

Life involves a lot of risks. You can take positive action—such as locking your doors or sticking to the speed limit—to reduce some of them. But some risks are serious enough that you should consider buying insurance to protect yourself, your family, and your retirement savings.

Whether you already have insurance or are considering buying new coverage, you should take the time to find the best answers to these questions:

- What type(s) of insurance do I need?
- How much coverage do I need?
- How much does it cost?

Even if you already have insurance, review your policies before you renew to make sure that the coverage meets your current needs and that you're getting the best price. As you get older, one of the biggest risks you may face is medical problems. For tips on health insurance, including Medicare and long-term care insurance, see AARP's tip sheets on these topics. In addition, life insurance is covered in a separate tip sheet. This tip sheet addresses other types of insurance.

Insurance Terms

Deductible: The amount you must pay out before your insurance policy starts to pay. The Insurance Information Institute, a trade group, says that increasing your auto insurance deductible from \$200 to \$500 could reduce your premium by 15 to 30 percent, and raising the deductible to \$1,000 could save you an additional 40 percent.

Policy: The document stating terms of insurance coverage. Although it may be tough going, you should try to read it and ask questions about anything you don't understand.

Premium: The amount you pay to buy an insurance policy. Usually stated as an annual amount, you may usually pay it in two or four payments during the year, but there will be a small, extra fee for doing so.

Types of Insurance

Auto: If you own a car or other vehicle, your state requires you to insure it. You'll need insurance for damage to your own car or other property that may be damaged, and to the property of others, as well as for medical costs for yourself or others who may be injured if you are in an accident. For each of these types of coverage, you'll need to make a decision on the dollar amount of your coverage and the amount of the deductible. (See box for definition of "deductible.")

Disability: This is basically income insurance. Even just a few months out of work because of illness or an accident can be a big financial setback and can put you behind on saving for the future. Disability insurance pays you a certain amount of money if illness or an accident prevents you from working. The amount you get is usually a percentage of your salary. Your employer may offer disability insurance, but if it does not or if you're self-employed, look into buying an individual policy. Social Security does pay this type of insurance, but only in cases of severe disability.

Disaster: Standard homeowner insurance (see next page) does not protect your property against floods, earthquakes and certain other natural disasters. If you live in an area where these risks are high, look into the coverage that's available, including the federally subsidized National Flood Insurance Program.

Homeowner, Tenant or Renter: If you own your home, this pays toward the cost of repairing and replacing the home and its contents as a result of events such as fire or burglary. This type of policy also usually covers personal property, such as furniture and clothing, for both homeowners and renters. However, if you have valuable jewelry, office equipment or other expensive items in your residence, you'll have to buy additional coverage in what is called a rider.

Amount of Coverage

When you buy a policy, make sure that you are not over-insuring or under-insuring.

Over-insuring means paying extra money for coverage you don't need. Let's say you want to insure your home, which has a current market value of \$200,000. Your tax bill, or an appraisal from an expert, says that \$50,000 of the value is in the land that the house stands on. Instead of insuring the home for \$200,000 you can save some money by getting a policy that will pay up to \$150,000 for repair and replacement of the home.

Under-insuring occurs when you get coverage that's not enough to cover the potential loss. In the case of your home, check on what it would actually cost to rebuild it if it should be destroyed. The amount of coverage you had when you bought the home 20 years ago is probably much less than what you need now.

In the case of car insurance, if you're driving an old clunker with little resale value, it's probably not worth getting a lot of insurance against physical damage to the vehicle.

How Much Does It Cost?

The more coverage you have and the greater the risks that are covered, the more your policy will cost. Here are some tips that may help control the costs:

- Know the current value of the property you're insuring. If your home has not been appraised for 10 years, consider getting a current appraisal. You could come up with a figure by using the amount on which you pay property tax. But in many areas, home values have skyrocketed and tax assessments have not caught up.
- Search for discounts such as a reduction in price for a safe driving record, or for having smoke alarms or a burglar alarm system in your home.
- Choose the highest deductibles you would be able to afford in case you have a loss before your insurance would kick in.
- Shop around. You can use the Internet or toll-free phone lines to get and compare quotes on various types of policies from individual companies or from several different companies.
- Work with an independent insurance broker. This is a company that sells insurance from different companies and may be able to help you locate the best policy for your needs.
- Buy all your insurance—or at least more than one policy—from one source. If you do this, they may offer you a better deal.

Your To-Do List:

- ❑ **At InsureU**, www.insureuonline.org, a website created by state insurance regulators, you can see how many complaints have been filed and resolved, and the financial status, of a particular insurance company. The site can link you to the website of your state insurance office, which often includes consumer information.
- ❑ **Find out** “12 Ways to Lower Your Homeowners Insurance Costs,” by the Insurance Information Institute, at this website, www.pueblo.gsa.gov/cic_text/housing/12ways/12ways.htm.
- ❑ **For information on Social Security** coverage of disability, read this information on the agency’s website, www.ssa.gov/disability.
- ❑ **To learn about the National Flood Insurance Program**, go to www.fema.gov, the website of the Federal Emergency Management Agency, and type “flood insurance” in the Search bar.
- ❑ **Complete a checklist** on what you need to consider when deciding on a disability policy at www.consumerfed.org/pdfs/ltdbrochure.pdf.
- ❑ **Assess how much** disability insurance you may need at <http://lifehappens.org/disability-insurance/disability-calculator>.
- ❑ **Inventory** your home’s contents at www.knowyourstuff.org.
- ❑ **Find out the minimum auto coverage** requirements for your state at www.edmunds.com/advice/insurance/articles.
- ❑ **Learn about** the AARP Driver Safety Program at www.aarp.org.

This and other tip sheets provide general financial information; it is not meant to substitute for, or to supersede, professional or legal advice.

