Insurance for Your Family
Michigan State University Extension Service
Anne Field, Extension Specialist; and Sue Hoffman, Graduate Assistant, Department of Family and Child Ecology
Issued May 1983
6 pages

Extension Bulletin E-1684 May 1983

Insurance for your Family

What Is It? Do You Need It? What Kinds? How Much?

By Anne Field, Extension Specialist; and Sue Hoffman, Graduate Assistant, Department of Family and Child Ecology

This bulletin should help you:
- review and assess your needs for protection against financial loss
- determine insurance priorities
- shop more intelligently for new or changed insurance policies

Buy Insurance for Protection

Families buy insurance to protect themselves against big financial losses, from events that *could* happen but can't be predicted.

Most families need insurance to cover two possible kinds of losses:

1. **Loss of income** to those depending on that income to live. The event may be disability so you cannot work, or death of a breadwinner with dependents.
2. **Large unanticipated expenses** that couldn't be met out of regular income or savings. The events may damage or destroy a house, car, or other possessions which need costly repairs or replacement; or you may injure others or damage their property and be liable to pay their expenses; or you may need costly hospitalization or medical treatment.

Insurance is not meant to cover small losses or expenses.

Insurance operates on the principle of large numbers and few losses. Everyone buying insurance pays in a small regular sum of money (a premium), and the few who have losses at any one time get money paid out to them to cover part of their loss.

How Much Protection Should Your Family Have?

To decide, first answer these four questions:

1. *What kind of losses could our family face?*
2. *How could each kind of loss affect our present and future economic security? Which would be most serious?*
3. *What kinds of protection do we already have?*
4. *How much can we afford to spend for insurance?*

(1-a) Possible income losses

How many members of the family earn income? How much do you depend on each income for living? What would you live on if that person were disabled and couldn't work? If that person died? How long would you need extra money to pay off a mortgage or other debts, to educate the children, etc.?

(1-b) Large unanticipated expenses

How would you replace your house if it was destroyed by fire, wind, other events? Replace your furnishings and possessions if destroyed or stolen? Your car? How much could someone sue you for if you injured them or damaged their car, house, or other property? How much would it cost if you needed hospitalization or other extensive health care?

2. If any of these losses occurred

What would you live on? Would you run up large debts that would have to be paid out of future income? Would you lose your home? Could your family stay together? Would children be able to go to college? Would you be able to retire comfortably?

3. Existing protection

Do you have more than one breadwinner, so some income would continue if one source was cut off? Do you have savings, other assets that could provide income? Another place you could live if you lost your home? Enough assets to pay a liability judgement to someone else? Health or life insurance through your job or other group coverage? Social Security coverage?

4. How much can you afford?

Even though you know you need insurance, you have only so many dollars to cover everyday costs of food, shelter, utilities and other needs. Check your budget: how much do you have left after fixed expenses like mortgage payments or rent, utilities, taxes, installment debts? Can you change some of your flexible expenses? Maybe you'll discover you're already spending all you can afford but you could spend it **differently** to gain more protection.

What Protection Do You Have?

Look at the possible events in the lefthand column below, that could cause a loss. How would they affect your family? What protection do you have now? Are there gaps? Fill in a few rows on the chart and see if you need to make changes in your protection plan.

H = Husband, W = Wife, C = Child

Family situation	Event and Possible loss from it	How family affected	Insurance	Present protection	Gaps	Changes desired
Family: H has job, W + 2 Cs, 10 & 14	H dies. Loss of his income.	Income cut off.	1 policy: $____ Job group plan. $____	Social Security Savings	Lose health insurance. Educate Cs. W's income after Cs 16 until she is 60.	More term insurance
Your Family:						
A Family: H & W have jobs, 1 C, 12	H disabled, can't work. Loss of his income.	H's income cut off. W's income continues.	Group disability plan pays ½ wage after 90 days.	Soc. Sec. job covers 30 days. W's income and possible benefits.	2 months not covered; can manage from savings.	W adds dependents on her job health insurance.
Your Family:						
A Family: H & W retired, over 65.	One hospitalized	New large expenses for hospital.	Medicare	Small savings	Deductible and copayments required. Some charges not covered.	Get Medicare supplement policy.
Your Family:						
A Family: Owns home	One room damaged by fire.	Need to repair room and replace furnishings.	Coverage on Homeowners policy not up to replacement value.	Savings	Not all of loss reimbursed by insurance.	Insure at least 80% replacement value or take policy covering contents fully.
Your Family:						

Pattern for Protection

Some families have several different insurance policies, each purchased without considering the others. Like pieces of cloth that have to be fitted together to make a garment, insurance policies and other "pieces" of protection need to be combined into a **pattern of protection** that covers each family's needs for continued income and coverage of large unanticipated expenses. Most families need some forms of life, health, disability income, and property insurance, but the kinds and dollar amounts needed will vary among families, and within each family the needs change over a lifetime.

For example, A and B, a young couple both employed, may want health care coverage, some income replacement insurance — life and disability — liability coverage and a modest amount of property insurance. If they buy a house and accumulate more possessions, they need to increase property and liability insurance as their net worth increases. If they have children, needs for income replacement increase during the children's dependency, and health care insurance must cover their needs also.

The D's, an older couple, where only the husband has had a paying job outside the home, carried extra life insurance on the husband to be sure they could educate their children and pay off their mortgage. Now that those goals are reached, they might want to redo their protection program to provide more retirement income. They also must make sure Mrs. D would have sufficient income to live on if Mr. D died before she was eligible for Social Security, pension survivor benefits or other retirement benefits.

Tailor your pattern of protection to fit your own family's needs and resources, and then alter it as those needs change.

Parts of the Pattern

Life Insurance

Life insurance is carried to protect against loss of income when someone (insured) dies and provide ready cash for immediate expenses at death.

You need to decide who should be insured and how much protection you need. How much can you afford to spend? Insurance for the breadwinners should come ahead of all others. If you depend on more than one income for everyday expenses, you should insure all income earners.

Types of Life Insurance

There are several types of life insurance. Talk to an insurance agent about all the options before deciding which of the types described below is best for you.

Term insurance provides the greatest amount of protection for a given amount of cash. It will provide protection for a limited period of time — one year, five years, or whatever is stated in the policy. Protection ends when that time period ends.

Premiums increase as you get older. If you want to continue the same protection when the term ends, you should only buy **guaranteed renewable term.** If at some time you may want to convert to another form of life insurance, you should buy a **guaranteed convertible** policy and see if a medical exam would be required.

Term policies are also useful to meet a special need, such as paying off a mortgage. More term insurance can be added to an existing policy to provide extra income protection while children are young. **Group plans are usually term insurance.** If you have a group plan through your job, benefits would end if you left the job, but might be convertible to a private policy.

Whole or ordinary life insurance provides income loss protection during your whole life. Premiums, which remain the same throughout your life, are payable continuously until death. This policy accumulates some savings from which you may be able to borrow. Limited pay life insurance also provides financial protection during your whole life but the premiums are paid within a specified period, generally 20 or 30 years. When this period ends, the policy is "paid-up."

Newer forms offer different ways to combine insurance protection with savings. They generally provide a better return on money invested than do existing whole life policies. However, income tax implications of death benefits paid to beneficiaries have been questioned. Ask the company for written assurance that a policy qualifies as life insurance under existing income tax laws.

Universal life combines the term and whole life aspects in a flexible form. Part of the premium pays for insurance protection. The rest earns interest at a variable market rate to build up a cash value. You can borrow, withdraw or use those funds to pay your premiums. You can increase or decrease the amount of insurance as needs change. The returns on your account will be low the first few years until cash values build up.

Variable life combines insurance and investment. Part of your payment pays for insurance, and the rest is invested in securities you select. The return on your investments affect the amount of the cash value and death benefit. You assume the risk and need to watch your own investments. Cash values don't build up rapidly in early years.

Adjustable life combines term and whole life insurance so that you can, within limits, increase or decrease the amount of the policy to match your protection needs and the amount you can afford to buy at any one time.

Protection or Savings?

Although several of these policies include a savings plan, protection is the main reason to buy life insurance. There are problems with using life insurance as a savings plan. The rate of return is often very low. You may lose money if you allow the policy to lapse in the first few years. You may be able to accumulate greater savings through other savings options and buying term insurance.

If you are looking at insurance for savings options, investigate the newer types of policies such as universal life. One advantage in using insurance as a form of savings is that it "forces" you to save money that you might not save otherwise.

Check Up on Yourself

Regularly check up on your needs for income loss protection and see if your current life insurance and other assets would meet those needs. Sometimes you will need more insurance. Or you may find you are paying for protection that is no longer needed. Older persons who have insured themselves to protect dependents may want to convert cash value insurance into an annuity or other income for themselves when dependency ends.

Also check beneficiaries on policies to be sure the right persons are named.

Health Care Insurance

Health care insurance is carried to cover large expenses of hospitalization, surgical/medical services or other health care. There are several types.

Types of Policies

Basic hospitalization includes a benefit for room and board with a limit on total days and total dollars, and a benefit for extras such as tests, drugs and supplies. Surgical expense covers fees for operations. Medical expense covers doctors' visits. Limits are set in policies for all these benefits, based on usual charges. Pregnancy expenses may be automatically covered or added as an option. Most policies do not cover dental care, eyeglasses, or care in a nursing home. Read the "exclusions" in your policy to see what is **not** covered.

Major Medical Insurance offers extended broad coverage for very large catastrophic expenses above the limits of the basic plans. They have **deductible** amounts, which the insured must pay before the insurance takes over, and **co-insurance** where the insured pays a percentage of the cost beyond the deductible amount. The higher the deductibles and/or co-insurance payments the lower the premiums.

Dental expense and eye care coverage are becoming more widely available through group and pre-payment plans.

Ways to Buy

Health care insurance can be bought individually. You choose the benefits you want and pay according to that choice and your age and physical condition.

Group insurance is available through many jobs. Since sales costs are less, group insurance is usually cheaper than buying as an individual. Sometimes an employer pays part or all of the premium as a fringe benefit. If you quit or lose your job your coverage stops, but sometimes you can convert to an individual plan. Check if your group plan allows this. Coverage on converted policies may not always be as broad as was the group plan.

HMO's (Health Maintenance Organizations) have been organized in some communities by groups of physicians who provide medical care, with emphasis on preventive care, on a pre-payment plan. Some employers allow employees to choose between group plans and the local HMO. Persons desiring other than conventional medical or hospital care, for religious or other reasons, should make sure the kind of treatment they wish to have is covered if they enroll in a group plan.

Medicare provides certain hospital and medical care benefits to persons over 65 or to some younger disabled persons covered under Social Security. Deductibles and co-insurance required could mean large costs to be paid by the insured if the period of care is long. Many private companies sell Medicare Supplement policies to cover those payments. Contact Social Security for more information.

Families with very low incomes and limited assets can get help with medical costs through **Medicaid**, a state-administered assistance program with state and federal funding. Michigan provides Medicaid help through the Department of Social Services. Contact a county Social Services Office for information.

Disability Income

This insurance protects against total loss of income while the insured is disabled and cannot work. Benefits are limited to a maximum of 50 to 70% of regular earnings and are paid only after a specified waiting period. Benefits are usually paid only if the insured is **totally disabled**, and "totally" means however it's defined in your policy, either unable to work at your present job, *or* unable to do any job.

Social Security provides disability benefits based on one's earnings record. **Workers' compensation** provides benefits if you are injured on, or ill because of, your job. Some employers also provide disability benefits for employees who have worked a certain length of time. Check to see what benefits you have from your employer and from Social Security. Then decide if you still need disability insurance to fill a gap. Can you (and your family) live on what you would have coming in without it?

Property Insurance-Home

Property insurance protects you against the big expenses of: repairing or replacing your house if damaged or destroyed by certain events listed in your policy and called "perils" such as fire and wind; replacing your furnishings and possessions if similarly destroyed or stolen; paying liability claims to others for injury or damage.

Types of Policies

"**Homeowners**" policies package these coverages in seven different forms. Four, for owner-occupants of houses cover increasingly wider ranges of perils. Usually contents are insured against loss from the same perils as the house, and for half the dollar amount of the structure.

The other policies, for renters and condominium owners, cover loss to contents from perils listed in the **Broad** form. A special form for mobile home owners may have restrictions as to condition, age, location of the mobile home, depending on each insurance company's rules, so coverages may vary.

All these policies include personal liability and medical payments coverage for others, extra living expenses if home damage forces you to move out, and a percentage, usually 10% of your contents coverage when personal property loss occurs away from home, as on a trip.

Physical liability coverage is very important, and most families should carry more than the minimum amount offered. This covers injury or property damage to others, either on your property or away, caused unintentionally by your own or your family's negligence. The insurance company will also defend you in court in suits. "Umbrella Liability" can be bought to cover liability (house, car, other) in large amounts starting where ordinary liability coverage ends.

Medical payments coverage will pay someone outside your family for treatment or injuries occurring in your home, or caused by your family or pet outside your home, whether or not you are at fault.

How Much to Carry?

Home insurance is designed to put you back in the position you were before the loss and to pay what your property is currently worth, not what it would cost to replace it all new. To do that, you need to carry full replacement cost insurance. **NOTE:** You have to insure your house for at least 80% of its replacement value (what it would cost to rebuild it completely) in order to be reimbursed fully for a loss to only part of the building, as when only one room is damaged by fire.

If insured for less than 80% replacement cost, a partial loss is only reimbursed for that percent of the damage.

While a **replacement cost** policy would replace or rebuild to original condition, up to policy limits, a **repair cost** policy would repair or rebuild to similar condition with contemporary materials.

Some companies offer replacement coverage for personal property which otherwise depreciates and is worth less than it would cost to buy it new. Valuable items that may increase in value, as antiques, silverware, etc., should have special endorsements on their appraised value added to the policy. Special endorsements can usually be added to cover small boats, credit card loss and other property.

Consider which losses would be most serious to you, and which perils most likely to hit your home, and cover those first. Get plenty of liability coverage, which is fairly inexpensive. If you can save enough for small repairs, take a higher deductible — the amount you have to pay first on a loss before the company pays. Most policies have a $100 deductible, but a higher one can save up to 20% on premiums. Use the premium savings to buy more coverage, or save to offset a deductible if you do not have a loss.

From 1983 on, casualty and theft losses not covered by insurance, including deductibles you pay, can only be used as income tax deductions if they exceed 10% of your adjusted gross income, so the deductible you pay will all be out of your pocket.

The cost of home insurance depends partly on the kind of structure, security against theft, availability of fire protection, and similar conditions which affect the probability of a loss.

Keeping Up To Date

When the value of your house increases from improvements you add or from inflation, increase your insurance coverage.

Make an inventory of the contents of your house. The most thorough way is to make a list of all items in each room and take pictures of each wall in each room. Write down the original price and date purchased of major items, or estimate their current market value. Keep all receipts. Professional appraisals may be needed for antiques, silver, and other valuables. Keep the original, receipts, and pictures in a safe deposit box where they will not be destroyed; keep copies for updating at home. Also permanently identify valuables to discourage theft and make recovery easier.

In some policies, theft, vandalism, and similar perils may not be covered if the house is vacant for more than 30 days. Check with your company, and be sure if you plan to be gone that long.

YOU Can't Cover Everything!

Most families could never afford to insure fully against every possible peril and loss. Even the "Comprehensive" plan, sometimes called "all risks", doesn't cover **all** risks. Earthquakes, which aren't too likely in Michigan, and floods aren't included. Flood insurance, subsidized by the Federal government, is available in those communities which have met Federal flood control rules. If you live in a flood-prone area, call Federal Flood Insurance, toll free, (800) 638-6620, to see if your community is eligible. Or ask your agent.

Property Insurance — Auto

Insurance on autos or other vehicles is carried to meet such large, unanticipated expenses as: care of injured family members, liability to others for damage or bodily injury, repair or replacement of vehicle; and to meet legal requirements for owning and operating a car. It also replaces income lost through disability from an auto-related injury.

Michigan No-Fault Law

This law sets up a way for insurance companies to pay **your** claims promptly without waiting to collect from someone else through a lengthy lawsuit. You are still allowed to sue for income loss above benefits provided, and for death or serious injury. You can also sue in Small Claims Court for up to $400 of uninsured damage to your car if you are not more than half at fault in the accident.

The no-fault law requires you to carry three kinds of coverage:

Personal injury protection (PIP) covers you and your family if injured in a car or as a pedestrian. It pays for hospital, health, or rehabilitation care, and provides disability income — a portion of lost wages and services. If persons covered die, benefits are paid to survivors.

Property protection pays others for damage caused by your car to any of their property except a moving car. It applies only to Michigan accidents.

Residual liability pays others when accidents you are legally responsible for cause death or serious injury, economic losses greater than PIP benefits, or cause property damage or injury to others in accidents outside Michigan. Michigan law requires you to carry an injury coverage of at least $20,000/person and $40,000/accident, and $10,000 for property damage. It's wise to carry more.

Protection For Your Own Car

You are responsible for paying for damage to your own car. To protect **your** property, you can carry **Collision** insurance in either Regular, Limited, or Broad forms, the benefits varying with your degree of fault for the accident. **Comprehensive** covers loss from all other damage besides collision, such as theft and fire. The law doesn't require either one, but if you have a loan on your car, the lender may require them to protect the collateral.

Other Optional Coverages

Uninsured motorist coverage pays you for injury and loss above your no-fault limits, when the accident is caused by another driver who is not insured. **Road service, rental car cost,** and other special coverages are available from most companies for an extra charge. Decide if you need them.

Keeping Costs Down

Premiums have increased in Michigan more than had been expected under no-fault, mainly because of higher costs for medical care and car repairs. Your own premium is affected by: your loss record of claims, accidents, and violations; the model of your car and its accident/repair cost record; the amount and kind of driving you do; coverage type and dollar limits you choose, and your age.

Increasing deductibles for collision, comprehensive, medical care, and income loss coverages can lower premium costs, since companies often charge more to those who have many small claims. If the market value of your car is low, you may want to drop collision or comprehensive coverage; if the car is destroyed, the insurance company won't pay more than it's worth.

Driving safely, obeying traffic laws, keeping your car in good repair and wearing seat belts can all help lower risk and keep insurance costs down.

Other Vehicles

If you own other vehicles, such as R-Vs, check to see if they are covered under your auto or homeowners policies. If not, ask your agent what kind of coverage is possible.

Some Things to Think About

Check mail order insurance companies with the Michigan Insurance Bureau at 1048 Pierpont, Lansing, (517) 373-0240, to be sure they are licensed.

If considering switching policies, compare benefits and conditions. Keep your old policy in place until you are covered by the new one.

A policy is a legal contract. Before you legally accept a policy, know what **is** and **is not** covered, and what your own obligations are.

When you have problems or questions, talk to your agent or company. If you still need help, call one of the following organizations:

- State of Michigan Insurance Bureau, Consumer Assistance (517) 373-0220
- Insurance Information Hotline, sponsored by Michigan Association of Insurance Companies, toll free (800) 297-0712

MSU is an Affirmative Action/Equal Opportunity Institution. Cooperative Extension Service programs are open to all without regard to race, color, national origin, or sex.

Issued in furtherance of cooperative extension work in agriculture and home economics, acts of May 8, and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Gordon E. Guyer, Director, Cooperative Extension Service, Michigan State University, E. Lansing, MI 48824. 1P-10M-5:83-DG-UP — Price 25 cents. Single copy free to Michigan residents.

O-14290