

## Insurance Basics

Insurance premiums can take a big bite out of a monthly budget, but not having enough coverage can be even more costly. Let's take a look at the five primary insurance types and the most important information to know about each one.

### 1. Health insurance

#### What is it?

Health insurance is coverage that typically pays for medical, surgical and prescription drug expenses in exchange for a monthly premium. Many states mandate health insurance coverage and will collect fees, along with state taxes, from taxpayers who do not have sufficient coverage.

#### Types of health insurance plans

Health insurance plans are divided into two primary categories: public and private.

Public health insurance is provided at low or no cost through the federal and/or state government. The most common public insurance plans are:

- **Medicaid** – Public insurance plan for low-income families and individuals. Eligibility requirements vary by state.
- **The Children's Health Insurance Program (CHIP)** – A federal and state program designed to cover children below the age of 18 whose families have incomes above the qualifications for Medicaid, but are too low to afford private health insurance.
- **Medicare** – A federal health insurance program for Americans age 65 and older.

Private health insurance may be provided through an employer or purchased privately from the insurance provider, or through a broker.

These are the most common private health insurance plans:

- **HMO: Health Maintenance Organization** – The most restrictive plans that only work with a network of healthcare providers. The insured must choose a primary care physician (PCP) who is in the network to benefit from coverage. To see an out-of-network specialist, the insured will need a referral from their PCP. HMOs tend to have cheaper premiums than other health insurance plans.
- **PPO: Preferred Provider Organization** – The most flexible health insurance plans, which allow the insured to choose an in-network doctor at a lower cost, or an out-of-network doctor at a higher cost. There is no referral necessary to see a specialist. Premiums are generally more expensive than other plans.
- **EPO: Exclusive Provider Organization** – A blend of HMO and PPO plans, EPOs do not cover out-of-network physicians, but do not require referrals for specialists. Premiums on EPOs fall between HMOs and PPOs.

- **POS: Point of Service** – Another blend of HMO and PPO plans, POS plans will require a PCP on an HMO-style network, while also allowing out-of-network options at a higher cost. A referral is required for specialists. Premiums are generally more expensive than HMO plans but less expensive PPOs.

## 2. Life insurance

### What is it?

Life insurance is a contract between an insurance company and a policyholder that guarantees a sum of money to the policyholder's designated beneficiaries when the policyholder dies, in exchange for monthly premiums paid during the insured's lifetime.

### Types of life insurance

These are the five most common kinds of life insurance plans:

- **Term insurance** – The most basic form of life insurance, with a predetermined term, usually ranging from one to 10 years. Plans are renewable at the term's end, but the premiums will increase with each renewal. Term policies generally have the cheapest premiums, but no cash value.
- **Whole life insurance** – Offers policyholders a cash-value component coupled with increased protection. Premiums can be locked in throughout the term, and a portion of premiums goes toward the policy's cash value. The insured can borrow up to 90% of the cash value, tax-free, but loans reduce the policy's death benefit.
- **Universal life insurance** – Offers increased flexibility for policyholders. Premiums can go up or down, or even be deferred within certain limits. Cash values can be accessed and withdrawn, though this directly decreases the death benefit. Face values can be modified as well.
- **Variable life insurance** – Fixed premiums and investment options make this policy the choice for true risk-takers. The policyholder's cash value will be invested in the insured's choice of stock, bond or money market portfolio. Cash values and death benefits will fluctuate along with the investments' performance. These policies usually have higher fees than universal life insurance, but all cash value accumulation grows tax-free.
- **Universal variable life insurance** – A blend of universal and variable life insurance, these policies offer flexible premiums and the ability to modify face values, along with investment options.

## 3. Auto insurance

### What is it?

Auto insurance is a contract between a policyholder and insurance company, protecting the policyholder from financial loss in the event of an auto accident or theft. The coverage is provided in exchange for a monthly premium. Some form of auto insurance is required in all 50 states.

## Types of auto insurance policies

These are the primary categories of auto insurance coverage:

- **Liability coverage** – Includes coverage for bodily injuries, property damages or auto damages to another motorist if the policyholder is at fault.
- **Comprehensive coverage** – Pays for damages and losses to the car that were not caused by another driver.
- **Personal injury protection** – Covers medical bills for the policyholder and their passengers in the event of an accident.
- **Collision insurance** – Covers damages to the policyholder's car if it's involved in an accident.
- **Uninsured/underinsured motorist protection** – Pays for damages caused by another motorist who does not have sufficient (or any) coverage.
- **Gap insurance** – Pays the difference between what the policyholder owes on a financed or leased vehicle and what it is valued at when there's a total loss of the vehicle.

## 4. Long-term disability insurance

### What is it?

Long-term disability insurance is an insurance policy that provides income replacement for workers if they are unable to work due to a debilitating illness or injury.

### Types of long-term disability insurance

There are two primary types of long-term disability insurance policies:

- **Own-occupation disability insurance** defines a disability as an inability to work at your regular occupation. Benefits are paid even if the policyholder can work at another job.
- **Any-occupation disability insurance** defines a disability as an inability to work at any occupation. These plans are generally cheaper, but claiming benefits can be more difficult.

## 5. Homeowners/renter's insurance

### What is it?

Homeowners insurance is a policy designed to protect homeowners and their families from liability and financial loss in case of damage to their home and belongings in exchange for monthly premiums. Renters insurance is purchased by tenants and only covers damage or theft of their personal property.

### Types of homeowners insurance policies

- **HO-2** – A policy that only protects against 16 specified perils.

- **HO-3** – A broad policy protecting against all perils other than those excluded in the policy.
- **HO-5** – A premium policy that usually protects newer homes and covers all perils, except the few excluded in the policy.
- **HO-6** – Insurance for co-ops/condominiums, which includes personal property coverage and liability coverage.

Each plan type will also include some extent of liability coverage. Most policies will only cover events if they are sudden and accidental. Some natural disasters, like earthquakes and floods, require a separate policy for coverage.

### **Types of renters insurance policies**

Renters insurance policies will generally fall within either:

- **Replacement-cost plans** – Will pay for the full cost of replacing your damaged or stolen belongings up to a predetermined cap. This plan offers more robust coverage, but premiums are generally higher.
- **Cash-value plans** – Will only offer payouts to cover what the damaged item was worth at the time of the disaster.

Insurance is a big part of financial responsibility. Use this guide to help you make the right choices in all major types of insurance coverage.