MODULE 8

Insurance & Retirement

Insurance is a great way to financially protect yourself from some of life's biggest hardships so that when something bad happens, you don't need to worry about your personal finances.

Be it your health, car, or home, insurance allows you to reduce your risk in life, by ensuring that you have financial security in case anything unexpected happens.

POWERED BY

Rapunzl

Key Takeaways From This Module

Guiding Questions

- What is insurance and what are the different types?
- How does car insurance work?
- How is insurance considered an asset and how can it be used as a means of diversification?
- What is the difference between term life insurance & permanent life insurance?
- What are employee-benefits plans are why are they important for retirement?

Enduring Understandings

- Insurance is a contract that provides an individual or entity with financial protection or reimbursement against losses on property, assets or themselves.
- There are an array of insurance products available to individuals and entities.
- Term life insurance only lasts for the term of the policy, whereas permanent life insurance accrues value.
- Employee-benefits are a tax-efficient way to protect what you own and prepare for retirement.

The Basics Of

Employee Benefits, Saving For Retirement

How you can stop working a lot sooner than you think if you stick to a few simple rules about dollar-averaging, long-term investing, and maxing out your employee benefits.

Oh yeah... You're getting free money.

Let's Start With Social Security

Social Security provides benefits to retired workers, disabled workers and their families, surviving family members of deceased workers, and certain qualifying children.

- Retired workers are those who have paid into Social Security for at least 10 years and are now eligible for retirement benefits.
- Disabled workers may be eligible for Social Security benefits if they have paid into the system and have a medical condition that meets the criteria for total disability.
- Surviving family members of deceased workers can receive Social Security benefits, including spouses and certain qualifying children.
- Lastly, certain qualifying children may also be eligible to receive Social Security benefits based on their parent's work history

How Does Insurance Work?

Insurance is a contract that transfers risk of financial loss from the customer to the insurance company. This means that insurance can help you pay for damages done to your property or pay others if you injure someone or damage property. It is also there to provide protection from financial loss when there is sickness or death in a family.

- ***In order for an insurance company to take on some client's risk, the insurance company collects monthly or yearly fees from the clients.***
- This money is then pooled together and then, when something bad happens, the insurance companies uses the pooled capital to pay out settlements.
- There are a lot of different types of insurance, however, they can be placed into to two main categories:
  - **Property and Casualty Insurance**
  - **Life and Health Insurance**
- These cover two very broad groups and there are a lot more specific types of insurance where some are essential, such as home and health insurance, whereas others may only make sense for certain individuals.

At the most basic level, insurance is a way for a policyholder to pay an insurance company to take their financial risk.

The amount & type of risk determine the type of policy & how much it costs.

When Do You Really Need Insurance?

Insurance is a crucial step in financial literacy because insurance can help protect what you own, limit risk & ensure that you are prepared for unexpected financial events.

- **Auto insurance:** Typically covers damages to your vehicle due to collisions, theft, vandalism and other unintentional acts and is mandatory in most states due to the risks of property damage and bodily injury posed by driving a motor vehicle. This ensures that other drivers are protected when you get behind the wheel.
- **Homeowner's Insurance:** Protects against financial losses caused by fire, smoke, lightning strikes and other disasters that may affect your home. Homeowners' insurance is for a mortgage because the lender wants to protect the value of the property or home.
- **Renters Insurance:** Covers the loss of your personal belongings, including furniture and electronics, due to theft or damage caused by natural disasters like fire or windstorms.
- When an individual's actions directly result in physical injury or damage to another person's property, they are liable for the harm caused: An example of this would be if someone drives carelessly and causes a car accident.

**The cost of both renters' insurance and homeowners' insurance can be affected by a variety of factors, including location, age and condition of the property, type and amount of coverage requested, claims history, credit score, deductible amount and the insurer's own risk factors.*

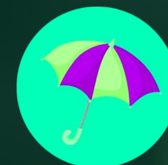
Different Types of Insurance

Health Insurance
This covers expected and unexpected healthcare expenses, which are costly. Everyone should have some form of this. It is a contract between an insurer and client where the client pays a portion of their medical bills.

Car of Insurance
This covers your car from any damages and any damages you cause to others. It is against the law to drive uninsured.

Life Insurance
Death is expensive; there is the cost of settling an estate along with planning a funeral. Life insurance is there to ease the financial burden for those left behind. The money is left to a beneficiary.

Homeowners Insurance
Helps protect against major financial loss if there are major damages to your home. This is essential for any homeowner.



Umbrella Insurance
This insurance is used if you already have an insurance policy but want even more protection. This covers the costs in excess of other insurance companies.

Renters Insurance
This protects the renter of a property from damages they cause and are sometimes required by landlords. This is used to cover personal property and damages the landlord is not liable for.

Disability Insurance
Disability insurance covers if you become too sick or are injured and unable to work for an extended period of time by covering roughly 45-65% of your income

Travel Insurance
Travel insurance is used to cover the cost of the trip if you have a medical emergency or other major incidents that cause a trip to be cut short.

A LOOK AT THE LARGEST

US Insurance Companies

Anthem
(ANTM)

$94 billion in annual premiums

State Farm
Not Listed*

$70 billion in annual premiums

Berkshire Hathaway
(BRK.A)

$62 billion in annual premiums

UnitedHealth Group
(UNH)

$189 billion in annual premiums

Centene
(CNC)

$72 billion in annual premiums

**State Farm is actually a mutual insurance company, which means the company is privately owned by the people who purchase its insurance policies. Shares in the company are only available to policyholders and are not available to investors on the public market.*

Understanding Car Insurance

Most states mandate that if you are driving that you have car insurance. This is to protect every driver on the road because if you cause an accident, you're in charge of paying all of the expenses. **Since government's cannot predict how large of an accident may happen, drivers must have insurance in case they cannot afford to pay the related expenses.**

- Car insurance is like all other forms of insurance where you pay premiums to protect you against financial loss.
- This insurance typically covers **property**, **liability**, and **medical expenses**.
- This means that it covers damages to your car or others cars or property involved in the accident. It also covers your legal responsibility to pay the healthcare costs for yourself and anyone else you may have injured. The insurance also covers a potential loss of wages, because imagine if you lost your job!
- Typically, car insurance is batched into 6 month or year long agreements and your policy covers you if you are driving your car or someone else's car, if they gave you permission.

How Health Insurance Works

Health insurance protects you from the high costs of healthcare, which continue to increase at an alarming rate. Health insurance can help you get the medicine you need, the right doctors and much more; plus, without health insurance, you run the risk of incurring such high medical bills that you'll have to enter bankruptcy! Many people have lost their life savings and retirement because of expensive medical treatment without insurance.

CHECK OUT THIS EXAMPLE:
Imagine that you have $50,000 in medical bills from an accident. You do not have $50,000 in savings, but you do have $10,000. You could pay $40,000 on a credit card, but most credit cards charge over 20% per year, which means you'll be paying $8,000 in interest! Fortunately, you also have health insurance....

While your rate may look confusing at first, each line is crucial to understanding how much you would have to pay at the hospital. Firstly, your deductible of $5,000 means you have to pay the first $5,000 of medical expenses before you can use health insurance.

But, After paying your deductible, you would only pay 20% of your total healthcare costs until you reach your Out-Of-Pocket Maximum of $6,000, including what you already paid for the deductible. This means that the health insurance company would pay the other $44,000 and you'd still have $4,000 in savings after the accident.

YOUR HEALTH INSURANCE PLAN:

Yearly Deductible:	$5,000
Co-Insurance Rate:	20%
Yearly Max Out-Of-Pocket:	$6,000

Different Health Plans Mean Different Doctors

There are many different types of health plans out there to meet a variety of needs for clients who can afford better or worse health insurance coverage. These options vary the types of doctors you can see and sometimes, the types of treatments and medications which are covered by your insurance. Here is a list of the most common plans in the insurance marketplace:

Health Maintenance Organization (HMO)

This is a type of plan that limits care to people who work for or contract with the HMO. It typically will not cover anything out of network other than an emergency. Typically they have a service area.

Exclusive Provider Organization (EPO)

This is a managed care plan where your healthcare expenses are only covered if you rely upon providers included in the plans network.

Preferred Provider Organization (PPO)

This plan you pay less if the provider is in the plan's network. You can use providers outside of the network without a referral for an additional cost.

Point of Service (POS)

This plan encourages you to use their network by making it be cheaper than alternatives. They require referrals from your primary doctor to see a specialist

Employer-Sponsored Plans Are Much Cheaper

Employer-sponsored health insurance plans are more affordable and offer better coverage than private health insurance or being uninsured.

- Employers often offer financial incentives for enrolling in their health insurance plans, making it easier to access and afford the care individuals need.
- Having employer-sponsored health insurance makes it easier for individuals to meet their legal obligation to have coverage, avoiding a fine when they file their taxes.
- Having health insurance is essential to ensuring that you and your family can access the medical care you need, when you need it.
- The cost of medical care in the United States can be extremely expensive and without health insurance, even with a minor illness or injury, you will likely be responsible for paying for all of your medical expenses which could result in large out-of-pocket costs.
- Without health insurance, the cost of just one hospital stay can equal the cost of several years' worth of monthly premiums.
- If you don't have health insurance, you may be denied care or be charged more for services than those who have insurance.

Medicaid, Medicare & Unemployment Insurance

State unemployment programs provide financial assistance to individuals who have lost their job through no fault of their own.

- Unemployment claims increase during a recession or pandemic as businesses struggle and workers are laid off.
- Unemployment insurance helps these individuals stay above the poverty line while they search for new jobs.
- State unemployment programs also offer resources to help individuals successfully transition back into the workforce. These resources can include job search assistance, career counseling services, and retraining or job training programs.

Medicare: Available to people who are 65 or older and certain younger people with disabilities, funded through payroll taxes and monthly premiums by enrollees.

Medicaid: Available to low-income citizens with limited financial resources, funded by federal and state governments.

Introducing Life Insurance

There are **two types of life insurance**, depending upon if you are seeking protection for a specific period of time, or if you're trying to build value in a life insurance policy until your death.

Term Life

This type of policy covers you for a designated term. For example, you may purchase a 10 year or 20 year term life policy. These policies then will last for the designated term as long as premiums are paid. If premiums are paid then the insurance covers you in case of death they will provide your family with the financial amount in the contract.

Permanent Life

This type of policy covers you forever, just so long as you keep paying the premiums. Permanent life insurance also has an investment component that accumulates a cash value for the customer. Financial advisors and insurance agents sometimes refer to these policies as investments because of the policy's cash component and the ability to draw from that or borrow against the policy's payout.

Term life is only about protection. Permanent life insurance allows you to own your policy, which means that you may borrow against that policy in the future and it will not expire unless you stop paying the premiums.

Term Life Insurance

Term life insurance provides financial security to your loved ones upon your passing and helps them pay off any debts or expenses. There is no ownership component so once the term on the policy expires, the policyholder does not have any protection and does not receive any of the premiums back. Here are some other key factors about term life insurance:

Lower Premiums

Term life typically costs less than permanent life insurance. This is due to the fact that the insurance company is assuming less risk since the policy is only for a set period of time. These policies take your health into account so the younger and healthier you are the cheaper these plans are.

Flexibility

Term life insurance allows you to be flexible and choose the length of policy that you are looking for. There are many out there for 10 or 15 or 20 years. This allows you to choose the best plan that fits your needs. This also means that you will have predictability in the amount that you need to pay over the span of the policy. Permanent policies on the other hand are more like a guessing game on how much you will have to pay as they last forever.

Convert to permanent insurance

If you start to reach the end of you term policy, you are able to convert it over into a permanent life insurance policy. This may increase the premiums that you owe, but it could be a good investment if you want coverage for life.Converting could also give you the opportunity to accumulate cash value.

Cons of Term Life

The main issue with term life insurance policies is that all of the premiums go towards the death benefit promised by the policy. This means that unlike permanent life insurance, there is no cash value and therefore no investment component.

If the term ends and you have not died then the entire death benefit will be forfeited and you or your family will not see any money from your premiums. This is the main con of term life insurance. However, it still offers you piece of mind during the years that you are covered.

Permanent Life Insurance

Permanent life insurance covers you for as long as the premiums are paid to the insurance company and the policyholder builds value.

This is different than term life insurance, where the policies are only paid over a set period of time, and the policy is terminated at the end of the term.

In turn for higher premiums, permanent life insurance offers an investment component that allows policy holders to accumulate a cash value to their policy which is why a lot of financial advisors and life insurance agents advocate for permanent life insurance policies to their clients.

Pros:
The growth of the policy's value is tax-deferred, which means you do not have to pay any taxes until you potentially draw. The policy provides coverage for life and you can borrow against the cash value of the policy, sometimes receiving anywhere from 25-100% of your death benefit prior to death

Cons:
These benefits don't come free and typically cost more than a term life insurance policy. There can be tax implications with permanent policies and they are not typically a good investment when compared to other, riskier assets.

Warranties Are Not Insurance!

Extended warranties are offered on electronics, appliances, and certain automobiles, which provide additional years of coverage beyond a manufacturer's warranty, to help pay for repairs or replacements of a purchase.

- These extended warranties are typically offered by either the retailer from which the product was purchased or a third-party warranty provider.
- An extended warranty or service contract is similar to insurance in that it protects the consumer from financial losses due to unforeseen events.
- Both provide coverage for repairs and replacements, although the scope of coverage may vary between the two.
- The primary difference between extended warranties or service contracts and insurance is that while most insurance policies cover a wide range of risks, extended warranties or service contracts are typically more limited, providing coverage only for a specific product or set of services.

NOTE: *Extended warranties and service contracts may cover the cost of labor and parts that would not be covered by an insurance policy. While most insurance policies require periodic payments to maintain active coverage, extended warranties and service contracts often require just one payment up front.*

Welcome To Insurance Fraud

What Is Insurance fraud?

Insurance fraud is the deliberate misstatement of facts or manipulation of documents in order to obtain a benefit from an insurance company.

Examples of insurance fraud include:

- Making false statements about your identity, income, occupation, or health
- Filing duplicate claims for the same loss
- Using fake insurance card to get medical care
- Staging an accident or providing false information to get a larger claim payout
- Submitting fake medical bills or documents in order to collect more money
- Using someone else's identity to obtain an insurance policy
- Exaggerating claims for reimbursement

Consequences Of Insurance Fraud

Insurance fraud is a serious criminal offense that can have significant legal consequences for individuals who are convicted.

Depending on the severity of the case, a conviction for insurance fraud may result in fines, jail time, probation, or both.

Many insurance companies will also bring a civil suit against individuals convicted of insurance fraud in order to recoup losses from fraudulent activities.

When Employers Give You Free Money...

There are two main categories of retirement plans that companies offer. They are Defined Benefit Plans or Defined Contribution Plans.

Defined-Benefit Plan

This type of plan is also known as a pension plan. This is where the company will put a certain amount into an account for you based on you meeting certain criteria. This type of plan is will provide eligible employees income for the rest of their life when they retire. This amount is decided upon based on their years of service, position, and pay. Typically, the employee has no say in the management of this fund and it is controlled completely by the company. These are being phased out as they typically end up being very costly for the company and are unsustainable for the future.

Defined-Contribution Plan

This type of plan operates as a fund where employees put a certain amount of their pay into it and then the company will match their deposit. The most common contribution plan is a 401(k). Typically, an employee will defer a portion of their gross pay to their plan. This gives them a tax deduction as they cannot access this money right away so it is not taxed the same. The company usually matches up to a certain percent of the employee's paycheck and have no obligation towards maintaining the fund after they have deposited the money. This employee-match is also tax deferred until the funds are withdrawn in retirement.

The Best Plans Available

Choosing which plan is best for you will take some research and looking into exactly what the plan offers. As an employee, you want to choose an employer matching plan and find the best rates they'll offer. Also take into consideration when you think you will need the money, or when you want to be taxed on it. There is no right answer, so you must understand each plan to determine what's right for you.

Remember: Employers must provide materials to help you understand employee benefits and most HR groups will be useful to determine which plan is right for you.

Solo 401(k)

An individual 401(k) designed for business owners without employees.

IRA (Individual Retirement Account)

An Individual Retirement Account allows individuals to make pre-taxed contributions to a retirement account which can be deducted from your tax return and also allows earnings to grow tax deferred until funds can be withdrawn without a penalty after the age of 59.5.

Traditional 401(k)

An employer offered defined contribution retirement account that has tax advantages.

Essentially, employees make pre-tax contributions to a retirement plan in which employers match some or all of those contributions. Investment earnings are not taxed until the employee withdraws funds typically after retirement.

If the employee withdraws funds prematurely, they face a penalty and must pay taxes, similar to most of the retirement plans outlined on this slide.

SEP IRA

Is a simplified employee pension plan in which an employer is provided a tax deduction for contributions and often have higher annual contributions limits than standard IRAs. Each SEP is subject to its own rules.

Roth IRA

An Individual Retirement Account that provides tax-free growth and withdrawals after the age of 59.5. Individuals can contribute up to $6,000 annually if adjusted gross income is below $140,000 (single filers) or $208,000 if married and filing jointly. This allows you to earn in the stock market, tax-free, instead of paying income taxes.

Key Takeaways From This Module

CORE & FUNDAMENTALS

- Insurance is a contract that provides an individual or entity with financial protection or reimbursement against losses on personal property, assets or themselves.
- There are an array of insurance products available to individuals and entities.

APPLIED KNOWLEDGE

- There are an array of insurance products available to individuals and entities.
- Remember to ask potential employers about employee-benefit plans because they are incredible when planning for retirement.
- Extended warranties are not insurance!

RELEVANCE FOR YOU

- Insurance is a crucial part of financial literacy and can help protect what you own from unexpected financial events.
- Not all insurance is created equally, and it's important to understand what you are protected from and where you are still financially liable.
- Employee-sponsored benefit plans are a huge cost-savings and can help you prepare for retirement with specific tax advantages.