



# Personal Finance: Another Perspective

## Insurance 4: Protecting your Assets through Auto, Home, Renters and Liability Insurance

Updated 2018/10/17



# Objectives

- A. Understand the key areas of Auto Insurance and how to keep your costs down
- B. Understand the key areas of Homeowner's Insurance and how to reduce your costs
- C. Understand the key areas of Renter's Insurance and how to reduce your costs
- D. Understand the key areas of Liability Insurance
- E. Understand some Plans and Strategies to protect your assets for different stages of your life



# Your Personal Financial Plan

- Would like to know what is on your auto and home insurance reports?
  - Under the FACT Act (Fair and Accurate Credit Transactions Act of 2003) you can obtain the following Comprehensive Liability Underwriting Exchange (CLUE) reports each year:
    - CLUE Auto: A 5-year loss history report of your automobile claims (if a loss was filed against your automobile insurance policy and if the insurance company reported the information to CLUE)
    - CLUE Personal Property: A 5-year loss history report of your homeowners claims



# Your Personal Financial Plan (continued)

- How do you get your CLUE report?
  - Go to <http://personalreports.lexisnexis.com>, click on Insurance Report, then Both Reports, then Order Now. This is part of the FACT Act
    - Fill out the information for the new members, including social security, drivers license, and address.
    - Then you verify the information, and obtain the reports
  - If you have claims, copy the report and include it with your PFP
    - You can also dispute the information if it is not correct and if you are planning on switching insurance companies



# A. Understand the Key Areas of Auto Insurance

- Why have auto insurance?
  - There are 30 million accidents in the U.S. annually, or about 1 accident for every 5 licensed drivers. This results in over \$100 billion in economic losses, 2 million injuries, and over 40,000 deaths.<sup>1</sup>
    - When will it be your turn?
      - My daughters was fifteen months ago!

• <sup>1</sup>Louis Boone, David Kurtz, and Douglas Hearth, Planning Your Future, 3<sup>rd</sup> ed., Thompson Southwestern, United States, p.275.



# Your Personal Automobile Policy

- What is auto insurance?
  - Insurance against financial loss due to an auto accident. It is a contract where you agree to pay the premium and the insurance company agrees to pay up to a specified amount for any policy defined losses.
    - Losses in excess of policy limits are your responsibility
- Why is auto insurance important?
  - In addition to safety, most states require a minimum insurance coverage before you can legally drive



# Your Personal Automobile Policy (continued)

- What are the key areas of automobile coverage?
  - Four Key Coverage Areas:
    - Part A: Liability
    - Part B: Medical Payment
    - Part C: Uninsured/Underinsured Motorist's Protection
    - Part D: Damage to Your Car



# Part A: Liability Coverage

- What is liability coverage?
  - Payment for losses due to:
    - Bodily injury: Death or injury for all those involved in the accident
    - Property damage: All damage to the car or cars and any property damage
    - Losses due to lawsuits: Losses from lawsuits resulting from the accident
    - Defense costs in addition to your policy limits in civil trials: Defense costs in case the accident goes to trial
  - Liability coverage may be a combined single limit or a split-limit coverage.



# Auto Split-Coverage Limits

- What are auto split-coverage insurance limits?  
100/300/50 (my recommended minimum coverage)
  - These limits have reference to your coverage amounts. It means:
    - \$100,000 of bodily injury liability per person
    - \$300,000 of bodily injury liability per accident
    - \$50,000 of property damage per accident
  - These are the maximum amounts your insurance company will pay per person or per accident.
    - Should the cost of the accident exceed the stated limits, you are *personally responsible* for any amounts exceeding these limits



## Part B: Medical Payment Coverage

- What does medical payment cover?
  - It covers all reasonable medical costs and funeral expenses incurred, by the insured or the insured's family members within 3 years of an accident. It also includes coverage for the insured when walking.
- What doesn't it cover?
  - It does not cover medical expenses if the insured is injured by a vehicle not designed for public streets, such as an unlicensed 3 or 4 wheeler (quad, four wheeler or go cart)
- My recommended minimum coverage is \$50,000.



# Part C: Uninsured/Underinsured Motorist's Coverage

- What does uninsured/underinsured insurance cover?
  - It covers:
    - Costs if injured by an uninsured motorist or a hit-and-run driver.
      - The other driver must be at fault to collect on this coverage.
    - Costs in excess of the other driver's liability coverage (i.e., under-insurance), if it is inadequate to pay for your losses.
    - My recommended minimum coverage is the same as your other liability coverage



## Part D: Comprehensive Physical Damage Coverage

- What does comprehensive physical damage cover?
  - It covers collision loss regardless of who is at fault
    - If the other driver was at fault and has liability insurance, your insurance company should be able to recover losses without collision coverage from the other driver's insurance company
  - Other than collision, it covers comprehensive physical damages
- My recommended minimum coverage is \$100,000. Remember that deductibles apply.



# Standard Exclusions

- What are exclusions?
  - Contract clauses which limit the insurance company's liability in specific situations or events
- Your insurance may not pay up if:
  - There is intentional injury or damage
  - There was use of the vehicle without permission
  - The vehicle has less than four wheels
  - Someone else's vehicle was provided on a regular basis
  - It's your automobile, but not listed on your policy
  - You were carrying passengers for a fee
  - You were driving in a race or speed contest



# No-Fault Insurance

- What is no-fault insurance?
  - No fault insurance is insurance coverage that pays for each driver's own injuries, regardless of who caused the accident
  - No-fault varies from state to state. Such policies are designed to promote faster reimbursement and to reduce litigation
- Where is no-fault insurance available?
  - It is only available in “no-fault” states
    - Utah is no-fault state



## No-fault Insurance (continued)

- What are the advantages of no-fault insurance?
  - It is easier and faster. Your insurance pays for your losses and their insurance pays for their losses
- What are its disadvantages?
  - Generally damages from pain, suffering, emotional distress are not covered
  - There are dollar limits on medical expenses and lost income. Losses above limits are not covered.
  - Vehicle damage is not covered. Your or other's collision coverage would need to be used to repair the vehicles
  - There are liability thresholds where your pursuit of a liability lawsuit may be restricted by the set limits



# Buying Automobile Insurance

- What are the determinants of the cost of auto insurance?
  - The cost of Automobile Insurance is determined by:
    - Type of automobile
    - Use of automobile
    - Your personal characteristics
    - Your driving record
    - Where you live
    - Discounts for which you qualify



## Keeping Your Costs for Automobile Insurance Down

- How do you keep the cost of automobile insurance down?
  - 1. Shop comparatively
    - Know what other insurance companies are charging for similar coverage from the same area and vehicle
    - Check to see what discounts you can receive from having all your insurance from the same provider



# Keeping Auto Insurance Costs Down

(continued)

- 2. Consider only high-quality insurers
  - Insure with companies with the highest ratings from A.M. Best (A and higher), Fitch (AA and higher), Moody's (Aa2 and higher), or Standard and Poor's (AA and higher)
  - Find others who have made claims. Having cheap insurance is worthless if they fail to pay claims



# Keeping Auto Insurance Costs Down

(continued)

- 3. Use any and all discounts that you can
  - Discounts reduce your costs
  - Apply for all discounts you can for you and your children, i.e. non-smoking, non-drinking, good student/grades, multiple policy, multiple vehicles, new parents, antilock brakes, passive restraints, group discounts, etc.
    - Always ask:
      - “Are you sure you can’t do better than that?”
      - “Are there any discounts we have not yet talked about?”



# Keeping Auto Insurance Costs Down

(continued)

- 4. Buy vehicles that are inexpensive to insure
  - Look to your insurer for the types and costs of specific vehicles—check vehicle costs before buying
    - Buying extra safety and anti-theft devices may reduce your costs—check with your insurer
- 5. Drive defensively
  - Improve your driving record
  - Don't get tickets, but if you do:
    - Go to traffic school whenever possible to keep tickets off your record



# Keeping Auto Insurance Costs Down

(continued)

- 6. Raise your deductibles
  - If you must cut costs, cut here and raise your deductibles (but not your liability coverage)
    - Hold children accountable for deductibles and accidents
      - Drop comprehensive and collision completely once the value of your car drops below \$2-3,000.
- 7. Keep adequate liability insurance
  - Never reduce your liability limits to reduce costs!!!!
    - Liability insurance is cheap—keep your limits high



# Keeping Auto Insurance Costs Down

(continued)

- 8. Be very careful of who you let use your car
  - If a friend causes an accident in your car, you (and your insurance company) will likely foot the bill
- 9. Improve your credit score and keep it high
  - Maintain a high credit score. It will reduce your insurance costs
- 10. Review your insurance coverage on a regular basis
  - Review costs, liability limits, and discounts
    - Make sure all vehicles are included on the policy
    - Review your CLUE auto report once each year at [www.choicetrust.com](http://www.choicetrust.com) and make sure it is correct



# Filing a Claim Using Your Automobile Policy

- 1. Use wisdom in your actions
  - Help the injured, call the Police, cooperate, and get the Police case number when it is completed
  - Move vehicles or put up flares for safety. Make sure you have flares in your vehicle emergency kit
  - Get the names of any witnesses
  - Insist all drivers take an alcohol test if that's a concern



## Filing a Claim (continued)

- 2. Keep calm and in control
  - Record your recollection of the accident
  - Don't sign anything or admit guilt
  - Be firm on your views—speak up and give pertinent information—*even if it contradicts the other drivers' comments*



## Filing a Claim (continued)

- 3. Follow up properly after the accident
  - Get the other driver's insurance company name
  - Call your insurance company as soon as possible
  - Cooperate with your insurer and claims adjuster
  - Obtain a copy of the police reports
  - Keep records of all accident expenses
  - Review the settlement steps in your policy
  - If you are dissatisfied with the settlement offer, request a meeting with your agent and adjuster.
    - If still not satisfied, contact your insurance company's consumer affairs office or state insurance commissioner.



# Questions

- Any questions regarding auto insurance?



## B. Understand the Key Areas of Homeowners and Renters Insurance

- What is the purpose of Homeowners Insurance?
  - Homeowners insurance repairs or replaces your home from specific perils or accidents including:
    - Fire, theft, storms
    - Faulty household systems or appliances
    - Riot, volcanoes, vehicles, aircraft
- Why is homeowners insurance so important?
  - Your home is likely the largest single purchase you will ever make. As such, that purchase needs to be protected



# Homeowners Insurance (continued)

- What are the three areas of Homeowners insurance?
  - Dwelling: direct and consequential loss resulting from damage to the dwelling itself
  - Personal Property: loss or damage to personal property
  - Liability: liability for unintentional actions arising out of the non-business, non-automobile activities of the insured and the insured's family
- How is homeowners and renters insurance sold?
  - It is sold in six basic versions



# Homeowners Insurance (continued)

- What is the purpose of Renters Insurance?
  - Renters insurance repairs or replaces your rental property's contents from specific perils or accidents including fire, theft, storms, water damage, etc.
  - It also provides liability insurance against accidents caused by you or a member of your family
- Why is renters insurance so important?
  - Your landlord has insurance only for the rented property and building.
  - You are responsible for your contents and the liability risks you and your family bring.
  - Renters insurance is cheap and protects your property regardless of location



# Six Basic Homeowner's Policies

- HO-2: A broad form homeowner's insurance
  - Covers only named specific named perils. These perils may be fire, lightning, hail, explosions, etc.
    - If the peril is not named, it is not covered by the policy
- In general, all forms of coverage exclude law, earth movement, water damage, power failure, neglect, war, nuclear accidents, and intentional loss



## Six Basic Homeowner's Policies (continued)

- HO-3: A special form of homeowner's insurance that includes open perils for dwelling. This is generally recommended at a minimum.
  - Covers all direct physical losses to your home, i.e. open perils protection.
    - It lists specific exclusions to the policy for perils not covered
  - Personal property is still named peril



## Six Basic Homeowner's Policies (continued)

- HO-4: Renter's or tenant's insurance
  - Equivalent to HO-2 perils for personal property, but only for renters and tenants
  - Covers personal property rather than the dwelling
  - Provides liability coverage in case an accident, but does not cover causing damage to the structure
  - All-risk coverage available as an option (this is recommended)



## Six Basic Homeowner's Policies (continued)

- HO-5: A new special form homeowner's insurance that includes open perils and includes a rider (HO-15) that allows open perils coverage on personal property in addition to other coverage
  - Covers all direct physical losses to your home, i.e. open perils protection
    - Listed exceptions are the same as HO-3



## Six Basic Homeowner's Policies (continued)

- HO-6: Condominium owner's insurance
  - Similar to HO-4 coverage, has the same named perils for personal property as HO-2, but is available to co-op or condominium owners
  - Also covers improvements you've made
  - All-risk coverage is available as an option (recommended)



## Six Basic Homeowner's Policies (continued)

- HO-8: Modified coverage for older homes
  - Insures the dwelling for the repair cost or market value, instead of the replacement value
  - Is designed specifically for older homes
  - All-risk coverage available as an option (recommended)



# Homeowners Policy Coverage Sections

- What are the key areas of Homeowners Policy coverage: Section 1: Property
  - Coverage A: Dwelling
    - Protects the dwelling and any attachments
    - Does not cover any damage to the land
  - Coverage B: Other Structures
    - Protects other, unattached, dwellings on property
    - Covers landscaping as well as buildings, but not the land
    - Does not cover other structures used for business purposes
    - Is limited to 10% of the home's coverage



## Section I: Property Coverage (continued)

- Coverage C: Personal Property
  - Covers all personal property owned or used by the policyholder up to policy limits
  - Covers personal property *regardless of location*
  - Also covers property of guests in your home
- Personal Property Limits
  - Limited to 50% of the home's coverage
  - There is a \$200 limit on cash, gold, and silver; \$1,000 limit on securities, tickets, and stamps; and \$2,500 limit on silverware
  - Animals, birds, and fish are excluded



## Section I: Property Coverage (continued)

- Coverage D: Loss of Use
  - Covers losses incurred as a result of your home being uninhabitable or un-useable
  - Limited to 20% of the amount of coverage on the home
  - There are three benefits of coverage
    - Additional living expenses should to need to relocate temporarily
    - Fair rental value
    - Prohibited use



## Section II: Liability

- Liability applies to all of the policy forms
  - Coverage E: Personal Liability
    - The insurer will pay, to the limit of liability in the contract, all amounts due to bodily injury or property damage
  - Coverage F: Medical Payments
    - The insurer will pay all reasonable medical payments to others, claims, expenses, and damage to the property of others to the limits of the policy
  - Other coverage includes claims expenses, first aid expenses, damage to the property of others, and loss assessment coverage

# Homeowners Insurance Summary

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## Section 1: Property

## Section 2: Liability

Policy Type	Description	Coverage A: Dwelling	Coverage B: Other Structures	Coverage C: Personal Property	Coverage D: Loss of Use	Coverage E: Comprehensive Liability	Coverage F: Medical Payments and Other
<b>HO 02: Basic Insurance Coverage</b>							
	"Basic form" that provides insurance on a "named-peril basis for dwelling and personal property, " i.e., only covers losses listed on the policy	Broad form, \$15,000 minimum	Broad form, 10% of A	Broad form, 50% of A	Broad form, 20% of A	All amounts due to bodily injury or property damage to policy limits	All amounts for medical and property payments to others to policy limits
<b>HO 03: Broader form, includes open perils (this has been the standard form for decades)</b>							
	"Broad form" that provides "open-peril" insurance on dwelling and structures but "broad form" on personal property	Open Peril, \$20,000 min	Open Peril, 10% of A	Broad form, 50% of A	Open Peril, 20% of A	All amounts due to bodily injury or property damage to policy limits	All amounts for medical and property payments to others to policy limits
<b>HO 04: Renters, or Tenant's Insurance</b>							
	Renters insurance with liability and personal property covered up to the policy limits	Not covered	Not covered	Broad form, \$6,000 min	Broad form, 20% of C	All amounts due to bodily injury or property damage to policy limits	All amounts for medical and property payments to others to policy limits
<b>HO 05: Broader form, incl. open perils coverage on Personal Property (only for newer homes, higher values and well maintained)</b>							
	"Comprehensive form" that covers both the home and personal property on an "open-perils" basis--broadest form of insurance available	Open Peril, \$20,000 min	Open Peril, 10% of A	Open Peril, 70% of A	Open Peril, 30% of A	All amounts due to bodily injury or property damage to policy limits	All amounts for medical and property payments to others to policy limits
<b>HO 06: Condominium Insurance</b>							
	Condo policy that generally cover personal property and condo structure from the wall studs in	\$1,000	Included in A,	Broad form, \$6,000 min	Broad form, 40% of C	All amounts due to bodily injury or property damage to policy limits	All amounts for medical and property payments to others to policy limits
<b>HO 08: Modified coverage for Older Homes</b>							
	Policy used to insure older homes that would be difficult to replace if destroyed, hence the home is insured at market value	Basic, \$15,000	Basic, 10% of A	Basic, 50% of A	Basic, 10% of A	All amounts due to bodily injury or property damage to policy limits	All amounts for medical and property payments to others to policy limits



# Supplementing your Policy

- Should you need to add additional coverage, a homeowners policy can be supplemented in a number of ways through specific endorsements:
  - Inflation: This allows protection to increase with the increase in repair and rebuilding costs
  - Floater Policies: These are policies that provide protection for valuable personal property over and above existing policy limits
  - Flood, Earthquake and Terrorism Insurance: This provides protection in the event of a flood, earthquake, or terrorist activity



# Know How to Keep Your Homeowner's Insurance Costs Down

- 1. Know your needs!
  - Buy *Guaranteed Full Replacement Cost* coverage of your home in case of a complete loss (recommended). That way your home is replaced, regardless of what you paid for it
  - Determine if other structures or landscaping on the property have adequate coverage.
  - Consider extra coverage for special situations like floods or earthquakes, if applicable.
  - Only consider extra coverage or a floater policy for very high-value items such as paintings, jewelry, or very valuable collections.



# Keeping Homeowners Costs Down (continued)

- 2. Don't under-insure
  - Insure for the “replacement cost” of the dwelling
    - Remember coinsurance and the “80% Rule”
      - Dwelling must be insured to within 80% of the replacement cost. Coinsurance requires you to pay for a portion of the loss if you don't carry adequate insurance
      - If not insured at least 80%, in the event of the loss, you will receive the greater of:
  - Actual cash value of the portion of the home lost

$$\frac{\text{Insurance Coverage}}{80\% \text{ of Replacement Cost}} \times \text{Value of Loss}$$



## Keeping Homeowners Costs Down (continued)

- 3. Select a financially sound insurer with low comparative costs and stick with them
  - Shop around—knowledge is power
  - Utilize all discounts you can qualify for, including multiple policy discounts
  - Check with [www.ambest.com](http://www.ambest.com) for your insurer's record and financial position
  - Don't switch carriers to save a few bucks.
    - A claim within 6 months may get you dropped
  - Don't make small claims.
    - Too many can cause your policy to be dropped



## Keeping Homeowners Costs Down (continued)

- 4. Get a CLUE (Comprehensive Loss Underwriting Exchange) report for both your home and your automobiles
  - Errors on your CLUE report and credit reports can boost premiums and cost you money
    - Be careful that inquiries are not listed as actual
  - Get your one free CLUE report each year in compliance with the FACT Act.
    - Review both for your home and auto policies



## Keeping Homeowners Costs Down (continued)

- 5. Reduce your insurer's risk by utilizing all possible savings methods
  - Increase your deductibles
  - Drop the add-on coverage for small claims,
  - Add security systems/smoke detectors if cost effective
  - Pay your premiums annually instead of monthly or bi-annually



# Keeping Homeowners Costs Down (continued)

- 6. Know your coverage
  - Read and understand your policy:
    - The amount paid by the insurance policy will not exceed the limit of your policy
    - You must rebuild on the same location.
    - If you don't rebuild the insurance company will only pay for the actual cash-value loss rather than the replacement value



# Keeping Homeowners Costs Down (continued)

- 7. Make your coverage work
  - Keep an inventory establishing proof of ownership (preferably on videotape) of everything you insure
    - Keep it away from the house and update it yearly
  - Videotape the exterior of the home to value landscaping or condition
    - Update it yearly as well
  - Keep records concerning the value of your assets
    - They will be worth their weight in gold should you lose the assets



# Keeping Homeowners Costs Down (continued)

- 8. Keep your credit score high
  - Insurance products have a pricing component based on your credit score
    - Keep your credit score high
    - Review your credit reports annually
    - Get a copy of your credit score every two years



## If You Have a Claim

- If you have a claim:
  - Notify police immediately. Get copies of all reports
  - Call your insurance company. Follow up with a written claim
  - Develop a list of damaged/stolen/destroyed items
  - Submit receipts for any additional living expenses
  - Provide information as requested by claims adjuster
  - Review the settlement steps in your policy
  - If you are dissatisfied with the settlement offer, request a meeting with your agent and adjuster.
    - If still not satisfied, contact your insurance company's consumer affairs office or state insurance commissioner



# Questions

- Any questions regarding homeowners and renters insurance?



## C. Understand the Key Areas of Personal Liability Coverage

- What is a liability?
  - A liability is the financial responsibility one person has to another in a specific situation. Liability results from the failure of one person to exercise the necessary care to protect others from harm
- What are the cost of a liability?
  - Every year thousands of people are sued for \$1 million or more over the use of their cars or homes which they are liable for
- What is the purpose of Personal Liability Coverage?
  - Personal liability coverage protects the policyholder from the financial costs of legal liability or negligence



## Personal Liability Coverage (continued)

- What are the two major forms of liability insurance?
  - The liability portions of homeowners and auto insurance and an umbrella liability coverage
- What is an umbrella liability coverage or umbrella policy?
  - An insurance policy that adds protection over and above the insured's homeowners and auto policies, i.e., the policy becomes effective only after the limits of the homeowner's and automotive policies have been reached
    - As such, many companies require specific coverage limits, i.e., 250/500/100 insurance on all vehicles and \$300,000 on the home before they will write an umbrella coverage



## Personal Liability Coverage (continued)

- Can you add more and specific coverage to your liability insurance?
  - You can add supplemental coverage or endorsements to your homeowners policy on:
    - Personal article floaters
    - Earthquake coverage
    - Flood protection
    - Inflation guard
    - Personal property replacement cost coverage



# Questions

- Any questions on personal liability coverage?



## D. Understand Asset Plans and Strategies

- Following are a few ideas for asset protection plans and strategies over different time periods
  - Asset Protection - Students and young marrieds
    - Keep your credit score high
    - Have adequate auto insurance, with a minimum 100/300/100 split coverage initially
    - Have adequate renters or homeowners insurance.
    - If you get renters insurance from your auto insurer, there is likely a reduction in auto costs
    - Keep an adequate emergency fund.
    - Raise your auto and home deductibles to reduce costs and co-insure a greater proportion of assets



# Asset Protection Plans and Strategies (continued)

- Asset Protection - Married with families
  - Raise your split coverage to 250/500/100 to offer more protection when you have teenage drivers
  - Make sure teenage drivers take “safe-drivers courses” and use all “good student discounts” for insurance
  - Make sure house has at least HO-3 coverage and add riders for additional coverage needed.
  - Have children keep grades up to lower costs
  - Stay ticket free. If you get a ticket, go to traffic school and get the ticket removed from records
  - Consider an umbrella policy to reduce the risk of future litigation expense as your assets rise
  - Raise your auto and home deductibles to reduce costs and co-insure a greater proportion of assets



# Asset Protection Plans and Strategies (continued)

- Asset Protection - Empty nesters
  - Make sure you have sufficient auto and home insurance to meet your family's needs
  - Review your insurance needs annually to ensure you have adequate coverage
  - As children leave, make adjustments to your insurance to be cost effective with coverage
  - Consider an umbrella policy to reduce the risk of future litigation expense as assets increase
  - Take into account toys that are used for kids and grandkids in considering insurance and keep coverage up



# Review of Objectives

- A. Do you understand the key areas of Auto Insurance and how to keep your auto insurance costs down?
- B. Do you understand the key areas of Homeowners Insurance and how you can reduce your homeowners costs?
- C. Are you familiar with the key areas of Liability Insurance?
- D. Do you understand strategies to protect your assets?



# Case Study #1

## Data

- Larry has split-limit \$100/300/50 automobile liability insurance. Several months ago Larry was in an accident in which he was found to be at fault. Four passengers were injured in the accident and were awarded \$100,000 each because of Larry's negligence.

## Application

- How much of this judgment will Larry's insurance policy cover? What amount will Larry have to pay out-of-pocket?
- Note: Larry's coverage is (A/B/D) 100/300/50.
  - A=Liability: Max. bodily injury liability per person.
  - B=Medical: Max. coverage per accident.
  - D=Damage: Max. collision/comprehensive coverage



## Case Study #1 Answer

- Larry's policy limits are \$100/300/50. Because of this, Larry's policy will pay up to \$300,000, the maximum liability limit per accident. This amount must cover payments to all persons involved in the accident.
- Unfortunately, it is not enough, because the four liability claims total \$400,000. The other \$100,000 awarded in the judgment will not be covered by his insurance, and would be a personal expense to Larry.



# Case Study #2

## Data

- Janet Tanner currently insures her home for 100% of its replacement value with an HO-2 policy. For Janice this works out to \$280,000 in dwelling (A) coverage.

## Calculations

- What are the maximum dollar coverage amounts for parts B, C, and D of her HO-2 homeowner's policy?



## Case Study #2 Answer

- The base coverage for determining coverage on B, C, and D is the \$280,000 of the dwelling coverage A.
- Coverage B (other structures) is limited to 10% of the dwelling coverage =  $(.10 \times \$280,000) = \$28,000$
- Coverage C (personal property) is limited to 50% of the home's coverage =  $(\$280,000/2) = \$140,000$
- Coverage D (loss of use) is limited to 20% of the home's coverage =  $(.20 \times \$280,000) = \$56,000$



## Case Study #3

### Data

- Kelly has a personal property coverage with a \$250 limit on currency; a \$1,000 limit on jewelry; and a \$2,500 limit on gold, silver, and pewter. She does not have a personal property floater. Her deductible is \$250.

### Application

- a. If \$500 cash, \$2,500 of jewelry, and \$1,500 of silverware were stolen from their home, what amount of loss would be covered by her homeowner's policy (\$4,500 total)?
- B. How much will she have to pay on the claim?



# Case Study #3 Answer

<u>Item</u>	<u>Amount Insurance Pays</u>	<u>Amount Kelly Pays</u>	<u>Total</u>
Cash	\$250	\$250	\$500
Jewelry	\$1,000	\$1,500	\$2,500
Silverware	\$1,500	\$0	\$1,500
Totals	\$2,750 - \$250 deductible = \$2,500	\$1,750 + \$250 deductible = \$2,000	\$4,500



# Case Study #4

## Data

- Catherine called her insurance agent to learn how to reduce her \$1,000 homeowners insurance premium. The agent suggested increasing her current \$250 deductible on her policy to \$500. This would result in a 10% premium savings. Her agent also indicated that she would increase her deductible to \$1,000 with an 18% savings, or \$2,500 with a 25% savings.

## Calculations

- a. How much will Catherine save per year in premiums by choosing the new deductibles?
- b. What are the advantages & disadvantages of increasing her policy deductible?



## Case Study #4 Answer

- a. Her current policy is \$1,000 per year. Annual savings would be:
  - \$500 deductible = 10% savings or \$100;
  - \$1,000 deductible = 18% savings or \$180; or
  - \$2,500 deductible = 25% savings or \$250.
- b. The advisability of increasing homeowner's insurance deductibles depends on the adequacy of her emergency fund or her capacity to cover a loss from current earnings. Catherine would save \$250 on her annual premium by increasing her deductible from \$250 to \$2,500. On the other hand, she would be responsible for the first \$2,500 of losses. Catherine would need about ten claim free years ( $\$2,500/\$250$ ) to break even. Her decision should be based primarily on her emergency fund.



## Case Study #5

### Data

- Paul is confused about his umbrella policy. His insurance agent requires him to have \$250/500/100 split insurance on each of his automobiles before they can be put under his umbrella policy. He also has to have a similar liability coverage for his home.

### Application

- What is the purpose of an umbrella policy? Does it pay before or after Paul's home or auto coverage?



## Case Study #5 Answer

- Paul's umbrella policy is a policy which provides protection against lawsuits and judgments
- It doesn't go into effect until after he has exhausted his homeowners and automobile liability coverage. For that reason, the insurance company requires high liability coverage on his home and automobiles before he can purchase an umbrella policy



# Case Study #6

## Data

- Bill was in an accident where he was found at fault. Assume all three persons were injured in the accident and their medical claims were the amount shown.
- Application
  - Fill in the following form based on the example liability limits on the left of the page.
  - Who is responsible for the remaining exposure?



## Case Study 6 Data

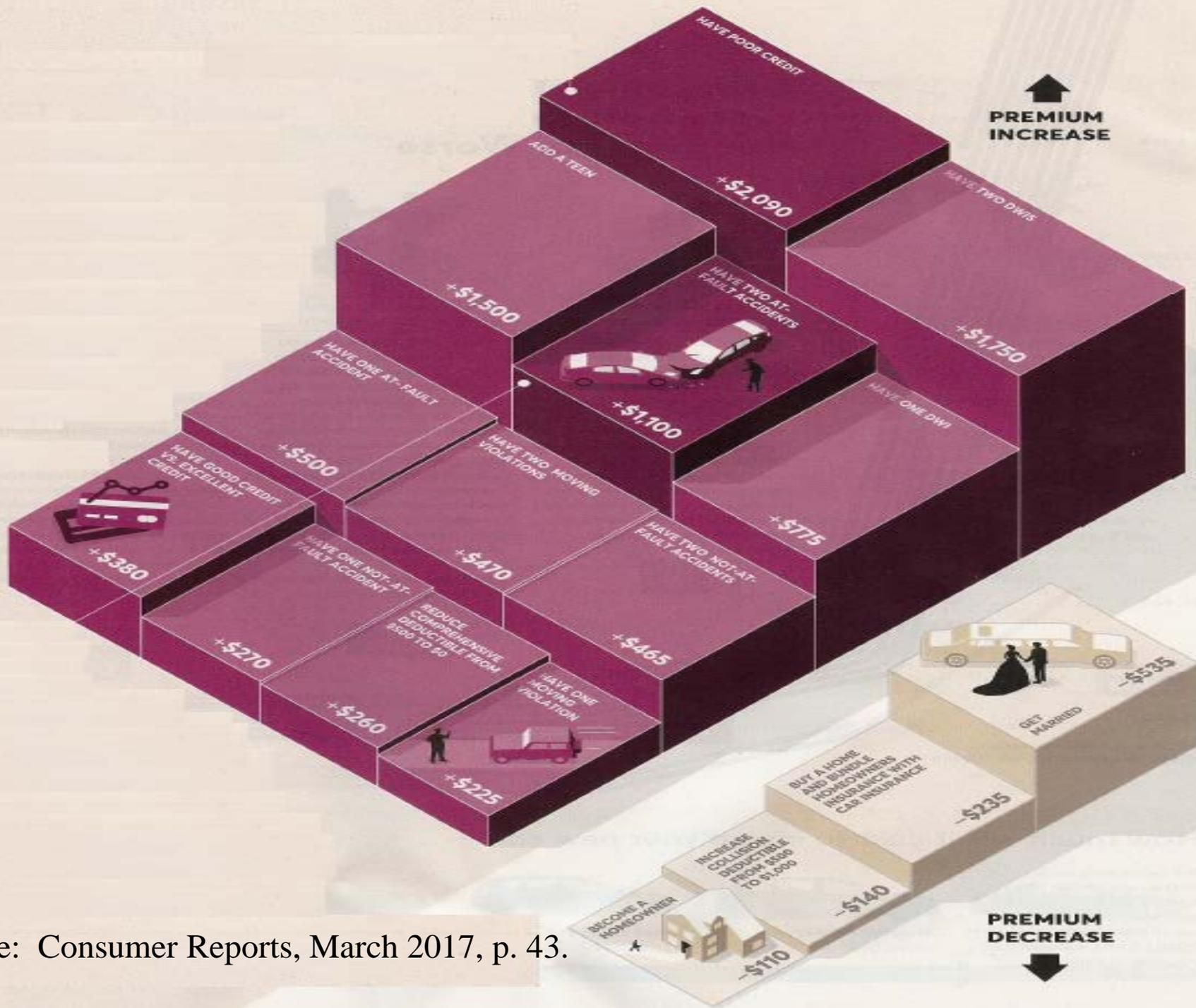
Liability Limits/ Claims	Person 1	Person 2	Person 3	Remaining Exposure
25/50 Covered	\$20,000	\$90,000	\$150,000	
25/50 Not Covered				
50/100 Covered				
50/100 Not Covered				
100/300 Covered				
100/300 Not Covered				
250/500 Covered				
250/500 Not Covered				



# Case Study 6 Answers

Liability Limits	Person 1	Person 2	Person 3	Remaining Exposure
	\$20,000	\$90,000	\$150,000	
25/50 Covered	20k	25k	5k	50k
25/50 Not Covered	0	65	145	210
50/100 Covered	20	50	30	100
50/100 Not Covered	0	40	120	160
100/300 Covered	20	90	100	210
100/300 Not Covered	0	0	50	50
250/500 Covered	20	90	150	260
250/500 Not Covered	0	0	0	0

Bill is responsible for all the remaining exposure



Source: Consumer Reports, March 2017, p. 43.