PERSONAL FINANCE INSTITUTE

Seven Insurance Policies to Get Right: What to Buy and What to Skip



Insurance can't prevent a loss from occurring. Rather, it protects you from the catastrophic financial consequences that would otherwise occur. So, before you buy a policy, ask one question: If this loss occurs, could I afford it? If yes, skip the insurance. If no, buy – but buy the right policy.

1 Disability Income Insurance

Your largest financial asset isn't your house. It's your ability to earn an income. If an injury or illness stops your paycheck, this policy replaces it. That makes it more important than any other policy you own. Don't count on coverage through your employer, because you lose it when you leave the job.

Look for: a policy that is both guaranteed renewable and non-cancellable. Guaranteed renewable means the insurer cannot raise your premium. Non-cancellable means you remain covered as long as you pay your premiums. Together, these two features provide the security that your coverage won't disappear or become unaffordable.

Skip: the return-of-premium rider. You buy the policy in case you become disabled. The rider pays you if you don't. That makes no sense.

Learn more: ***Disability Income Insurance***

2 Health Insurance

A serious injury or illness will produce medical bills big enough to devastate your finances. Health insurance protects you from them.

Skip: accident insurance and dread disease policies. They pay only if you're hurt in an accident or diagnosed with a disease on their list. You want coverage that pays no matter what.

Learn more: ***Health Insurance*** ***and*** ***Policies to Avoid***

3 Long-Term Care Insurance

Without a policy, you pay for LTC until your money runs out. Unless you can afford the cost yourself, buy a policy while you're healthy enough to qualify – as early as age 40 or 50.

Look for: compound inflation protection if you're under 70 and a home health care benefit equal to the benefit for facility care.

Skip: giving your assets to kids or divorcing your spouse to qualify for Medicaid. Medicaid looks back five years at gifts and if you did that, it denies the claim. Besides, both strategies raise serious ethical issues.

Learn more: ***Long-Term Care Insurance***

4 Life Insurance

Life insurance replaces the income you provide your family. There are two kinds: term and permanent. If your need is temporary (under 30 years), buy term. Buy permanent coverage only if you need the policy for as long as you live.

Skip: mortgage life insurance, accidental death riders and policies on children under 12. Mortgage life is life insurance sold under another name – at a higher price.

Learn more: ***Life Insurance***

5 Property and Casualty Insurance

Without coverage on your home and car, a fire or accident could wipe out your savings, force you into debt or bankrupt you.

Look for: a deductible you can afford to pay – and keep that amount in your cash reserves. Review your coverage at least once a year and whenever your life changes: a new car, a remodel, a teenage driver.

Skip: collision and comprehensive coverage on an old, paid-off car you could afford to replace – and claims for small losses. After two or three claims, insurers raise your premium or cancel your policy.

Learn more: ***Property and Casualty Insurance***

6 Umbrella Liability Insurance

If a judgment against you exceeds the limits of your homeowners or auto policy, you pay the rest. An umbrella policy covers the difference.

Look for: coverage at least equal to your net worth. Buy it before your kids start driving, because insurers don't like issuing policies to parents of teenage drivers.

Learn more: ***Umbrella Liability Insurance***

7 Travel Cancellation and Medical Evacuation Insurance

Taking an expensive trip? If you can't go, this policy reimburses you for the cost. If you need emergency medical transport home while traveling, it pays for that too.

Learn more: ***Travel Cancellation and Medical Evacuation Insurance***

BEFORE YOU BUY ANY POLICY

Never buy on price. A cheap policy means the insurer doesn't expect to pay a claim.

Work with one broker or several agents. An agent sells one company's policies. A broker shops many companies for you.

Learn more: ***Working with Agents and Brokers***

Check the carrier's financial strength. It must still be in business when you file a claim decades from now.

Learn more: ***How Safe Is Your Insurance Carrier?***

TEST YOUR KNOWLEDGE:
TAKE PFI'S 10-QUESTION INSURANCE QUIZ