

Know what you are purchasing, It can make a difference in the long run.

By: Timothy J. Hummel, CFP®

How many people actually understand their insurance plans? Everyone thinks they do, but when something happens, they often are left holding a bag for bills for unexpected reasons. Many people are one accident away from bankruptcy and don't even know it. The proper amount of coverage's can save you money down the road. Many people still look at insurance as a transaction, instead of a tool used in their overall financial plan.

The main problem is we as a society will spend hours upon hours to plan our vacations, and other leisure activities. But when it comes to the important decisions in life, (the really funs ones like, homeowners insurance, health insurance, auto insurance, and savings) we want to rush right through them. Then we want to agree and say the insurance we have, or were sold is lousy when we did not take the time in the beginning to thoroughly understand the products that we were purchasing. All I have to say is some people have found this out the hard way due to Mother Nature's fury a few years ago in Central Florida.

Many people have negative opinions of insurers, some of which may be justified. But there are some cases where people just need to take responsibility for their own poor judgment or decision making. For instance, you choose a \$2000 deductible on your health insurance plan and are okay with this. However, you fail to understand that this is a per person deductible. Which means that when you have a family of three, you could have up to \$6000 of damages before you have any coverage at all. This happens quite often, trust me, I hear the horror stories every day. So, who is to blame for this? Many people could be at fault, but you are the one with the bill and the liability. Did your insurance agent or broker explain this to you? The most common answer is, NO, I was never told of this obscene number before in my life. If your insurance agent or broker explained this to you, were you paying attention or did you understand this? More than likely it is a no to both questions. This is one of the reasons insurance applications appear more like Russian novels every day. We have to have the client sign in 50 places to acknowledge that they were told of certain clauses, exceptions, and exemptions.

After the last paragraph, I am more than likely not your favorite person. But, let's face it; I am not trying to be. I am trying to help you understand mistakes that commonly made by people everyday so you yourself can avoid them. Insurance is not an overly exciting topic for most people; trust me I deal with it all day long. But, it is a very important part of your overall financial plan. How? We all want to save for retirement, or the vacation we are taking with the family next summer. What is something were to happen that could take that money away. Insurance is used to protect you and the ones you love monetarily in the event of an unforeseen loss.

So, how do we fix this problem? I wish there was a prescription I could write that would fit everyone's needs, but there isn't. Here is s a list that may help you plan for your insurance needs down the road.

1. Time is a major player here as discussed above. We need to slow down a little when looking into the different options available. Make sure you understand your deductible, coinsurance, and copays. You also need to know the pot of pocket maximums for the policies. Lifetime maximum coverage is another important question to ask.
2. Don't let other people decide what you need. There are many different policies, from many different companies available in the market. You have to feel comfortable with your decision. The plan your neighbor has may not be the right one for you. There are many insurers out there; they would not be in business if they did not have a niche.
3. The big names are not always the best. Just because you have heard the name does not mean they are the most financially stable. This just means they pay more in marketing than anyone else. Many highly rated insurance companies do not even market to the public; they rely on the agents and brokers to get their name out there. This is much less expensive.
4. Get help! Online quoting engines are great if you understand what you are looking at. For the majority of people, to whom insurance policies are in a foreign language, seek professional help. Find someone who can shop the market for you and is willing to show you all options. This is where friends and co-workers are okay to ask. Have them refer you to their agent.

This is a decision that you want to get right on the first attempt. Take the time to make sure everything is done correct the first time. This does not mean that you will not have to make changes or adjust your policies as you go throughout life, but at least you will have a good starting point. You need to review your policies at least every year. Make sure your needs are the same as they were when you originally purchased the policies. If they have changed, so should your coverage. I have a list below of other times you may want to review your insurance coverage's.

This article has been contributed by Timothy J. Hummel, CFP®, President of Hummel Voight, Inc.

### **Times to review your insurance policies:**

Annually

When you move to a new house or change your zip code

When you have Children, or when they leave home

When you change jobs

When you add on to the house

Start a dangerous hobby

Anytime you make a major purchase (that will increase or decrease your debt)

Purchasing a new vehicle

Leave the country for any amount of time

**The following list is a basic list of insurance policies that an individual or family should look into. Also included is a list of vocabulary that you may or may not be familiar with.**

Personal Umbrella policy –

Provides protection against a catastrophic lawsuit or judgment to the insured.

Coinsurance –

Health Insurance – this is the percentage that the insurance company or the insured (you) will pay for a particular event.

Co-payment –

is a flat dollar amount paid for a medical service by an insured person.

Deductible –

A provision by which a specified amount is subtracted from the total loss payment that would otherwise be paid.

HMO –

A **Health Maintenance Organization (HMO)** is a type of [Managed Care Organization](#) (MCO) that provides a form of [health insurance](#) coverage in the [United States](#) that is fulfilled through hospitals, doctors, and other providers with which the HMO has a contract.

PPO –

a **preferred provider organization** (or "PPO") is a [managed care](#) organization of [medical doctors](#), [hospitals](#), and other [health care providers](#) who have covenanted with an insurer or a third-party administrator to provide [health care](#) at reduced rates to the insurer's or administrator's clients

Liability Insurance -

**Liability insurance** is a part of the general [insurance](#) system of [risk](#) transference

Home owners insurance –

**homeowners insurance**, is an [insurance](#) policy that combines various personal insurance protections which can include losses occurring to one's home, its contents, loss of its use (additional living expenses), loss of other personal possessions of the homeowner, as well as [liability](#) insurance for accidents that may happen at the home

### **Auto Insurance –**

**Vehicle insurance** (or **Auto insurance, car insurance, motor insurance**) is [insurance](#) consumers can purchase for [cars](#), [trucks](#), and other vehicles. Its primary use is to provide protection against losses incurred as a result of [traffic accidents](#). An insurance company may declare a vehicle totally destroyed ('totaled' or 'a write-off') if it appears replacement would be cheaper than repair.

### **Health Savings Accounts –**

(HSA) is a [tax](#)-advantaged medical savings account available to taxpayers in the [United States](#). HSAs were established as part of the [Medicare Prescription Drug, Improvement, and Modernization Act](#) which was signed into law by President Bush on December 8, 2003. These accounts are a component of [Consumer Driven Health Plans](#).

HSA contributions may be made under tax-favored circumstances by employers, employees or both. Funds residing in an HSA account can be invested in a manner similar to a [401\(k\)](#) account. Funds may later be withdrawn tax-free for qualified medical expenses such as [deductibles](#), [co-insurance](#), [dental](#) and [vision](#) care, and many other items not covered under a particular health insurance plan. Because contributions, earnings and withdrawals are all handled on a tax-sheltered basis, HSAs represent a unique benefit under the [Internal Revenue Code](#).