

Understanding Insurance

Most of us don't think about it often, but life is filled with uncertainty. Life can seem downright predictable - until something unpredictable happens.

Insurance exists to help people deal with certain financial risks, from car accidents to unexpected medical bills. For a relatively small amount of money, insurance companies allow you to pool your risks with the risks of thousands of other people. In the event of a negative financial event, your insurance policy is there to cover your losses - losses that may be too great to bear otherwise.

Some insurance, such as auto insurance, is required by law for those owning a car. But most insurance policies are optional, and even required policies have options that can be confusing. The material in this section will help you understand the major types of insurance policies used by many adults.

Buying Insurance

Unless insurance (health insurance, for example) is provided by your school or employer, you must buy it yourself.

There are two ways to purchase an insurance policy – through an individual insurance agent or through a policy comparison service. The advantage of working with an individual agent is that he or she may be able to provide more personal assistance in navigating the options, particularly for more complex or unusual policy situations (life insurance for a smoker who skydives would be one example). The downside of an individual agent is that they may have fewer options than comparison services.

Comparison services will be able to offer you the widest range of companies to choose from and will help you compare prices easily across companies - just make sure you are comparing similar policies, with similar costs and benefits, from similar companies.

Some policies go into effect as soon as you pay your bill (like car insurance). Other types of insurance may require investigation by the insurance company. For example, individual life insurance policies typically require a medical exam, so you will not know the exact amount you must pay until you have completed a medical exam.

Most companies can, however, offer a reasonably accurate estimate based on your answers to a list of



medical questions. Pricing will vary depending on your age, health, personal decisions such as smoking or riding motorcycles, family history, and gender (women tend to pay less for the same coverage as men). Some home insurance policies may also require an inspection of the property.

Not All Insurance Companies are Equal

No matter who you buy your policy from, you should research the insurance company's rating before deciding to buy. Companies such as Standard & Poor's and A.M. Best rate the financial stability of insurance companies. We suggest buying only from companies with the top ranking.

Finally, it is best to shop for a policy as soon as you determine that you need it. Procrastinating increases the chance that you will suffer a loss in the event of property damage, and it also increases the chance that you will be diagnosed with a medical problem that could result in higher life or health insurance rates.

What Policies do I Need?

The type of insurance you need depends on your age, dependents, possessions, and many other factors. The types of insurance most people consider include:

- Auto Insurance
- Life Insurance
- Renter's or Home Owner's Insurance
- Students and Health Insurance
- Disability Insurance

Thinking about accidents, theft, death and disability is never a lot of fun, but it is the responsible thing to do.