses while you are in the intensive care unit of a hospital

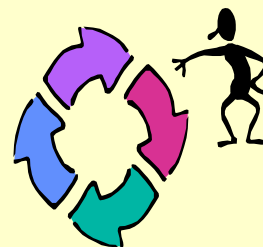
# What is Medicare?

This is a federal program with two parts, Part A and B



# What is Medicare Part A?

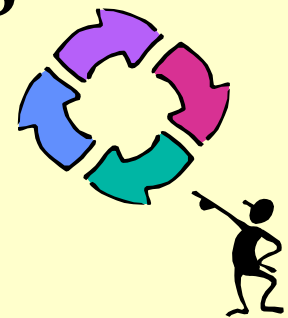
Part A is a limited no cost health insurance offered to anyone who is 65 years or older





# What is covered by Medicare Part A?

Hospitalization after  
deductions and  
coinsurance payments  
under other policies



# What is Medicare Part B insurance?

Part B pays for doctor's services both inside and outside a hospital



# What is Medigap insurance?

Fills the gap between  
what Medicare pays  
and the actual expense

# **What is disability insurance?**

Covers you if you  
become totally disabled  
and are unable to work

# **How much does disability insurance pay?**

Usually 60 to 80% of  
your income at the time  
you take out the policy

# Am I covered for both accidents and illness?

Some policies only pay for accidents, others will pay if you become disabled for either cause.



# Can my disability policy be cancelled?

With some policies

YES, with others you cannot be cancelled

# **Do my premium payments increase yearly?**

With some policies NO,  
with other policies  
your premium payment  
will increase every  
year as you get older



# When am I considered disabled?

That depends on the definition of the insurance company



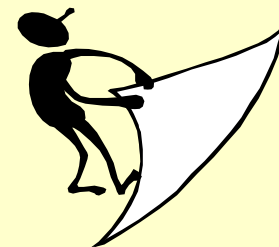
# What is the difference between own-occupation & any-occupation?

- Any-occupation will pay only if you cannot do any work
- Own-occupation will pay only if you cannot do your usual work

# What difference between total & residual policies?

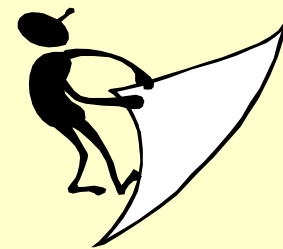
- Residual Policies pays for both partial and total disability
- Total Policies pay only complete disability

# When can I be denied benefits?



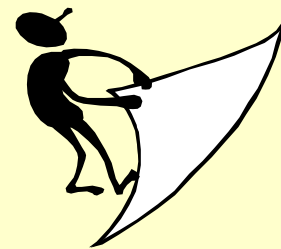
- When you worked part time after discovering the condition
- When you have a debilitating disease and fail to include a medical certificate when you submit a claim
- When you do not answer every question in full on the application

# How can I lower the expense of disability insurance?



- Buy a short term policy (2 years) instead of a long term policy (5 to 65 years)
- Elect a starting date at least 6 months after making a claim.

# What are possible abuses?





- There could have been some trick questions on the application
- There was misleading advertising or wording in the policy
- You got inadequate verification of pre-approval
- Once you make a claim your medical record will be scrutinized for information not on your application

# Who rates insurance companies?

- Standard & Poor's
- Moody's
- Duff & Phelps
- Weiss Research Inc.
- A. M. Best
- The Insurance Forum

**END**