Planning Family Insurance

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The purpose of this publication is to give you an overview of insurance, to alert you to what to look for, and to suggest questions to ask yourself and others as you make decisions about your insurance program.

FAMILY INSURANCE in the 1960's reflects the limitless variety of activities, cares, and concerns of modern life. You can buy insurance to cover innumerable kinds of risks — specialized policies to meet almost any concern you might have. You can buy an insurance policy even on your pedigreed dog!

This is modern insurance protection.

The centuries-long history of insurance is a reflection of a natural human fear of the unkown — a wish to avoid risk. Actually, no one can *avoid* risk. A chance of loss is ever-present. But insurance provides a means of spreading (or sharing) risk. It is based on the "law of large numbers." No one knows what perils he may meet in any one year. When a large number of persons is involved, however, a high degree of accuracy becomes possible in predicting the number of losses of a particular kind that will occur within the group in a given period of time. Consequently, the cost of covering the number of probable losses can be scientifically estimated.

This means that for a relatively small known annual cost (your policy premium) you may avoid the possibility of a very large expense during any one year.

On this basis, the insurance business has flourished and expanded rapidly in the United States. We are the largest insurance buyers of any nation. Insurance has been one of the important contributing factors to economic growth in this country — and to individual business success and peace of mind.

At a cost

If you were to purchase all the insurance that you might feel desirable for protecting your family, it almost certainly would cost more than you could afford. Liability coverage, fire insurance, health insurance, life insurance, insurance to protect you and your family against risks related to your home and automobile — these would constitute the bare essentials in a family plan. If you put them all together with reasonably adequate coverage in each area, it would cost as much as a fifth of a $7000 to $8000 income for a man with a family.

Since those of us who most need insurance protection often can least afford it, some hard choices become necessary. At least they are necessary, if you want to get the most protection possible for whatever insurance dollars you decide to spend. But how can you make informed choices?

It's a puzzle

For most of us, an insurance policy is a puzzle. Add to this the rapid development of new kinds of insurance, pressures to keep up with new knowledge of many kinds, and to keep up with the countless activities we expect of ourselves — it's little wonder that it seems just too hard to read the policy and understand it.

Little wonder, also, that too often insurance is bought in a hit-or-miss fashion on the basis of an advertisement, a chance remark of a friend or an agent's casual recommendation. And because, as a nation, we are so security-minded, there's always a nagging concern: *Do I have enough insurance?*

Seldom does it occur to you — or me — or our neighbor — that there are alternative choices that might give us more protection for the same dollar cost. Seldom do we look at the whole picture and establish priorities as to insurance needs.

Some clues to the puzzle

There is no easy way to find the answers, but there are ways to assure yourself of a sensible program for your family and your situation.

The formula for working out a sound insurance program is simple to state, but not so simple to carry out:

1. First, *get all your policies together.* Look them over. This in itself may be quite a surprise.
2. Next, *carefully assess your resources* as a family: your economic resources — savings, social security, property; and human resources, such as the state of health of family members, special skills and abilities, earning capacity.
3. Then on the basis of this appraisal, *consider which kinds of losses would be most serious* for you and which risks you can best afford to bear out of your pocket. For example: which would be more serious: damage to your car, or liability for injury or death of someone else in an accident? Or, as a young man with several small children, which is your most pressing concern — insurance protection to provide income in case of your early death, or protection to build up savings for college? Follow this principle: *cover first the losses that would be most serious.*
4. At this point you are ready *to learn as much as you can* about the kinds of insurance protection that are available.

5. The search for this knowledge will lead you to Step No. 5, which is perhaps the most important step of all: *finding a good agent.* Take time for this.

A "good" agent is someone you can talk to, someone who keeps up-to-date on new developments and whose judgment you would trust in helping analyze your situation.

How do you find a good agent? In the same way you find a good doctor — or lawyer — or carpenter. Get acquainted with some insurance men. Ask questions from acquaintances who might be good judges — your banker, your attorney, friends, businessmen.

6. Then, in the final step in our formula, *working out a total plan* — the services of your agent can be invaluable to you.

Insurance policies have become so varied and specialized that you will need the services of an expert to interpret them for you. Your agent shouldn't do the job of deciding which policies and how much, but he can help *you* to do a better job in making the decision.

When you confer with an agent, make sure that you understand the insurance language he uses. Ask him to explain unfamiliar words and terms. A certain word may mean one thing to you in general, everyday language, and something quite different, or very specific, in your insurance policy.

It is useful also to know about laws and regulations covering different kinds of insurance companies and the rates for different kinds of insurance.

Your agent can give you helpful information — specific facts about policies, and general facts about insurance as a whole.

Framework of family protection

Your agent can be more helpful to you and you can make better use of his services, if you have some understanding of what insurance is all about. Within the space of this bulletin we can outline only briefly the essentials. We suggest references and hope you will be stimulated to investigate further on your own.

The *"basics"* for an average family to consider in a total insurance program:

1. *Life insurance,* to: (a) cover expenses related to death; (b) provide income for dependents (enough to supplement social security) at least during a readjustment period; and (c) repay mortgage debt.

2. *Health insurance,* especially for the big costs that would be catastrophic. Major medical and income protection should have first consideration.

3. *Property insurance.* The *policies* you probably will think of here are those on your automobile and home. The *protection* you need is for economic loss — which may result: (a) from actual loss or damage to your property; or (b) from your liability for injury or damage to someone else in connection with the property you own. You may buy these kinds of protection separately, but they are commonly combined in automobile policies, as well as in the modern *homeowner's policy.*

Some considerations, as you look at policies

1. LIFE INSURANCE

The basic policies are *term, whole life or ordinary life, limited-payment life* and *endowment.* There are many variations, but these are the basics.

Life insurance for the breadwinner should come ahead of all others. Most families consider that protection for the wife is important because her death would mean a real economic loss to the family. But most families, and most insurance men, believe that the maximum amount of protection should be on the breadwinner.

If income is extremely limited and the choice is between dollars for insurance protection and dollars for food and other things that a family needs now, you might consider *term life insurance* alone — as a temporary measure. If this is your principal form of protection, you would want to look for a term policy that would be *convertible* without medical examination and renewable, so that it could be transferred to *whole life* protection later on.

Term insurance is useful to meet a need that you expect will be temporary, such as paying off a mortgage or the special need for income protection while children are young. It is useful also, as indicated above, to provide maximum temporary protection when funds are limited.

The *whole life* policy is the work horse among life insurance policies. It provides income protection for the young family. Taken out early (on the life of the breadwinner) it can be an economical way to provide college funds — through death benefits if the father dies before children reach college age, through cash or loan value if he is living. Or the whole life policy can be converted to an *annuity* for the aging couple who presumably will have less need to provide income protection for dependents when children will be grown.

The *family income* policy adds an income "rider" to the whole life policy as a means of providing extra protection while the children are small. It is an economical way of adding extra temporary protection, on the life of the breadwinner, to a lifetime plan. (This type of policy should not be confused with the "family" plan, which adds small amounts of term insurance on the lives of the wife and children to the basic policy on the family head.)

If income protection is your real focus, then you would find that the *endowment* policy and the *twenty-* or *thirty-year payment life,* while they would accumulate savings faster, would be a much more expensive way of providing protection for a young family.

BASIC TYPES OF LIFE INSURANCE POLICIES

Term: Financial protection for dependents in case death occurs within the "term" specified — one year, five years, ten years, to-age-65, or whatever is stated in the policy. Savings do not accumulate and the protection ends at the end of the term. This is similar to the usual property insurance policy (for example: a one-year automobile insurance policy, a one-, three-, or five-year fire insurance policy.)

For a young person, the term policy provides the greatest amount of current protection for a given amount of cash, but the cost increases as one grows older, and there is always the possibility of becoming uninsurable.

Whole Life, Continuous-Premium: Financial protection during the insured person's whole life, with premiums payable continuously until death. The premiums are "level" — that is, the amount remains the same throughout life. This policy accumulates some savings and is the least costly form of whole life protection.

Whole Life, Limited-Payment: Financial protection during the insured person's whole life, but premiums payable within a specified period — as "twenty-pay life" or "thirty-pay life." At the end of the stated period the insured has a "paid-up" policy — protection for life, with no more payments to be made. The premiums are level, but larger than those of a continuous-payment whole life policy for the same coverage. This policy accumulates savings faster, but is a more expensive type of whole life protection than the continuous-payment plan.

Endowment: Term insurance combined with savings. If the insured dies before his policy matures, his beneficiary receives the face amount of the policy. If he out-lives the term, he receives the cash himself, and his insurance protection ends. This policy is often confused with the limited-payment, whole life policy, because of the common use of such terminology as 20 or 30 years, in the description of each. Actually saving is the distinctive feature of the endowment policy — in contrast to the paid-up feature which keeps the limited-payment policy in force for life after payments are completed. The endowment policy is a costly way to buy protection.

Your agent will be able to tell you of many other special policy arrangements to meet special needs. Some will offer real values for you; others may be costly for you in relation to the benefits provided.

Before you decide, *take a good look:* at *your* need for the special benefits; at your probable ability to meet the need on your own; at the cost, in relation to total insurance planning and current living expenses.

2. HEALTH INSURANCE

Health insurance is not as standarized as life insurance. There is so much variation among policies that it is impossible to speak of them in very generalized terms. We can say that Blue Cross (a prepaid "plan" rather than true insurance) provides payment to the hospital for certain listed services, with maximum payments for services specified. Blue Shield plans provide comparable services in surgical and medical care — principally for hospital patients.

Health insurance policies also cover varying amounts of care and services in the hospital or at home. (And we do mean varying!) *Read with care* your own policy — and every policy you consider buying — in order to know what to expect from your company.

Consider the basics when you start to plan

TYPE OF INSURANCE PROTECTION	LIFE (of the breadwinner)	HEALTH	PROPERTY
For whom	*Dependents*	*The whole family*	
From what	*Loss of income*	*Loss of income* *Cost of health care*	*Liability for injury to others* *Loss of property value*

Look for a policy that is *guaranteed renewable, adjustable premium.* This means that as long as you pay the premiums when due, the company must renew. They may raise rates — *not* on your policy individually, but on a class of risks (as a certain age group, a certain profession, holders of a certain policy form number, and so on.) Such policies usually are guaranteed renewable to a certain age, and they are beginning to be written guaranteed renewable for life.

Take advantage of *group plans* if they are available to you. This is a good way to cut health insurance costs.

Ask your agent about *major medical* and *income protection.* They deserve a serious look. Both meet the test of broad coverage for losses that could be devastating to a family. We are accustomed to thinking about health insurance in terms of protection for tonsillectomies, broken bones and so on, but these do not compare in seriousness with medical bills running into thousands of dollars — and certainly not with the seriousness of a breadwinner incapacitated and unable to earn for long periods of time, or even for life.

If you can build up a saving fund for the purpose, you might find savings a more economical way than insurance to meet minor emergency costs. Then you could invest your health insurance dollars in major medical and/or income protection if you consider these to be suitable kinds of policies in your own situation. These are fairly costly kinds of insurance, so look for ways to cut costs.

Major medical policies ordinarily have a deductible clause, like automobile collision insurance. If you can manage first costs up to $200 to $300 this will reduce your premium costs. Major medical policies are beginning to be available as group plans — another economy for you.

Take as long a waiting period as you can afford on an income policy. "First-day" coverage is expensive, so consider what your employer offers in sick leave and disability benefits. This will help you to decide how long a waiting period to take — and, in fact, whether to buy this kind of insurance at all.

3. INSURANCE ON YOUR HOME

The homeowners' policy, a modern "package" form, combines several kinds of coverage worth considering for your home. Most important are "personal liability" and "fire and extended coverage."

Liability insurance covers your legal responsibility as a property owner or householder for the safety of guests or others who come to your home. You may purchase liability insurance as part of a package or as a separate policy. Through a liability policy the company agrees to defend your suit in court or pay legal claims, up to the amount of your insurance coverage, should someone be injured on your premises. Liability insurance also covers injuries or damage which may result from activities of you or your family — for example, the baseball thrown through a neighbor's window, the golf ball that hits another player.

In addition, a provision for medical payments up to $250 to $500 is customary, payable whether you are liable or not. The premium cost is small compared to the value of being assured of legal protection in case you should be sued, and the convenience of medical payments for minor injuries to others.

The *standard fire insurance policy* protects you against direct loss to your property from fire and lightning and damage caused by removal of property from the premises. Your agent will almost certainly see to it that you have an endorsement added to the standard policy giving you "extended coverage" which adds protection for certain named perils. (Windstorm, hail, explosion, riot and civil commotion, damage by aircraft and vehicles, and smoke damage are usual.) You can get still broader coverage by another endorsement for additional extended coverage. Insurance for personal property may be added — as an endorsement to the standard fire insurance policy described above — or as a part of the homeowner's policy.

If you buy the two described coverages as a package in a homeowner's policy, you probably will have additional protection against theft, income loss while property is being repaired, and probably broader coverage all the way than you would get in separate policies. The total is likely to be less costly than if you bought comparable coverages separately, but you may not wish to carry all the kinds of protection included.

Most companies have three basic homeowner's policy forms that vary in the kinds of protection included and in the breadth of coverage — as well as a policy for tenants, omitting coverage on buildings. The package polices vary somewhat more from company to company than is true for fire insurance policies, which are standarized in Michigan, and many states. Study policies carefully and ask your agent to explain points you don't understand before choosing a policy to protect yourself against losses related to your home.

4. INSURANCE ON YOUR AUTOMOBILE

Like the homeowner's policy, an automobile insurance policy may offer several kinds of protection — liability and property damage, medical care, comprehensive, collision, road service and uninsured driver protection.

Liability is by far the most important. It is an absolute "must" — for your own protection and as a moral obligation to others on the highway. Its purposes and values are similar to the liability coverage on your home. However, in the case of your automobile, the chance of needing to use it and the probability of serious injury to others is much higher. The difference in cost between the minimum 10-20 (denoting $10,000 for each injury, $20,000 for each accident) and 100-300 protection is not great, compared to the much greater protection. A third figure designates the amount of liability coverage on property — for example, 50-100-5. In this case the policy described would provide maximums of $50,000 for each injury, $100,000 for each accident and $5,000 for property damage.

Collision insurance covers damage to *your* car in an accident. It may be purchased as deductible in amounts from $25 to $250. Collision insurance is expensive in comparison to liability insurance, when you consider the losses involved (perhaps $2000 or $3000 to replace your car — compared to unknown liability costs in cases of serious injuries or death.) For this reason, consider taking a high deductible on collision insurance to reduce the cost and putting a larger part of your premium dollars into high liability coverage.

If you are financing a car purchase, the lender will require you to carry collision and "comprehensive" coverage to protect his interest in the car. He may not be concerned about your liability coverage, so you will want to be sure that it is included. You may be able to save a considerable amount in cost by getting your automobile insurance independently of the dealer. You may save on the insurance charges — and you certainly will save on carrying charges if you buy the insurance for cash instead of having it included in the amount to be financed.

Comprehensive insurance on your automobile covers (with some exclusions) "any loss or damage" except that due to collision. Excluded are war damage, wear and tear, mechanical failure.

Medical care (or "passenger accident") is quite inexpensive ($10 for a maximum of $2,000 per person with one company).

Road service and protection against accidents involving uninsured motorists (limited in amount available) are inexpensive, useful kinds of protection to have.

To put the pieces together

Deciding what kinds and how much insurance to buy will take study and a number of conferences with your agent. You can't do a good job on a hit-or-miss basis — and actually, the job will never be finished. Your situation will change and insurance "breakthroughs" will come, opening new possibilities to you. No one can give you an exact formula, but we suggest:

1. *Keep in mind always that the real purpose of insurance is protection.* After you have covered the serious risks related to early death of family head and wife, life insurance may take an important place in your savings program. As part of your total program, it is one of the kinds of saving that offer safety of capital — to be balanced as time goes on with other kinds that offer a hedge against inflation.

This part of your insurance program (life insurance) will be closely tied in with your total investment planning for family security. However, as stated, the first purpose is protection — in this case, protection for dependents.

2. *Learn as much as you can about "social insurance"* available to you — Social Security or Workmen's Compensation, for example. How much protection would you have from these sources? They are the "blocks" which may provide the foundation of your total security program.

3. *Try for broad coverage for the serious risks — budget for the smaller risks.* When you consider a policy to cover a certain kind of loss, ask yourself, "How serious would this be if it should happen to me?"

4. *Consider the probability of a certain hazard in your life.* In some areas earthquake insurance might be important. In Michigan perhaps windstorm insurance would be more important; in some places theft insurance would be more important than in others. You will think of many other examples.

5. *Consider cost of insurance in relation to size of risk.* Is the protection worth the cost? Compare the cost of similar kinds of coverage with different companies, too.

6. *Buy deductible insurance whenever it is suitable.* This is a way of saving. We think of this in relation to car insurance. Perhaps you can better bear the risk of paying that first $100 of cost yourself, rather than the extra premium cost for $50 deductible coverage. To suggest a few other examples:

The deductible clause is an important feature in major medical insurance that makes possible very high coverage for the serious illnesses. If you are buying health insurance to cover loss of income, consider also taking as long a waiting period as you can because this will mean that you can have higher coverage for lower premium cost. A deductible clause on certain parts of a homeowners policy is also a means of saving on premium cost.

7. *Use group plans, if available,* to supplement your individual policies. Group insurance cannot be tailored to fit your own needs and it is normally not a permanent kind of insurance plan, but it can be a very good supplement to your individual policies and it is much less costly than the policies which you buy separately.

8. *Remember the importance of your agent.* He can help you look at the whole picture and will let you know about new developments in insurance. Take time to set up a sound program that fits your own needs. Then review it periodically — every two or three years, or when there are major changes in your family situation.

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Appreciation for critical review of this publication is expressed to the following: Dr. Frances Magrabi, Dr. Jean Schlater, and Mrs. Eunice Pardee, Department of Home Management, MSU; L. T. Matthews, General Manager, Michigan Insurance Information Service, Lansing, Mich., and Jack Butterick, Michigan Association of Insurance Agents, Lansing, Mich.

Cooperative extension work in agriculture and home economics. Michigan State University and the U. S. Department of Agriculture cooperating. N. P. Ralston, Director, Cooperative Extension Service, Michigan State University, East Lansing. Printed and distributed under Acts of Congress, May 8 and June 30, 1914.

2P-20M-1:65-JH

Extension Bulletin 409 **January, 1965**
HOME AND FAMILY SERIES
(FORMERLY EXTENSION FOLDER F-320)

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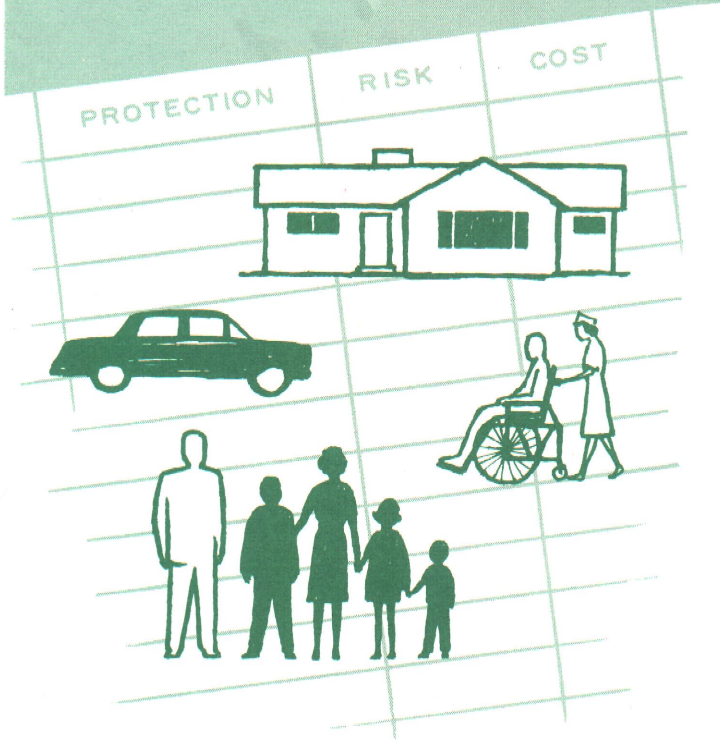

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