

How Insurance Works

- Life is full of risks
- The purpose of Insurance is to provide financial protection against different kinds of risks we face in life.

Types of Insurance

- Insurance Policy – A written agreement between you and the insurance company that explains the following:
 - what kinds of losses the company will cover
 - how much it will pay to cover these losses
 - how much you will pay for this protection.

How Insurance Works

- Coverage limits – the maximum amount the company will pay you for your loss
- Deductible – The amount of loss that you must pay before the company will step in and pay the rest.

How Insurance Works

- Claim – a request for payment of your losses
- For example, imagine that your car insurance has a \$500 deductible. If you get into an accident and it takes \$1,500 to repair your car, you will have to pay \$500 of the bill yourself and the insurance company will pay \$1,00.

How Insurance Works

- Premium – Your insurance premium is the amount of money you must pay per month, per quarter, or per year in order to guarantee your coverage.
- Insurance premiums vary widely, according to certain factors.

How Insurance Works

- Health insurance – very expensive, while property insurance is relatively inexpensive.
- That is why people try to find jobs in which their employer will pay for some of their health insurance.

How Insurance Works

- Property Insurance – You can often choose between different coverage limits. If you don't own a lot of personal property, for example, you could choose a property with a low coverage limit, in exchange for low premiums.
- Amount of deductible – If you choose a policy with a higher deductible, your premium will be lower, but your out-of-pocket expense will be greater.

How Insurance Works

- Premium costs are based on the following:
 - Your age
 - Where you live
 - Credit history
 - Marital status
- For many types of insurance, companies assume that people who are older, married, live outside of cities, and have good credit scores are less risky to insure

Types of Insurance

- Car Insurance: The first insurance you are likely to pay – All states require drivers to have at least a minimum amount of car insurance.
- Liability coverage – Pays for any personal injuries or property damage.
- Collision coverage – pays for any damage to your own car.
- Teens pay higher rates because, statistically, they have more accidents than older drivers.
- Young male drivers pay more than young females because males have more accidents (according to statistics).

Types of Insurance

- As you get older, your rates will go down, as long as you keep a safe driving record.
- As you get older, you need to invest in other kinds of insurance protection.

Types of Insurance

- Health Insurance – Pays medical bills
- Parents' policy will cover you until you are 26
- Cheapest way to get health insurance is through your job, if you are lucky enough to have an employer who either pays your premium or a portion of your premium

Types of Insurance

- Property Insurance – If you live in an apartment, you can get renters' or owner's insurance to help you replace your belongings in case they are stolen or destroyed by fire.
- If you buy a house, you need homeowners' insurance to protect your belongings, as well as the value of your house.

Types of Insurance

- Disability Insurance – If you suffer an injury that keeps you from working for an extended period of time.
- Disability Insurance will pay you approximately 75% of your monthly income until you recover.

Types of Insurance

- Life insurance – This insurance provides money to family members.
- When you buy life insurance you name a ***beneficiary*** (the person you want to receive the money)

Types of Insurance

- Two major types of life insurance:
 - Term insurance
 - Whole life insurance

Types of Insurance

■ Term Insurance

- Usually cheaper
- Pays a higher death benefit
- You can only buy a policy for a limited term or period of time
- When that term is over, you must purchase a new policy (at a higher rate).
- Premiums increase as you get older
- Pays off only when you die (No cash value).

Types of Insurance

■ Whole life insurance

- More expensive and pays less of a death benefit than term
- It provides coverage for your whole life and premiums never increase
- Also is an investment with a cash value that increases over time
- Policy entitles you to withdraw or borrow against the accumulated cash value.