Dollars & Sense

Texas A&M AgriLife Extension

Week 4

The I's Have It! Insurance and Investments

What would you do if you or your spouse became sick or injured on the job? How would you replace your property if it were damaged or stolen? How would you take care of your family financially if one spouse died? Most individuals obtain insurance to protect themselves, their family and the things of value they own.

Insurance is a contract with an insurance company that promises to pay for certain financial losses you suffer if you pay a premium.

Types of Insurance

Automobile Insurance

Most states require all car owners to have automobile insurance. Auto insurance includes different coverage for different losses. These are losses that may occur in the operation of a car. The main coverage's are liability (bodily injury and property damage), medical payments, collision, comprehensive and uninsured motorist.

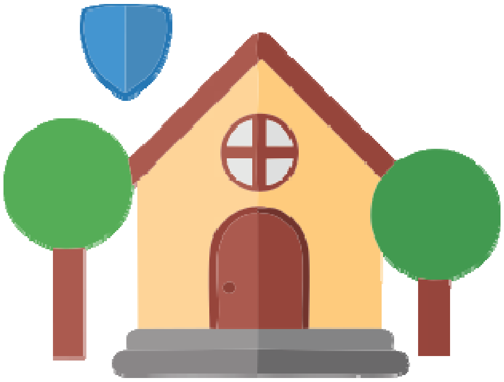
Automobile insurance rates are based on driving records of drivers with similar characteristics. When insurance companies determine rates, they consider age, sex, marital status, cost of repairs, type of car, use of car and location.

Property Insurance

Protecting your property is an important part of risk management. **Real** property includes things such as your house and other structures within 100 feet of your house (e.g., fences, tool sheds). **Personal** property includes things such as furniture, clothing and appliances. You protect your real and personal property with homeowners or renters insurance. There are three types of policies:

basic form   broad form   comprehensive form

The type of policy you have determines which **perils** you will be protected against and the dollar amount of that protection.



Perils are the dangers your property may be protected against in your homeowner's policy. Examples are fire, lightning, windstorm, hail, explosion, riots or civil commotion, damage by aircraft, damage by vehicles (not your own), damage from smoke, vandalism, malicious mischief, theft, window breakage, falling objects, weight of ice, snow, sleet, collapse of part or all of building, damage from steam heating or water heating appliances, leakage or overflow of water or steam, freezing of plumbing, heating and air conditioning systems, home appliances and short-circuit damage to electrical appliances. Talk with your insurance agent about how much coverage you need.

Most Homeowners Policies do not protect against flood. Flood insurance is provided through a Federal Government program called National Flood Insurance Program. Since Texas is prone to flash floods, discuss your coverage with your insurance provider. You can find out more about the Flood Insurance at https://www.floodsmart.gov/floodsmart/

A **basic** policy usually protects you against personal liability and property that is destroyed.
A **broad** policy covers everything the basic policy does plus seven other perils.
A **comprehensive** policy protects you against the perils covered in the broad policy plus all perils not specifically excluded.
Renters insurance is similar to homeowners insurance, but it covers personal property (furniture, clothing, appliances you own) when you rent an apartment or a house. The landlord's insurance coverage does not reimburse renters for loss of their personal property.
Some policies may not cover the total value of all your personal possessions. Limits are often placed on cash, jewelry, electronic equipment, china and silver, furs and guns. Ask your insurance agent about a "floater" policy to provide additional coverage.

Life Insurance

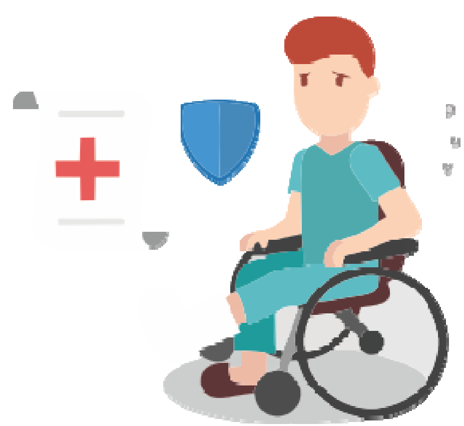
There are several main types of life insurance choices. One is term insurance. Term insurance does not have a cash value or investment component and is written for a certain period of time, usually five or ten years. Other main types are whole life, universal, variable and variable/universal. These all have an investment component.
The primary reason for buying life insurance for yourself is to protect others. Life insurance provides a way to protect families and others from losses associated with death. A life insurance policy specifies an amount of money to be paid to beneficiaries when the insured dies.

Health Insurance

There are two primary types of health insurance: medical and disability.

Medical

Many individuals have all or part of their medical insurance provided by their employer. However, some people need to seek out their own group or individual medical insurance. These individuals may be self-employed, for instance.
Basic medical insurance takes care of the initial hospital surgery and supply costs. It usually covers from the first dollar of expense incurred. But there are limits on how much the policy will pay. And there are limits on how long it will pay.



There are also restrictions on coverage. An example is a pre-existing condition, such as diabetes or cancer. Often these illnesses are not covered. They may be covered only after a specified period of time if there is no recurrence of the disease.

A major difference among the various medical insurance policies is how much they pay per day for a hospital room. You were most likely covered by your parents' medical insurance until you were married. Now you need to get your own coverage. This is a very important employee benefit to look for when you are considering different job opportunities.

Cost Cutting Tip

The Texas Department of Insurance compares insurance costs in your area from the variety of insurance companies in the area; also can file complaints against insurance companies. You can view their price comparison guide at:

http://www.helpinsure.com/index.html

Disability

One of your greatest assets is your earning power. It is important to protect your earning power and income. You do this with disability income insurance. Disability income insurance pays an income to you if you cannot work because of an injury or illness. The amount of coverage usually is limited to one-half to two-thirds of your gross income. This limited amount of coverage is designed to encourage you to return to work as soon as possible. It is designed to discourage you from staying out of the work force and living on disability income payments.

Liability Insurance

Liability insurance protects you from personal and financial loss that may result from lawsuits against you. Liability implies that you have a legal responsibility to someone and must pay for personal injury or property damage caused by neglect on your part. Let's say in a court action you are found to be negligent. You have liability insurance. The insurance company will pay a settlement amount as specified in the insurance contract.

INSURANCE REVIEW

These **are the five main types (categories) of insurance:**

Automobile **Property** **Life** **Health** **Liability**

Premium - The amount you pay over a period of time for the cost of insurance coverage is called a premium.

Deductible - Most insurance policies, except life insurance, generally include a deductible amount. The deductible is how much you must pay before the insurance company begins to pay for the loss.

It makes sense to choose a deductible that is large enough to reduce premiums but small enough to prevent financial hardship when a loss occurs.

Investments

When you make an investment, you are setting aside money for future income or to reach your goals. When you invest, you're letting money work for you instead of having to work for money.

Today there are a variety of investment choices. This will help you outline the financial benefits of investing, explain some basic investment terms and hopefully will motivate you to start an investment program.

Many think they don't have enough money to invest. If you are one of them, consider what will happen if you wait to start an investment program.

Should you start a savings program now with $50 each month or wait 10 years and save $150 each month? The reason for waiting is that you expect your income to be greater in 10 years.

Saving Now vs. Saving Later Earning 9% Interest

Beginning	Monthly Amount Saved	End Result 20 Years From Now
Now	$50	$33,394
In 10 years	$150	$29,027

While the end results in the example don't appear to be substantially different at first glance, consider these "hidden" figures. If you begin investing now, in 20 years you will have invested a total of $12,000, and your nest egg will have grown to $33,394. Wait 10 years and you'll end up investing more to end up with less. You'll invest a total of $18,000 that will grow to $29,027. This means by waiting, you will have set aside $6,000 more to earn $4,367 less in 20 years. The example assumes you can earn an average of 9 percent in the 20-year period.

Learn as much as you can about investing. It's not difficult and can be quite profitable.
Find out more about Investing at http://www.choosetosave.org/ballpark/index.cfm?fa=interactive

WHY SHOULD YOU INVEST?

_____ To accelerate the growth of your savings
_____ To put your available money to work
_____ To provide additions to your other in come
_____ To accumulate a down payment for a home
_____ To increase your current purchasing power
____ To decrease your reliance on consumer loans
____ To decrease income lost on interest payments
____ To provide for your children's education
_____ To create a sizable retirement nest egg
_____ To enable an earlier than expected retirement
_____To increase your wealth, security and in dependence
_____ To provide advantages for your loved ones and heirs

Investment Choices Financial Planning Pyramid

List your current investments on the pyramid.

Where do the majority of them fall?

Do they meet your risk tolerance?

You are ready to start investing when:

✔ Income exceeds your spending;

✔ Have an emergency savings fund equal to six to nine months' living expenses; and

✔ All insurance needs, including life, health, disability and property are covered.

Top Ten Ways to Prepare for Retirement

1.**Know your retirement needs.** Retirement is expensive. Experts estimate you'll need about 70% of your preretirement income – lower earners, 90% or more – to maintain your standard of living when you stop working. Understand your financial future.

2. **Find out about your Social Security benefits.** Social Security pays the average retiree about 40% of pre-retirement earnings.

3. **Learn about your employer's pension or profit sharing plan.** If your employer offers a plan, check to see what your benefit is worth. Most employers will provide an individual benefit statement if you request one. Before you change jobs, find out what will happen to your pension. Learn what benefits you may have from previous employment. Find out if you will be entitled to benefits from your spouse's plan.

4. **Contribute to a tax-sheltered savings plan.** If your employer offers a tax-sheltered savings plan, such as a 401(k), sign up and contribute all you can. Your taxes will be lower, your company may kick in more and automatic deductions make it easy. Over time, deferral of taxes and compounding of interest make a big difference in the amount of money you will accumulate.

5. **Ask your employer to start a plan.** If your employer doesn't offer a retirement plan, suggest that it start one. Simplified plans can be set up by certain employers.

6. **Put money into a Traditional Individual Retirement Account, Roth IRA account.** Currently , a person is able to contribute $5,500 ($6,500 if you're age 50 or older) or your taxable compensation for the year, if your compensation was less than this dollar amount. If you don't have a retirement plan (or are in a plan and earn less than a certain amount), you can also take a tax deduction for your IRA contributions.

7. **Don't touch your savings.** Don't dip into your retirement savings. You'll lose principal and interest, and you may lose tax benefits. If you change jobs, roll over your savings directly into a Rollover IRA or your new employer's retirement plan.

8. **Start now, set goals and stick to them.** Start early. The sooner you start saving, the more time your money has to grow. Make retirement saving a high priority. Devise a plan, stick to it and set goals for yourself. Remember, it's never too late to start. Start saving now, whatever your age.

9. **Consider basic investment principles.** How you save can be as important as how much you save. Inflation and the type of investments you make play important roles in how much you'll have saved at retirement. Know how your pension or savings plan is invested. Financial security and knowledge go hand in hand.

10. **Ask questions.** These tips should point you in the right direction, but you'll need more information. Talk to your employer, your bank, your union or a financial advisor. Ask questions and make sure the answers make sense to you. Get practical advice and act now.

A Tool for You

From high school economics

The **"Rule of 72"** is a quick and simple way to estimate how your money can grow. You can use this rule in two ways.

(1) Divide 72 by the **interest rate** you expect to earn. This shows how many years it takes to double your money. Let's assume you are going to be earning 6% interest on your money.

$$\frac{72}{6\%\ \text{interest}} = 12\ \text{years}$$

(2) Divide 72 by the **number of years** in which you want your money to double. You will get an estimate of the interest rate you will need to earn.

Let's assume you want your money to double in **six years**. **Try it!**

$$\frac{72}{6\ \text{Years}} = 12\ \%\ \text{inter-}$$

How many years will it take you to double your money with your choice of interest rate?

$$\frac{72}{6\%\ \text{interest}} = \_\_\_\ \text{years}$$

Sources of Retirement Income

Retirement income can come from a variety of sources

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Employer - Sponsored Retirement Plans

If your employer offers a plan, you can benefit greatly by participating in the plan. Employer-sponsored retirement plans are usually a part of the employees' benefit packages, but are an over-looked savings tool. Review these documents, a major source of income during retirement.

Personal Savings

Personal savings will probably fund a large portion of your retirement. Money in savings accounts, money market accounts or funds, stocks, bonds and mutual funds are sources for your personal savings. IRAs, both traditional and Roth (after-tax) are non-employer sponsored accounts that offer tax advantages when saving for retirement.

Social Security Retirement Benefits

Social Security retirement benefits will not replace your pre-retirement income. However, it is the largest source of retirement income for many American. Deciding when to take social security is an important decision. Visit http://www.ssa.gov

If you plan to continue to work, at least part time after you retire, your Social Security benefits may be reduced if your earning exceed a certain amount.

The Texas A&M AgriLife Extension Service is a unique education agency with a statewide network of professional educators, trained volunteers, and county offices. It reaches into every Texas county to address local priority needs. Texas A&M AgriLife Extension offers practical information for families: raising children, housing and environment, eating well, managing money, and staying healthy.

The majority of the content in this newsletter was adapted with permission from University of Arkansas Agriculture Cooperative Extension Service

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Week 4 Action Steps

Select at Least 3 of these you can complete this week:

- ¢ Continue tracking your spending
- ¢ In your spending and saving plan, draw up a mock plan and add an additional 5% to your saving and 5% to your investing line items; do the math, could you manage it?
- ¢ Now, do 10% for both items? Could you manage it? If so, make the new amount automatic and you don't have to make the plan each pay period.
- ¢ Review your spending plan as we near the end of the month, to get prepared for the new month.
- ¢ Complete Risk Worksheet. This can be downloaded at http://www.uaex.edu/health-living/personal-finance/Risk_Worksheet.pdf
- ¢ Locate all of your insurance paperwork, review with agent and spouse.