



Tips To Save Money When Buying Insurance

This publication presents practical ideas for saving money on insurance. It is not intended to be an in-depth source for insurance information, nor does it attempt to cover introductory concepts. We assume the reader to have a basic knowledge of insurance. If you do not, we refer you to the excellent publications and readings listed at the end of this document.

Planning an Insurance Program

The most important concept to keep in mind when trying to save money on insurance is that you only need to buy coverage for risks you cannot afford to pay out of your own pocket. Everybody's individual and family insurance needs are different. To determine yours, the first order of business is to prioritize your insurance needs. In doing this, you will run into many options that depend on many variables.

For example, if you are older, your children all have grown up, your home is paid for, and you have additional assets, you probably don't need much life insurance. However, in the world of insurance, there are always exceptions. If you're in the top income tax bracket, you still might need life insurance to cover any estate or inheritance taxes you might owe when you die. If you fall into this category, check with your tax accountant to find out what kind of coverage you need. Also, in order to protect your assets, your need for additional liability coverage is probably greater. You should look into purchasing a liability umbrella policy with limits above what you carry in your auto and homeowner's policy.

A good way to start thinking about the

coverage you need is to try to consider all your insurance needs together. To do this, you not only have to think about your auto, home, health, disability, and liability insurance together, but you also have to look at what coverage you already have through employee benefits, such as group insurance plans and pension benefits, along with what you receive from Social Security. Make sure you keep up with the latest changes in these programs and know how they affect you.

One issue to consider is whether or not your employee program now allows tax sheltering of your health care premiums. Also, can you tax shelter a specific amount of dollars to be used for out-of-pocket medical expenses during a calendar year.

Your total program should fit together to provide your family with the protection it needs without over insuring yourself. One way of looking at it is, that once you've determined what you already receive from your employer at no cost or a low cost, you then fill in the gaps. You will probably need to talk to some experts in the field before you can determine just exactly where these gaps exist. We highly recommend you read the publications listed at the end of this document before you make an appointment

Tips To Save Money When Buying Insurance Page 2

with an insurance agent. The insurance world has a language all its own and new laws cause constant change; if you're not up on these, it might be difficult for you to make an informed decision or be able to ask the right questions.

Once you have a good idea of what kinds of insurance you want or need, you should proceed cautiously toward obtaining the proper coverage at a cost you can afford. Here are some basic rules designed to help you do that:

Comparison Shop

It's not in a consumer's best interest to make any major purchases without first shopping around. Start with *Consumer Reports* magazine, which can be found in most libraries. They also have an excellent web page: <http://www.consumerreports.org/>, but there may be a small fee involved in getting the information you want. Studies done by the Kentucky Insurance Department show that the cost of auto and homeowner's insurance varies as much as 300% from the highest to the lowest cost policies for the same type and amount of insurance. (For information on price comparison, see *Consumers' Guide to Homeowners and Automobile Insurance*, Kentucky Department of Insurance, 1999 issue.)

Don't assume that just because you've never heard of a company that it puts out an inferior product. The best insurance bargains are offered by companies with the strongest financial ratings and the best reputations for service. These companies are not always the ones with the largest advertising budgets. The best source for this type of information is the Weiss Rating Service.

Many libraries carry the Weiss Ratings for companies selling insurance in their area. If your library does not have these, see if it can receive them through inter-library loan. Or, you can also call 1-800-289-9222 or go to Weiss' web page at: <http://www.weissratings.com>

Look for Group Coverage

This is usually a good way to save from 10% to 25% on the average cost of an individual policy. Do not, however, assume that coverage is better merely because it is a group policy. Be sure to look closely at the terms and make sure you can't get a better deal elsewhere.

Update Your Insurance Program Annually

Re-evaluate your insurance needs regularly to make sure your coverage does not need to be changed. Among the changes that may need to be reflected in your insurance coverage are:

- An increase in the value of your home. This is particularly needed if your coverage is not automatically adjusted for inflation.
- Changes in beneficiaries. For example, if you named your spouse as beneficiary and then divorced, your former spouse will still collect until you list a new beneficiary.
- Shift in transportation needs. For example, if you move closer to your work, you may be entitled to lower auto insurance premiums. You may also be eligible for premium reductions offered by

Tips To Save Money When Buying Insurance Page 3

some companies for car pools and automobile safety devices, especially on later model cars.

- Lifecycle changes. Marriage, first child, empty nest, retirement, and death of a love one all will affect your insurance needs.

Cutting Auto Insurance Premiums

There are a number of variables involved in calculating auto insurance premiums, which are not always standard from one company to another. Your previous driving record and the population density of the area in which you live and work are usually the most important of these factors. If they point to you being a higher risk, then your premiums will be higher.

Generally, auto insurance premiums are based on:

- The amounts of risk you assume. The higher the deductibles (\$250, \$500, or \$1,000 versus \$100), the smaller the amount you will pay for your collision and comprehensive coverage.
- Good driving record. Policyholders with no accidents or moving violations could save 20 to 30%. If you have a driver under the age of 25 on your policy, ask your agent how much your premiums will increase if the young driver causes an accident or has a moving violation. Let him or her know that the extra cost will be paid by the driver.
- Your age, sex, and marital status. Single male drivers under the age of 25 will pay higher premiums than any other class of drivers, especially if they are the primary

driver of the car being insured. It is usually cheaper to add them as an additional driver of the family vehicle to the parent's policy than for them to be the primary driver of their own car. However, if the parent owns an expensive car, it might be cheaper for the young driver to own an older car and be the primary driver. Check the figures with an agent before you buy.

- Where you live. Kentucky is divided into geographic areas for rating purposes. Drivers in metropolitan areas pay more than those in less congested areas.
- Car pooling to work. It could reduce your rates as much as 20%.
- Miles you drive to and from work and the number of miles you drive each year will affect your premiums
- The type of car you buy or own. Usually cars with 8 cylinders cost more to insure than those with 6 or 4. Also, the amount it costs to repair a particular type of auto impacts the insurance premium.
- The car's equipment, such as airbags or anti-theft devices. If your car is equipped with certain types of anti-theft devices, your comprehensive coverage premium may be discounted 5, 15, or 20%, depending on the type of device. Examples of devices that may qualify for such discounts are window identification systems, certain internally operated alarm systems, fuel cutoff devices, or ignition cutoff devices.

Call your agent before buying your next car to find out about saving on insurance

Tips To Save Money When Buying Insurance Page 4

premiums. The make, horse power, repair and safety record, as well as safety equipment all make a difference.

Cutting Homeowner's Insurance Premiums

Keep in mind, the more risk you assume, the lower your insurance premiums will be. As with car insurance, the higher the deductible, the lower the amount you pay in insurance premiums each year. Weigh the amount you would have saved with higher deductibles over the last 10 years against previous loss experiences to see if you would have come out ahead. But remember, the past is not always an accurate predictor of the future.

Here are some money saving tips for homeowner's insurance. Most companies offer discounts:

- if you install smoke detectors, fire extinguishers, deadbolts and burglar alarms.
- if you also insure you auto and home with them.
- if you keep your coverage with the same company for several years.

Consumers are never sure whether to carry coverage for the actual cash value on their personal belongings or for full-replacement value. Insurance experts believe that the extra 10-15% companies charge for full-replacement coverage is worth it, but you need to decide for yourself. The choice is yours.

Health Insurance

As you look at saving money when buying health care insurance, your greatest danger is the possibility of under insuring yourself. When evaluating current or future health insurance policies, ask the following

questions:

Is the insurance company's schedule of "allowable charges" realistic in light of what local providers actually charge? Many times, consumers pay thousands of dollars out of pocket even though they have met their deductible limit of, say, \$2,000.

Does the policy require that you pay 50% for mental health services? This is of concern for any insured person, but is a particular issue for the elderly, who are more likely to suffer from depression.

- Does the policy provide comprehensive benefits for prescription drugs? Many working poor and elderly people do not fill prescriptions because they can not afford the cost of the drugs even though taking them would help them live healthier lives or even save their lives.
- Does the policy limit lifetime benefits to a certain amount, such as \$1 million, that would end if you suffered a truly catastrophic accident or illness (e.g., a spinal injury or an organ transplant)?

Note: If you have group coverage and have, over the life of your current health care insurance policy, claims reaching equal to half of your lifetime limit, you should think about changing insurance companies. Do so only if you can without a waiting period for pre-existing conditions.

Cutting cost:

- Get a job that offers group coverage. The best would be with a company that pays most or all of the cost.

Tips To Save Money When Buying Insurance Page 5

- Coordinate health care coverage with your spouse, if both of you are covered by company health care plans. Some companies will give you the cash amount that they would have had to spend to insure you. You can then use this money to pay for medical expenses not covered by your spouse's health care insurance.
- Change group coverage plans to best cover elective surgery (e.g. laser eye surgery, braces, etc.). Many government agencies and large corporations offer more than one group plan. It sometimes pays to switch plans to take advantage of differences, if there is only a small increase in premiums.

Long Term care Insurance

Experts disagree about what age you should start thinking about buying long term care insurance. Some say you should buy it before you turn 60, when prices are lower. Others, however, say you are paying for something you don't yet need and suggest that you wait until you turn 65. Whatever the case, buying long term care insurance is a good idea if you or your spouse have an income over \$50,000 and have a net worth exceeding \$100,000 excluding your home. "Otherwise, you do not have enough to lose to justify the cost," according to Frank Lalli managing editor of *Money* magazine. However, you need to evaluate your risk tolerance and your current health, as well as your family's health history before you make up your mind about this type of coverage.

Cutting Life Insurance Costs

Burial policies, also called pre-need or funeral insurance, are modest life insurance policies purchased to pay only funeral expenses upon the death of the policy holder.

As a rule, they are not a good buy. But, if you do not have assets to cover the cost related to your death and want to buy this type of coverage, it is important that you shop around for the best deal as cost varies greatly.

Unfortunately, there are unscrupulous salespersons and companies in the insurance business who sell "vanishing premium" life insurance. Consumers aren't warned that if interest rates drop, they'll have to pay more in premiums for a longer time period. Remember that projections of rate of return on premiums are only projections. Be sure to read the fine print of the policy. Most companies usually only guarantee a 3 to 5% return on the accumulated cash value on that type of policy.

TIP: If you're a smoker, try to quit at least a year before buying life insurance. Many companies offer large discounts for non-smokers.

Drop or cash-in life insurance policies if you no longer need the protection or if you're older. Another alternative is to have your children or other beneficiary of the policy pay the premiums.

Buying term insurance will give you the most protection for the lowest cost. Many young family earners are under insured. This means that if one of the earners dies or becomes disabled tomorrow, there would not be enough assets to replace the lost income. Remember, your goal is to purchase enough insurance so that your family would suffer little or no financial hardship if you died tomorrow.

It is often best to buy life insurance directly

Tips To Save Money When Buying Insurance Page 6

from the company. This type of policy is called “no load.” When ordering this type of coverage or just making inquiries, take advantage of the toll free numbers many companies now maintain. Another option is use discount insurance brokers to find and purchase the best life insurance deal. They will shop around to get you the best price, especially if you fall into a higher risk category.

You can save money by covering two individuals under one policy, instead of getting two separate policies. This will usually cut premiums by 35%. These policies are known as first-to-die policies. The policy will pay off when the first person dies. **Warning:** When this occurs, the surviving spouse no longer is covered.

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Resource List

“Are You Paying Too Much for Auto Insurance?” *Consumer Reports*. January 1997. 10-17.

“Auto Insurance: Getting Your Money’s Worth.” Cooperative Extension Service, University of Kentucky, College of Agriculture. HE 5-142

Consumer’s Guide to Homeowners and Automobile Insurance. Kentucky Department of Insurance, 1999.

Consumer Reports ‘99 Buying Guide. Consumer’s Union of U.S.: Yonkers, NY, 1999.

Franklin, Mary Beth. “Insuring Against Life’s Frailties.” *Kiplinger’s Personal Finance Magazine* (online edition). <http://www.kiplinger.com/magazine/archives/1999/July/It-care.htm>

“Homeowner’s Insurance: Getting Your Money’s Worth.” Cooperative Extension Service, University of Kentucky, College of Agriculture. HE 5-412.

“Homeowner’s Insurance Report: The New Protection Game.” *Consumer Reports*. January 1999. 16-22.

“How Does Your HMO Stack Up?” *Consumer Reports*. August 1999. 23-29.

“Life Insurance Report: The Mysteries of Life.” *Consumer Reports*. July 1998. 34-43.

FAM-RHF.115 - Issued 08/99

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