

Protecting Yourself Financially

- Problem: Bad stuff happens
 - We need to make sure we are prepared for this
- Basic strategy
 - Create a reserve to handle
 - The small stuff
 - And things we cannot insure against
 - Use insurance to protect ourselves against the big stuff
- Issues
 - What things should we self insure against (via a reserve)?
 - How big of a reserve do we need?
 - What things should we buy insurance for?
 - How much insurance do we need?
 - What features do we want?
 - And where should we get this insurance?

Role Of A Reserve

- Self insuring to reduce costs
 - Higher deductibles for car and homeowners insurance
 - Lower annual premiums
 - Lower premium increases by reducing number of claims
 - Avoiding insurance that is generally not good value for the money
(Kobliner's list includes)
 - Extended warranties
 - Laptop or smartphone insurance
 - Flight accident insurance
 - Pet insurance
 - Identify theft insurance
 - Wedding insurance
 - Rental car insurance*
 - Travel and trip cancellation insurance*
- Handling temporary income losses
 - Getting laid off
 - Deciding to change careers

* *But be sure to check out issues discussed later before self-insuring*

How Big Of A Reserve?

Common recommendations

- Product losses
 - \$2,000 – 3 months' income
- Income losses
 - 3 – 6 months' income
- Higher level for income reserve can also cover product loss
 - Real issue is number of people who say they can't afford a \$400 loss

Insuring Against Financially-Devastating Loss

Insurance Must Haves

- You
 - Health insurance
 - Disability insurance
 - Eventually life insurance
- Liability
 - Key part of homeowner and car insurance policies
 - Also may want umbrella insurance
- Property (large losses)
 - Homeowner
 - Car
 - *But also consider self insuring against damage to older, less valuable car*
 - Possible others (*valuable items, disaster*)

What Constitutes “Good Insurance?”

- Amount of coverage
 - Availability of coverage
- Quality of coverage
 - Breadth
 - What is covered
 - Choice of doctor, repair shop, etc.
 - First-class claims handling
 - Financial strength
 - Renewability/Portability
- Low cost
 - Premium
 - Deductible, etc.
 - Tax efficiency

Basic Terms/Set-Up

- Policy
 - Group vs. individual
 - Premium
 - If individual
 - Endorsements
 - Underwriting
- Claim
 - Deductible
 - Co-pay, co-insurance
 - Adjustments, limits
 - Network
 - Pre-authorization, formulary (health)
- Beneficiary

Getting Insurance – Basic Pointers

- Check out employer-supplied options
 - A key benefit (health, disability, life, dental, vision, etc.)
 - Often subsidized (health)
 - Group coverage can increase availability
 - Flex benefit schemes
 - Pay for health insurance pre-tax if you can
 - But buy disability with after-tax funds (TBD)
 - Make use of tax-favored saving for health costs
 - Flex saving plans (TBD)
 - Health saving accounts (HSAs)
 - But only if your reserve is big enough
 - One issue: portability

Getting Insurance – Basic Pointers (2)

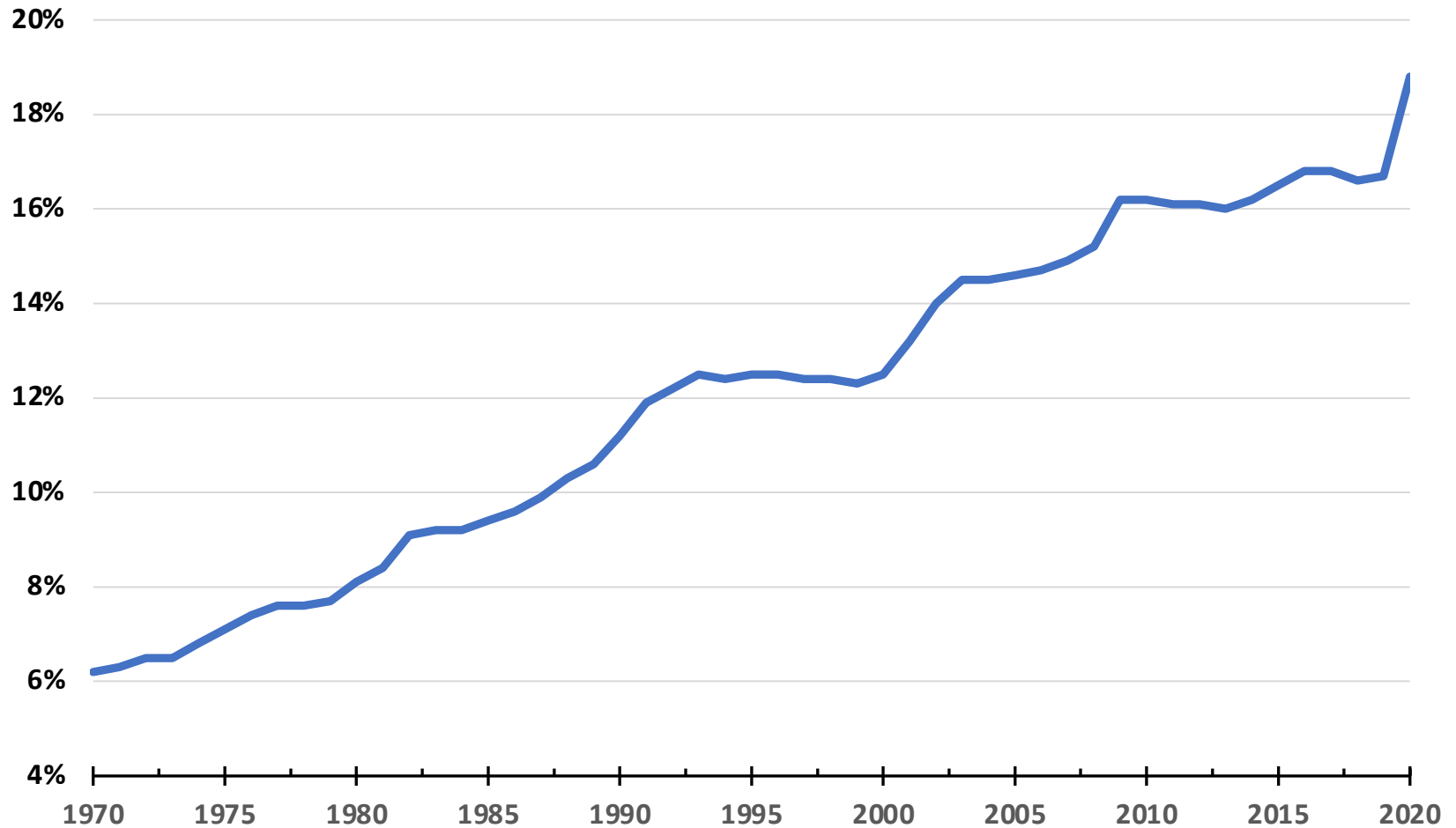
- Comparison shop private options (quality & cost)
 - Include firms that only sell directly
 - Often have lowest prices
 - But remember some top firms only use agents
 - They can be a source of useful advice
 - But remember their dual role of salesperson and adviser
 - Check credentials
 - Reputation
 - Financial Strength (AM Best rating, Bond ratings – S&P, Moodys, Fitch)
 - And be honest about your situation
- Read policy
 - Be sure to look for features discussed in following sections
 - And ask about cost of endorsements if they are missing

Health Care Insurance

- Why you need this insurance
- Types of healthcare insurance
- How this insurance “works”
 - And how actual coverage can differ across plans
- Managing your health and health insurance

Why You Need Healthcare Insurance

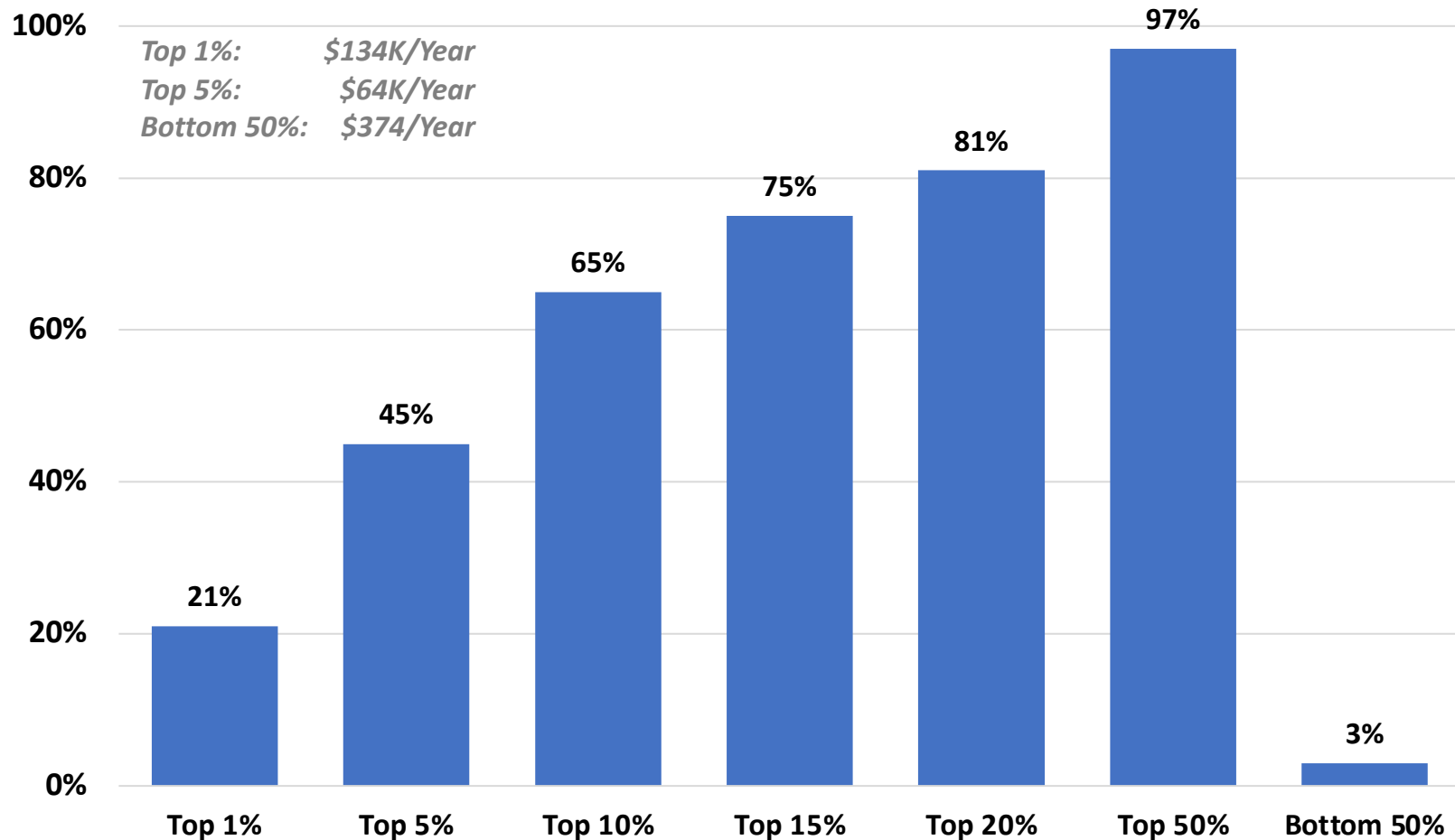
Total National Health Expenditures As % GDP



Source: Kaiser-Peterson

Why You Need Healthcare Insurance

Contribution to Total Health Expenditures by Individuals, 2019



Source: Kaiser-Peterson

Health Insurance Considerations

Not all health insurance policies are the same

- Premium
- Out-of-pocket costs
 - Deductible, co-pay, max out-of-pocket
- Ability to see your preferred doctor
 - Or decide on your treatment
- What treatments are covered
- Drug formularies & exceptions
- Pre-authorization & approval policies
 - Can affect your choice of doctor as well as insurer
 - Something it will pay for you to take charge of
- *Treatment protocols & doctor reimbursements*

Typical Choices At Your Employer

- An HMO Plan (*HMO = Health Maintenance Organization*)
- Various PPO Options (*PPO = Preferred Provider Organization*)
- A high deductible health plan
 - Which is often coupled with a health savings account

The HMO Option

- Typically treats your medical needs that year for a fixed price
- Often the lowest plan-cost alternative
- However,
 - Must use their doctors, facilities and pharmacies
 - Access to specialist determined by your gatekeeper
- Be sure to check out
 - HMO reputation as a health care provider
 - *Be sure you are up to date, reputations can change.*
 - Drug formulary if you need high cost drugs
 - Facility locations & treatment area

The PPO Option

- You pick doctor, pharmacy, specialist, etc.
- Insurance company pays provider some or all of the cost
 - As long as treatment, drug, etc. is covered
- Issues
 - Are your doctors in their network?
 - Deductibles, co-pay, co-insurance, and max-out-of-pocket
 - Reasonable & customary charges
 - Drug formulary
 - Pre-authorization requirements & policies

Network vs. Out-of-Network

- In network
 - Lower deductible and higher co-insurance
 - Providers usually accept the lower insurance pricing for services
 - Subject to max out-of-pocket expense.
- Out of network
 - Generally higher deductible and lower co-insurance
 - You may have to pay difference between doctor charge and “reasonable and customary” pricing.

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 - You may have to pay difference between doctor charge and “reasonable and customary” pricing.
- Brief comment on “reasonable and customary” pricing
 - Good news:
 - In network: Insurer has already negotiated down your treatment cost
 - Bad news:
 - In network: Risk of this pricing affecting how you are treated.
 - Out of network: Risk of being financially responsible for difference between doctor charge and insurer pricing.

Example

- Assumptions
 - You need a procedure that costs \$10,000
 - Your insurance company says that the reasonable and customary expense for this procedure is \$6,500
 - Deductible for in-network services is \$1,000, after which co-insurance rate is 80%
 - Deductible for out-of-network services is \$3,000, after which co-insurance rate is 50%
 - You have spent \$800 this year on network medical expenses, which have been applied to your deductible.

Example - 2

- In-Network Doctor
 - Doctor bills insurance company for \$10,000
 - But agrees to reduction to \$6,500
 - Insurance company then does the following:
 - Your remaining deductible is \$200 (\$1,000 - \$800)
 - Insurable costs are therefore = \$6,300 (\$6,500 - \$200) .
 - Insurance company pays doctor \$5,040 (80% of \$6,300)
 - ***You owe doctor \$1,460*** (\$6,500 - \$5,040)
- Out-of-Network Doctor
 - Doctor bills insurance company for \$10,000
 - Insurance company then does the following:
 - It starts with the “reasonable and customary charge” of \$6,500
 - Insurable expenses = \$6,500 - \$3,000 deductible = \$3,500.
 - It then pays the doctor 50% of \$3,500 = \$1,750
 - ***You owe doctor \$8,250*** (\$10,000 - \$1,750)
 - Unless your “max-out-of-pocket” kicks in

Formularies & Pre-Authorization Requirements

- How they work
 - Insurance company only covers non-emergency surgeries that they authorize it in advance.
 - Which means doctor has to call insurance company in advance and successfully explain why procedure is needed.
 - Insurance company only automatically covers drugs on its formulary
 - But insurance company can pre-authorize the drug (and thus cover it) if your doctor calls them in advance and successfully argues for its need.
 - Note the “hassle” tax your doctor is paying
 - So it is important to use doctors that are willing/able to pay this time tax if you need expensive drugs or high cost elective surgeries/treatments.
- Finally, a word on treatment protocols & doctor reimbursements
 - These vary across insurance company.
 - Why patient files in hospital have different colored stickers on them.
 - Why a doctor visit can be a short visit
 - And why you want to signal that you are a good patient.

The PPO Option Checklist

- Be sure to check out
 - If doctor or hospital is “in-network” (*takes your insurance*)
 - Whether your pharmacy is a preferred pharmacy
 - Drug costs will differ across pharmacies
 - Also check cost of drugs with insurance
 - Some generics can cost more with insurance!
 - Whether you need to pre-authorize a procedure or drug
 - And if you have a choice among insurers, which insurers have your doctors found to be easy to work with.
 - Treatment options if you travel internationally, etc.
 - *Note: Doctors and hospitals may be charging different insurers different amounts*

What If You Don't Have/Lose Employer Insurance?

- While you are young
 - You can stay on your parents' plan until age 26 (longer in some states)
 - But make sure there are doctors in your area that are part of that plan
- If you lose your job
 - You can continue on the employer plan for another 18 months (COBRA)
 - But cost will not longer be subsidized
 - And they can charge you 102% of their cost
 - Result, it will be expensive but you will still have good insurance
 - Which I it will be much better insurance than you can get elsewhere
- You can sign up for an individual plan
 - Check Healthcare.gov for insurance under the Affordable Care Act
 - May be eligible for significant subsidies
 - Usually only available during annual enrollment period
 - Issue: network of doctors, etc. that accept that insurance
 - Can also check eHealth.com to see if you can purchase a reasonably-priced private plan.

Being Smart With Out-Of-Pocket Costs

- Employer may be offering you two types of savings plans that
 - Let you pay for a long list of expenses with pre-tax dollars
 - Rather than with post tax dollars
- Shared set-up
 - Deducts money from your paycheck, reducing taxable income
 - Which can be used to reimburse you (tax free) for deductible, co-pay, glasses, contacts, (medical) drugs, dental, chiropractor, etc.
 - See IRS publication 502 “Medical and Dental Expenses) to see what qualifies.
- Flexible spending account (FSA)
 - Can save up to \$3,050/year this way
 - But has a “use it or lose it” feature
 - So you don’t want to over-save in this account
 - May want to buy your prescription sunglasses a little early in this case
 - Make sure you know whether your employer will allow any funds to be rolled over into the next year (max \$500)

Being Smart With Out-Of-Pocket Costs - 2

- Health Savings Account (HSA)
 - Only available if you have high deductible medical insurance
 - Can roll unused money into next year
 - No need to claim reimbursements that year. Can do so in the future
 - No taxes on investment income in fund
 - So triple tax deductible if used to pay for health expenses at any time.
 - Can save up to \$3,850/year as an individual/ \$7,750 year as a family.
- I have heard of the following
 - People set up HSA and get tax deduction that year
 - But don't make claims in year they pay expense
 - Instead just keep records of those expenses
 - Let funds grow like an IRA
 - And claim reimbursements in the future
 - Just be sure
 - You keep good records
 - You understand implications of withdrawing funds that are not used to pay for eligible (current or past) medical expenses
 - And you can afford the high deductible and max out-of-pocket associated with the associated insurance plan.

Digression: Managing Your Health Care

- In a world where doctors can get hassled to provide care (or where compensation for regular visits is relatively low)
 - Finding good doctors is important
 - Combined with growing problem of MD supply
 - You want to be the kind of patient a good doctor wants to treat
 - Act like you value their time
 - Be ready to do some leg work for them
 - Have a printed medical history ready (if only to signal your seriousness as a patient and your willingness to comply with their treatment)
 - And, if you need expensive drugs, etc.,
 - You want to check out whether the doctor has a back office that can do the legwork needed to get those authorizations.

Other Health-Related Insurances

Your employer may also offer dental insurance and vision insurance

- Dental insurance: my experience
 - Usually cost about as much as two standard checkups
 - But now paid with pre-tax dollars
 - And also usually covers X-rays some of the cost of crowns, etc.
 - Just make sure your dentist takes this insurance
- Vision insurance: my experience
 - Usually cost me as much as an annual checkup
 - But now paid with pre-tax dollars
 - And also covered a significant portion of cost of glasses, contacts, etc. with some providers
 - Just make sure your ophthalmologist and optician take this insurance

Disability

- Why you need it
- Employee benefits
 - Often contain short-term disability
 - Typically up to 6 months & covers 100% of salary
 - Be sure to check with HR on how company treats time off for elective surgeries, pregnancy etc. (may need to apply for disability)
 - Increasingly give you the opportunity to purchase long-term disability
 - Usually good until you retire
 - Key: Pay with after-tax dollars!!!
 - That way disability payment will not be taxed.
 - Goal, would like 60-70% of your income replaced.
 - Issue, of course, is portability.

Disability - 2

- Can also purchase privately
 - Just be sure it is:
 - Guaranteed noncancellable and renewable
 - Offers residual protection (*if partially disabled*)
 - Provides “own occupation” coverage
 - And look for inflation protection
- Cost Determinants:
 - When does it kick in? (elimination period)
 - How many years do you want to be covered? (benefit period)

Disability Alternatives?

- Disability vs. Workman's compensation
 - Workman's comp only compensates you for an injury on the job
 - Disability compensates you for any injury
- Social Security Disability
 - Provided by government
 - Covers entire period of disability
 - Need 10 years of working credits to be eligible (*like Social Security Retirement*)
 - Pays a % of income (*see schedule*), average payment about \$1,500/month
 - Very hard to claim
 - Won't qualify if you can do any kind of job (even one that pays much less money)
 - Example of my sister-in-law
 - One great thing, however,
 - You can get Medicare health coverage after 24 months on SS disability

Car Insurance

- Embodies up to four types of insurance
 - Required
 - Liability (*bodily injury & property*)
 - Medical payments coverage
 - Uninsured motorist
 - Optional
 - Collision: *Covers damage to your car in case of crash*
 - Comprehensive: *Covers collision & loss from other mishaps as well: like theft*

Car Insurance - 2

- Three main decisions
 - Company
 - Huge differences in price, so comparison shop
 - But make sure to check out claims handling, etc.
 - Examples: Choice of car repair shop
 - Does policy pay for rental car while repairs are being made?
 - Amount of liability coverage
 - Minimum: \$100K/person; \$300K/accident
 - Will want more if you have a home, assets, etc.
 - Umbrella policies usually require \$300K/person, \$500K accident
 - Do you want collision/comprehensive coverage?
 - And, if so, how big of a deductible
 - Favor comprehensive over collision
 - & higher deductible if you can swing it.

Important Cost Determinants

- Driving record
- Accident history
 - Including any accidents by someone else driving your car
- Car type
- Gender, age & marital status
 - Can drop 40% from age 20-25
 - So recheck premiums on your birthday
- Credit (or insurance) score
- Annual mileage
- Combining insurances? (with household, multicar)
- Grades (*if student*)
- Driving class

A Few Other Thoughts

- Driving internationally?
 - Make sure you are covered beforehand
- Renting a car?
 - Rental car insurance tends to be expensive
 - Check to see if auto insurance or credit card (*if used*) covers this.
 - May also be cheaper to use supplemental third party insurance than insurance sold at rental car counter.
 - If you use rental car or credit-card-supplied insurance
 - You need to check for adequate liability coverage
 - Coverage may depend on whether you use US or foreign website if renting internationally
 - Note: one benefit of rental insurance is that impact on your future insurance costs may be different if you have an accident.

A Few Other Thoughts - 2

- Car sharing? (*Zipcar, etc.*)
 - Like before: check your auto insurance (*or credit card*) beforehand to see if you are covered.
 - Some companies include insurance in their base price
 - Need to check out adequacy beforehand!!!
- Finally, what happens if you lend your car to someone and they have an accident?
 - Usually covered by your policy
 - But that accident will boost your future insurance premiums
 - Generally not a great idea
 - Tell my story

Homeowners/Renters Insurance

- Covers
 - Damage to home structure (H)
 - Loss/theft of contents (H,R)
 - Liability (H,R)
- Things you want
 - Sufficient coverage to rebuild home
 - Adequate liability protection
 - Sufficient coverage to replace lost possessions
- Things you need to check
 - Can you get insurance for that property?
 - Check this before you buy
 - What is covered and what is not
 - Do you need separate disaster insurance?
(*e.g. earthquake, flood, hurricane, tornado, etc.*)
 - Do you need separate coverage for your valuable items?

Homeowners/Renters Insurance - 2

- Liability
 - Cover at least full value of all your assets (*may want more*)
 - Increasing this coverage is usually inexpensive
 - May want to use an umbrella policy to do this (TBD)
- Damage to home/contents
 - Cover cost of rebuilding your home
 - Be sure to update this regularly
 - Will want a replacement cost endorsement
 - The alternative, known as actual cash value, subtracts depreciation.
 - May also want a building code endorsement
 - Make sure you have “loss of use” protection
 - Do you also need some forms of disaster insurance?
 - e.g. earthquake, flood, hurricane, tornado, etc.
 - These are separate policies.
 - Check things like 100-year flood line.

Homeowners/Renters Insurance - 3

- Loss/theft of contents (i.e. your possessions)
 - Will likely want “off premises” protection
 - May need more coverage than the policy default
 - Typically set as a % of amount of home coverage
 - But you can change this.
 - Check max payout for jewelry and other valuable items
 - May need valuable items (or scheduled) protection
- Remember, you only get compensated for demonstrated losses
 - So creating a home inventory is important
 - Pictures very useful (along with purchase date, serial number, etc.)
 - Other benefit: It will help you figure out how much insurance you need
 - Just ask for larger contents coverage than the default amount
 - Large initial time cost, but updating not that hard.

Other Thoughts

- Cost determinants include
 - Location
 - Areas with large fire risk becoming hard or very expensive to insure in CA
 - Type of construction
 - Anti-theft, anti-fire features, etc.
 - Deductible/claims history
- Be sure you have in place required features for insurance
 - e.g. Have you strapped that water heater in California?
- Be sure you understand size of deductibles
 - Earthquake insurance: Often 10-25% of value of house.

Umbrella Insurance

- Umbrella insurance = extra liability protection
 - On top of existing protection from your car and household insurance
 - Will want it if your assets get large enough
 - Just need one policy, not that expensive
 - Usually cheaper than getting super large liability protection on both your car and household policies
 - Can usually get it from car or household insurer
 - But be sure you have purchased the minimum amount of liability insurance required by umbrella policy for your house and car.

Life Insurance

- Two standard types
 - Term
 - Whole life (or cash value policy)
- Two sources
 - Employer (term)
 - Often provide a base policy (around \$50,000) for free
 - Usually can sign up for more, at a cost
 - May not need additional coverage if you don't have a family
 - Private (both term and whole life)
 - Term often cheaper if than employer policy if you are in good health, and can be retained if you lose/switch jobs.
 - But the employer group policy can be a great deal if you are a rated risk
- *Note: May not need additional coverage if you don't have a family*

Term vs. Whole Life

- Term life
 - Will almost surely be less expensive than whole life.
 - Premiums rise with age but will you need life insurance at age 60?
 - Just make sure the policy is “annual renewable term”
 - You want the option to renew or not to renew
 - You don’t want the insurance company to have the option of dropping you if you develop a health problem, get a scary DNA result, etc.
- Whole life/Universal life
 - Essentially sets a fixed premium for your life (*or until age 65*)
 - Whole life: Pairs life insurance with a savings plan
(Which is used to buy more insurance)
 - Universal life: Pairs whole life with investing options to determine
(variable) insurance amount
 - While savings are tax-advantaged, you have other tax-advantage savings options that are much less expensive (*like your 401k or IRA*)
 - Complex, hard-to-understand product
 - Beware of return assumptions embedded in the presentation

Long-Term Care Insurance

- Often not bought until 50's
- Why do people get it?
 - Expect 70% of people over 65 will eventually need long-term care
 - Average need:
 - Men: a little over 2 years
 - Women: a bit under 4 years for women.
 - This care is expensive (remember Genworth 2020 survey)
 - Homemaker services or assisted living > \$50K/year
 - Nursing home in the \$100K/year area
 - Medicaid does not kick in until you have exhausted your savings.
 - And those places are not very nice.
- Note: Similar things to look for as in disability insurance
 - Elimination period, inflation protection, etc.

Long-Term Care Insurance - 2

- Issue: Insurance availability and features are changing due to rising costs of this care
 - Number of insurers have plummeted
 - Costs have gone up
 - And now coverage has time limits or \$ limits.
 - Which means you can run out of insurance
 - Saw this with people needing memory care
- Result: Policies with no time limits have largely disappeared
 - I didn't "bite" because I was seeking protection for longer-than-average care, and policy available at my employer limited coverage to 3 years.
 - But friends who signed up before limits were imposed view their policies as gold.
 - Worth checking to see policy features if your employer offers it, or if you can find a private policy that has not yet changed (very unlikely).