

Insurance — What Kind Do You Need?

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Learn about types of risks and how to determine when you need insurance.

Understanding insurance terms and the reason for buying different kinds of insurance can help consumers make well-informed decisions. Before you visit with an insurance agent, consider the information and questions presented in this NebGuide to determine your risks and insurance needs and how you could adequately address them.

Major Risks

The importance of various risks can vary from household to household. Following is a list of the more important risks and hazards that can threaten the average individual or household.

- Death of a household member — husband, wife, child, and especially a wage earner
- Total or partial disability of a household member — wage earner, husband or wife, child
- Loss of job by a wage earner
- Illness or accidents in family
- Fire or windstorm damage to home
- Damage to or theft of personal belongings
- Liability for damages done by your car
- Liability for damages suffered by someone on your property

This list could go on and on. Each risk or loss has special meaning to the individual and to the household. There are risks no one can avoid.

Why Insurance?

Insurance is one means of providing financial protection against the risk of unexpected losses. It does not remove the risk of death, injury, or fire; it compensates you, at least in part, for actual losses incurred. You trade a series of annual payments for the assurance that you won't have to take a major loss at some unknown time.

Insurance — whatever kind it may be — operates on the principle of spreading or sharing the risk. One person alone would find it difficult, if not impossible, to provide this protection because the possibility of a loss cannot be predicted as well for one person as for a group. Large groups of people can pool or transfer their risks to an insurance company. The individual pays the company a specified amount called the premium. The

size of the premium is based on the frequency of losses by the group in past years and the costs of company administration and sales divided by the number of people in the group.

What Risks Should Be Insured?

Losses are many and varied. Some are in the nature of disasters, such as the loss of your home by fire. Others are minor, for instance, a traffic accident which damages your car's fenders. Some are remote, one-in-a-million possibilities; others are fairly likely to happen to you at least once in a lifetime.

The risks you face are not exactly the same as those other people face. Risks grow out of your particular situation: your job, the size of your household, savings, and income. Your risks also will change as your circumstances change.

Four Steps in Insurance Decision-Making

1. Determine what risks you face.
2. Determine what causes these risks.
3. Determine how you should handle each risk. There are *three ways* to handle risk:
 - Take care to *prevent* the feared occurrence from happening to you.
 - *Keep* the risk; set aside savings to help cover it if it occurs.
 - *Transfer* the risk through the use of insurance.
4. Make a plan. Shop around for needed protection and a good agent.

What Risks Should Be Kept and What Risks Should be Transferred?

Table I. Estimating the probability of risk and cost of occurrence.

		Probability of Occurrence	
		Low	High
Cost of Occurrence	<i>High</i>	3. Transfer risk by buying insurance.	4. Insurance not available or too costly.
	<i>Low</i>	1. Keep risk.	2. Keep risk and budget for potential losses.

Table I provides a guide for determining risk and the need for insurance.

In *block #1*, the probability of the event occurring is low, and the cost of each occurrence is low. Keep the risk; don't buy insurance.

In *block #2*, the probability of the event happening is high, but the cost is low. Consider keeping the risk; set aside money for this loss in your emergency fund. Don't buy insurance.

In *block #3*, the probability of the event is low, but the cost is high. Transfer the risk; buy insurance.

In *block #4*, the probability of the event is high, and the cost of each occurrence is also high. No one will sell you insurance or the cost of such insurance would be prohibitive, so you are forced to keep the risk.

Some Clues To Solving The Puzzle

There is no easy way to find the answers, but there are ways to assure yourself of a sensible program for you and your situation. A formula for working out a sound insurance program is simple to state, but not so simple to carry out.

1. Get all your policies together. Look them over.
2. Carefully assess your resources, including your economic resources, such as savings, Social Security, property, etc., and human resources, such as state of health of household members, special skills and abilities, and earning capacity.
3. Consider which kinds of losses would be most serious for you and which you can best afford to pay out of your pocket. Ask yourself these questions:
 - What are the chances of any particular loss occurring to me or to someone in my household?
 - Which would be more serious — damage to my car or liability for injury or death of someone else in that accident?
 - Or, as a young person with several small children, which is the most pressing concern — insurance to provide income in case of an early death of the wage earner or to build up savings for college?
 - How can insurance be used for protection from these possible losses, and what will it cost?
4. At this point you are ready to learn as much as you can about the kinds of insurance protection available.
5. A study of insurance will lead you to an important step: *finding a good agent*. Take time for this. A “good” agent is someone you can talk with and whose judgments you can trust. When you talk to an agent, make sure that you understand the insurance language he or she uses.

6. In the final step — working out a total plan — the services of your agent can be invaluable to you. Your agent shouldn't decide which policies and how much you should buy, but your agent can help you make decisions more wisely.

Pointers for Policyholders

- Know what you have in insurance. Be adequately covered, but avoid double coverage.
- Try to buy insurance through group policies whenever possible. This coverage will cost less than an individual policy. Shop around for low-cost coverage.
- Increase deductibles.
- Check for special rates and discounts.
- Pay premiums annually instead of monthly or quarterly. When you pay more than once a year, it usually costs you more because it costs the company more to keep your records. Avoid the added service charge you pay when you pay premiums more than once a year.
- Review policies at least annually to be sure you have the insurance you need.

For more information and answers to specific questions about your insurance policies, contact your agent or the representative for your group insurance plan.

Need Help With Your Insurance?

If you have problems with, or questions about, an insurance company licensed to do business in Nebraska, you can get help by writing to the State Insurance Commissioner. Be sure to include your name and address, the name of the company and the agent, the policy type and number, and the details of your problem. Address your letter to:

Commissioner of Insurance
Terminal Building
941 “O” Street, Suite 400
Lincoln, NE 68508-3690
Telephone: 402-471-2201

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