

Family Insurance Planning



An insurance program should be a part of every family's total financial plan. Before you can evaluate various insurance programs, you must understand the reasons for buying insurance and how to determine the amount and kind of insurance you need.

Insurance is one way of protecting yourself against the risk of unexpected financial losses. It does not remove the risk, but it can partially pay for losses incurred. Through the payment of premiums, you transfer the cost of a major loss from you to an insurance company.

Insurance operates on the principle of shared risk. A group of people pays specified premiums into a common pool. Funds from the pool are used to cover individual losses. The amount of premium each individual pays is based on the frequency of past losses by the group, plus the costs of administration and marketing, divided by the number in the group.

Developing an Insurance Program

There are four basic steps in developing an insurance program to fit your situation:

1. Determine the risks you face.
2. Analyze the financial impact of the risk on your particular situation.
3. Determine how you should handle the risk.
4. Make a plan.

1. Determine the risks you face.

Risks change from situation to situation and will change throughout your lifetime. That's why all insurance programs should be reviewed regularly. Your job, family size, savings, age, and income can affect risks you may face. Here are some common risks:

- Death of a household member, especially the wage-earner.

- Total or partial disability of the wage-earner or primary care provider.
- Loss of job for wage-earner.
- Illness or accident in the family.
- Damage to your home by fire, wind, storm, etc.
- Liability for damage by your car.
- Liability for damage suffered by someone on your property.
- Damage to your car or other personal property.

2. Analyze the financial impact of the risk.

Most families cannot afford insurance to cover all risks, so it becomes necessary to look at each potential risk and what effect each will have on the financial security of the family. Ask yourself some hard questions about potential risks:

- What are the chances the risks will happen?
- How much of the cost could the family pay?
- If the risks occur, which would be the most difficult for the family to meet financially?
- How can insurance be used to cover the risk?

3. Determine how to handle the risk.

There are three basic ways to handle any risk.

First, you can take action to prevent the risk from happening. For example, you could make a change in health practices. You could begin using the seat belt in your car, or you could install a security system in your house.

A second way of handling the risk is to keep the risk. Setting aside savings to cover the cost of dental care for the family is one example of keeping the risk.

The third way is to transfer the risk through the use of insurance.

The following chart can help you decide how to handle each risk and provide a guideline for deciding on the need for insurance.

Cost of Occurrence	Probability of Occurrence	
	Low	High
Low	1 Keep Risk	2 Keep Risk
High	3 Transfer Risk	4 Insurance not available or too costly

In block number 1, the probability that the event will occur is low and the cost of each occurrence is low. Keep the risk; don't buy insurance.

In block number 2, the probability that the event will happen 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 number 3, the probability of the event is low, but the cost is high. Transfer the risk; buy insurance.

In block number 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. You are forced to keep the risk.

4. Make a plan.

You are now ready to shop around for protection and for an agent. You know what your needs are and what you can afford to spend for insurance. Follow these steps to meet your family's insurance needs:

- Review insurance policies you already have. Consider the coverage they provide in relation to your current situation and needs. Compare the coverage with the amount of the premiums.
- Assess all of your financial and human resources. What risks can you take action to prevent? What risks can you afford to keep? What risks will you need to transfer?
- Look at the insurance available. In general, when searching for an insurance company, you should choose a financially strong company. You can find Best's Insurance Reports in most public libraries, or order online at <http://www.ambest.com/sales/BIR/default.asp>. This publication contains information on the larger insurance companies. A rating scale is used, similar to a school grade scale, with ratings of A+, A, B+, B, C+, and C. A rule of thumb is to choose no company with a rating lower than "A" because its financial strength may be questionable.

You should also consider how quickly claims are settled. The Mississippi Insurance Department can provide information on a company's financial strength. They also can tell you which firms have the greatest number of complaints registered against them. When comparing the differences in companies' complaint experience, remember to compare the number of contracts the company has in force. A small company with few complaints could actually be the most unsatisfactory when compared to larger companies, on the basis of complaints as a percent of policies.

- Find an insurance agent. A good agent is someone you can talk to, whose judgment you trust, and who explains insurance using terms you can understand.
- Work out a total plan for insurance. A good insurance agent can help you make good decisions. The agent should not decide which policies you should buy or how large they should be.

Special Tips

- Know what insurance you have. Avoid double coverage.
- Avoid narrowly defined coverage, such as a cancer policy or flight insurance.
- Select the highest deductible you can afford. Higher deductibles usually mean smaller premiums.
- Check out potential discounts, such as good grades for teenage drivers or special rates for nonsmokers.
- Comparison shop for new coverage or at renewal time.
- Consolidate coverage when possible. Fewer policies reduce the company's administrative costs, and the savings can be passed on to the consumer.
- Always read the policy before you buy. Check for exclusions and limitations.
- Buy through group policies when possible. Generally, group policies are less expensive because the insurance company has a contract with the group rather than with individuals.
- Pay premiums annually, if possible. One payment a year usually costs less.
- Review policies annually to be certain you have the coverage you need.

Your Rights

As a consumer you have these rights:

- To cancel a policy or let it lapse at any time.
- To hire your own appraiser to establish the value of lost or damaged property.
- To know the types of personal information the insurance company collects about you and how the information is used.
- To know the reasons for cancellation.
- To correct any misinformation in insurance company files that may affect an underwriting decision.

Contact your agent or group insurance plan representative for questions about your policy. If they cannot handle the problems, contact the Mississippi Insurance Department.

Mailing Address:

Mississippi Insurance Department
P. O. Box 79
Jackson, MS 39205-0079

Street Address:

Mississippi Insurance Department
1001 Woolfolk State Office Building
501 N. West Street
Jackson, MS 39201

(601) 359-3569

(800) 562-2957 (statewide toll-free; consumers only)

www.mid.ms.gov

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