


PROPERTY, CASUALTY, & HEALTH



INSURANCE



Securing your nest and other assets may be among the most important financial decisions you make. This bird's-eye view of insurance options should help you decide if and where you need some reinforcing.



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This is the third of a five-part personal financial planning series sponsored by the Peery Institute of Financial Services. The next installment, about getting out of debt, will appear in the Fall 2005 issue.





It often takes a dramatic news report of a mud slide destroying homes, hurricanes thrashing the coast, or a twenty car pile-up along a fog-shrouded highway before most of us really think about property and casualty insurance. Watching a teenage son or daughter take the car may be an even more palpable reminder.

Health insurance receives our attention when we begin to age, start a fitness regimen, or are threatened by disease.

Insurance may not always be a high priority, yet a misunderstanding or miscalculation of its protective powers could be debilitating. A recent Harvard University study showed that costly illnesses trigger half of all bankruptcies. When it comes to property, casualty, and health insurance, our focus should not just be on the “here and now.”

PROPERTY INSURANCE

Most homeowners policies provide three types of protection: structures, personal property, and liability.

Structures

This protects for damage from fire, smoke, lightning, wind, water, freezing, or vandalism. To determine how much insurance you need, consider how much it would cost to rebuild your home at today's prices. Natural disasters like earthquakes, floods, and hurricanes may require special coverage.



Almost 25 percent of all recent flood insurance claims have come from areas not normally considered high risk. Because it usually takes at least thirty days for a policy to take effect, don't wait until the threat of damage is imminent. Check with the U.S. Geological Survey or the Federal Emergency Management Agency (1-800-358-9616) for maps showing the earthquake and flood risks in your area. There are nineteen thousand communities eligible for federally sponsored flood insurance for your home or business.

Too many homeowners take a passive approach toward safety and disaster prevention. Many protective measures—child safety measures, electrical surge protection, energy efficiency, lightning protection, family safety measures, fire prevention, home security, water damage prevention, and wind and hail safeguards—will minimize or eliminate loss, injury, or damage.

Personal Property

In most cases a policyholder will be reimbursed for damage or theft of personal property, regardless of whether the loss occurs on the protected premises or elsewhere. There may be some limitations, however, to property that is more permanently away from your premises. It's a good idea to inventory and/or photograph household items. For items of unusually high value, look into getting a specific endorsement on your policy to insure those items.

TIPS: HOMEOWNERS INSURANCE

- **MANY INSURERS SET THE TOTAL VALUE OF POSSESSIONS** at half of what the home is insured for and place limits on certain items like jewelry. Consider purchasing a separate endorsement or a floater if your basic policy is too narrow.
- **BE SURE YOUR POLICY HAS A REPLACEMENT COST ENDORSEMENT** to ensure that your home and its contents are replaced without a penalty for depreciation.
- **CONSIDER PURCHASING A SEPARATE POLICY FOR FLOODS, HURRICANES, AND EARTHQUAKES**, which typically aren't covered by standard insurance. For example, flood insurance is affordable and costs a little more than \$300 a year for about \$100,000 coverage. For a list of companies that offer flood insurance call 1-888-225-5356.
- **INVENTORY HOUSEHOLD ITEMS AND BELONGINGS—**especially artwork, jewelry, furniture, and appliances. Store the list in a fireproof safe or somewhere away from the residence.
- **MAKE SURE YOU'RE ADEQUATELY PROTECTED** against personal injury suffered by others on your property or claims that arise from property damage (dog attacks, falling brick, drowning, etc.) Increasing those limits to \$1,000,000 (the standard liability limit) usually has a fairly small impact upon premiums. Consider an umbrella policy.
- **WHEN PURCHASING YOUR HOMEOWNERS INSURANCE,** consider an inflation endorsement. This will help your protection keep pace with inflation.

Liability

Homeowners insurance generally provides compensation for liability claims and medical expenses that result from property damage and personal injury suffered by others. The coverage applies whether an accident occurs on the policyholder's property or while away from home.

If a guest or their private property is damaged while on your property, the liability portion of your homeowners insurance will pay for losses up to the dollar amount of coverage you have purchased.

Make sure your guests' medical expenses

will be covered if they are accidentally injured on your property, and don't forget to insure a second or vacation home.

Lastly:

- Check the size of your deductible
- Review it annually
- Consider a reimbursement for additional living expenses if you can't live in your home due to a covered loss
- Inquire about coverage during construction or remodeling
- Check the small print for "exclusions and limitations," which describe events or losses not covered

caused damage to a third party. This coverage usually does not protect for normal "business financial risk" but rather limits coverage to damage resulting in either bodily injury or property damage to another person. Premiums for this coverage are usually based on either the company's sales volume or payroll and will vary in direct proportion to the risk of your company's activities. A fireworks manufacturer, for example, would bare a far higher premium than a local retail establishment. It is critical that you review the limits of the liability coverage you carry. A good rule of thumb is to make sure liability limits are at least the size of the company's net worth.

Business interruption insurance is designed to provide a business with critical cash when a company may be temporarily out of business due to property loss. Costs for such coverage are usually minor in relation to the property coverage. If your business is home-based, you will need additional property insurance because most homeowners policies don't cover or only minimally cover business losses to such things as fax machines, computers, and other office equipment.

CASUALTY INSURANCE

Auto Insurance

Depending on where you live, you are required to carry liability coverage, no-fault coverage, or both on your automobile. Liability pays for damage caused to others. No-fault coverage pays you and your passengers for medical and related expenses caused by accident injuries, regardless of fault, usually up to a defined limit. Even in states where coverage isn't required, drivers must, by law, be able to pay for damages they cause.

Discounts are awarded for good driving records, safety features, and certain makes and models of cars with the lowest rates of theft, collision repair costs, or medical claims arising from accidents. Driving fewer than 7,500 miles a year usually qualifies for a 5 to 10 percent discount. Premiums are lower for anti-theft devices. Turning fifty or fifty-five can trigger another break. Even your occupation can make a difference. For example, California educators, engineers, scientists, and mathematicians can receive a 10 percent discount. Students with good grades usually save about 10 percent. Three years without a ticket or accident usually qualify the driver for the lowest premiums

TIPS: AUTO INSURANCE

- **SAVE COSTS** by having your car and house covered by the same insurance carrier.
- **LOOK INTO AN UMBRELLA LIABILITY POLICY;** the cost is usually minimal. If you're responsible for an auto accident all your assets—including your home—could be subject to liability claims if the claims exceed the liability limits of your auto insurance policy.
- **FILE CLAIMS ONLY IN CASES OF MAJOR LOSSES.** Fix broken tail lights, small dents, and nicks from your own pocketbook. Even inquiries about small claims could increase your rates.
- **SET YOUR DEDUCTIBLE** to at least \$500. Remove physical damage coverage on older vehicles.
- **DON'T AUTOMATICALLY RENEW YOUR PREMIUM** until you've compared prices. 2004 was the smallest increase in recent years in auto insurance nationwide.

Commercial Insurance

Commercial property insurance protects your business property in case of theft, damage, fire, or other disasters. Inventory equipment, tools, supplies, and other property. Record the market value and, if applicable, the serial numbers of each item. The premium's amount will be driven by the degree of risk that items can be destroyed or stolen. Safeguards such as security systems, fire resistive buildings, and good property management will reduce premiums.

Commercial Liability Insurance protects your business from lawsuits involving allegations of the business's negligence that

available. Good credit also decreases rates.

The Insurance Information Institute suggests dropping collision and comprehensive coverage when your car is worth less than ten times your annual premium. The key question is whether you can afford to fix or replace the car if it is damaged and you don't have collision coverage. As a compromise, consider raising your deductible to \$1,000, which can decrease your premium but still protect you financially.

HEALTH INSURANCE

Most people receive health insurance through employers. These group policies leverage volume buying and are cheaper than individual policies, self-employed health insurance, or insurance for small businesses. As healthcare costs rise, more employers are requiring employees to pay more. Generally two types of health insurance are offered: a Health Maintenance Organization (HMO) or Preferred Provider Organization (PPO).

Health Maintenance Organization

This managed care system requires participants to pay a fixed monthly fee for healthcare. In return the participant receives medical services including doctor visits, hospitalization, and surgery for no additional costs, except a nominal co-payment.

HMOs have a network of doctors who participate in their system. Participants

usually select a primary care physician from the network who serves as a caretaker for the patient's future medical needs. The low cost is offset by the fact that not all physicians participate in these plans, and primary care physicians must refer the enrollee to a different doctor for any treatment outside their specialty or expertise.

Preferred Provider Organization

This group of doctors and hospitals work under one system to provide medical services at a discount to PPO participants. By granting discounts to the patients via the insurance carrier, the carrier can extend greater discounts for doctors' services and lower deductibles and co-payments.

Usually doctors who work in this organization invoice insurance providers directly, and the patient pays for deductibles or a percentage of the services not covered by the plan. Unlike an HMO, PPO patients may use any doctor and don't have to obtain authorization to see other specialists.

The disadvantage of PPO plans is the out-of-pocket expenses the participant is required to pay, which are higher than an HMO's.

Health Savings Accounts

To break through the juggernaut of health-care costs, Congress approved Health Savings Accounts which enable consumers to put money away for future healthcare needs. These tax-sheltered accounts are earmarked for medical expenses. Deposits are 100 percent tax deductible. Unused money stays in the account year after year and grows interest. HSAs can be arranged with banks, credit unions, insurance companies, and other approved companies, including your employer.

Annual contributions cannot exceed the deductible of your regular health insurance policy, and the most that can be deposited in 2005 is \$2,650 for an individual, \$5,250 for a family.

ADDITIONAL INSURANCE CONSIDERATIONS

Identify Theft

For the fourth consecutive year, identity theft is the fastest-growing crime on the list of consumer fraud complaints. According to the Federal Trade Commission, the average identify theft case takes 175 hours and \$1,500 to resolve. To offset this problem,

HMO OR PPO?

TO HELP DECIDE BETWEEN AN HMO OR PPO, CONSIDER THESE STATEMENTS:

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| 1. (a) In addition to premiums, I'm willing to pay for the cost of routine and preventative care. | OR | (b) I want a plan that covers both, and I don't mind waiting to schedule an appointment. |
| 2. (a) I want complete freedom to choose my physicians and hospitals. | OR | (b) I'd rather hold down costs even if my first choice of physicians isn't available. |
| 3. (a) I travel a lot and/or have children who live away from home and may need to see doctors elsewhere. | OR | (b) I don't travel much and most care for my family is in our local town. |
| 4. (a) I want to decide which specialist I see, and I don't want to depend on a recommendation from my primary care physician. | OR | (b) I don't mind if my primary care doctor must refer me to specialists. If my doctor thinks I don't need special services, that's fine with me. |

If you chose more (a) answers, a PPO may best suit your needs; if you chose more (b) answers, then an HMO might be best for you.

some insurance companies are offering protection packages that cost \$20–\$60 each year. These policies generally cover expenses of re-establishing credit, re-applying for denied loans, getting a new driver's license, and obtaining needed legal assistance—including arrest warrants. They also cover a victim's salary, up to \$500 a week for as long as four weeks, if the victim must miss work to resolve the case.

Directors and Officers Insurance or Condo Board Insurance

The startling news that Enron's board of directors personally paid \$18 million to cover fraud charges against the company sends a signal to anyone who serves on a corporate, civic, or community board that property and casualty insurance is essential. Many companies now buy stand-alone directors and officers coverage instead of more comprehensive packages. These policies protect executives from derivative claims—lawsuits brought by shareholders and investors who want to compel directors and officers to repay company money.

Companies sued for illegal personal profiting or misappropriation of funds cannot protect their officers. In our litigious society, boards of local condominium organizations or community and civic groups should also examine what protective measures are in place.

Work-Related Lawsuits: Sexual and Racial Discrimination, etc.

Best's Review recently reported that more than 403,000 charges were filed by employees to the Equal Employment Opportunity Commission between 1999 and 2003. Claimants received \$1.2 billion while the median compensatory jury award for employment practices liability cases rose 18 percent in 2003 to \$250,000. Half of all claims were brought against small companies.

According to a Chubb survey, one-in-four privately held companies has been sued by an employee or former employee. Although 75 percent of employee lawsuits are proved groundless, the cost of litigation is significant. As such, employment practices liability insurance is becoming standard at most companies. Premiums are not only determined by the number of employees who need coverage but also by the strength

of the company's own policies and procedures for dealing with complaints. Mergers and acquisitions could also trigger lawsuits because of prospective layoffs.

Choosing a Trusted Advisor

Selecting an insurance agent, broker, or advisor should be taken as seriously as selecting a lawyer, doctor, or medical advisor. Some tips:

- Determine how long the agent/broker/advisor has been in business
- Look for signs of a commitment to continuing education, designations such as Certified Property Casualty Underwriter, Certified Insurance Counselor, or Registered Health Underwriter
- Check with your local insurance commissioner's office to see if regulatory action has been taken against your representative
- Check references

The relationship with your advisor needs to be completely candid so an insurance program can be designed to properly protect you.

Insurance may not be the most scintillating topic for dinner-table conversations, but watching the system work when losses occur is very reassuring. Whether it is cleaning up from a disaster such as 9/11 or fixing an automobile, the industry helps us recover from life's pitfalls. Having appropriate insurance brings stability, security, and the ability to face life with more confidence. **M**

ABOUT THE AUTHOR

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TIPS: HEALTH INSURANCE

- **PUT MONEY ASIDE** in a Health Savings Account—the new tax-sheltered plans—especially if you're self employed.
- **ENCOURAGE YOUR ADULT CHILDREN** between 19-29 to get health insurance. Thirty percent of the uninsured in this nation are between those ages. Most health plans drop coverage on adult children once they are no longer full-time students. Insurance for this group can cost as little as \$50 a month and is a great graduation present.
- **HEALTH INSURANCE COSTS CLIMB AS YOU AGE.** Consider increasing deductibles or moving to more selective networks to reduce premiums.