Money: A Once-and-For-All Guide to Insurance

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The $700 billion insurance industry in the United States is an enormous business—one that hopes to become even bigger by selling more policies to women, particularly to the growing number of women who work outside the home. (Women constituted 43 percent of the civilian labor force in 1981, compared to 34 percent in 1961.) "Working women" today are the targets of a vigorous campaign designed to persuade them to buy more insurance of all kinds, particularly life insurance.

New York Life, a Manhattan-based firm, was the first to recognize the potential of the women's market. One of its best-received advertisements showed a mother and her young son fishing; she is baiting his hook. "When You Head a One-Parent Family," advised the caption, "You Need More Than a Little Life Insurance." Another depicted a couple having breakfast: "She Earns $46,000. He Makes $33,000," read the heading. "Who in This Family Should Have the Most Life Insurance?"

The campaign by New York Life and others among the nation's 1,800 life insurance companies seems to be working. Women *are* buying more life insurance. In 1970, according to insurance industry figures, female adults accounted for 23 percent of all life insurance sold; in 1981, that figure jumped to 33 percent. Of the dollars spent on life insurance policies in 1981, women accounted for 21 percent, up nearly 10 percent in the last decade.

But according to J. Robert Hunter, a former federal insurance administrator who now heads the National Insurance Consumer Organization (NICO), a consumer advocacy group based in Alexandria, Virginia, many women today are being "oversold" life insurance (which they generally can get at rates about 15 percent cheaper than men-because women, on the average, live longer).

Women under 25 usually can get automobile insurance more cheaply than men, too (because, according to the insurance industry, younger women, on the average, have fewer accidents than men in their same age group). But the insurance industry's gender-based rates cut both ways. Many pension plans provide lower benefit levels for women than for men (because women live longer than men—though some feminist lobbyists point out that 85 percent of all women live no longer than 85 percent of all men—the pension fund has to be stretched over a longer period). Women often are charged twice as much for health and disability insurance than men in the same job classification. (The insurance industry says that's because there are higher average claim costs associated with policies issued to women. But the Legal Defense and Education Fund of the National Organization for Women insists there is no mathematical correlation between women's claim costs and the much higher rates charged to them.)

Many health and disability policies also specifically exclude maternity coverage, or if coverage is available, it's expensive and limited in scope.

In 1981, Senators Mark Hatfield and Robert Packwood, both Republicans of Oregon, introduced federal legislation that would eliminate all gender-based insurance rates. The insurance industry staunchly opposes the proposed law, arguing that differences between the sexes in mortality and sickness rates are real and must be taken into account if life and health insurance rates are to be fair and equitable. The bill was approved by the Senate Commerce Committee in October 1982, but not by the entire Senate. Packwood will have to introduce a similar bill in the 98th Congress.

But meanwhile, millions of us need to buy appropriate protection for our families. Here are some suggestions to help you shop wisely in the current insurance market.

General Tips

Insurance should be purchased to protect against any event that would be financially catastrophic to your household. But many people expect insurance to cover hazards they could actually cover themselves. *Dental insurance,* for example, is nice to have, especially if it's a benefit largely or entirely paid by your employer. But it's probably not worth the expense of your going out and buying it on your own. A *burial* policy—paying a benefit of $1,000 or less—is rarely a good buy. Better to have enough money saved for your final expenses so your funeral won't be a financial burden on your survivors. The first rule of thumb is: don't buy insurance if you can avoid the risk or if you can "retain" the risk—*e.g.*, pay to have that fender repainted yourself.

Life Insurance

Don 't Buy It If You Don't Need It. If you are single and have no dependents, you don't need life insurance. You have a good reason to buy life insurance only if you have children or other dependents, such as aged parents, who would suffer financially if you died. Don't buy insurance as an investment; it makes more financial sense to put the money someplace that offers a higher yield. (See "What To Buy?")

How Much Do You Need? There are different ways to figure this out. You could consult a certified financial planner who would study your particular family situation and make a recommendation. NICO, the consumer advocacy group, suggests that for families with two young children, a life insurance benefit equal to five times your annual income is about right. Other families can do with less (though how much less can vary): if you have only one child or your children are older; if you're married and you and your spouse each holds a paying job; if you have substantial net worth or will inherit money soon; if you have deferred compensation or pension benefits that will go to your survivors if you die.

Here's a more specific example. Say you're a 35-year-old woman, earning $21,000 a year and taking home $15,000. Your husband takes home $25,000 a year, and you're the parents of a two-year-old daughter. Your husband and child need about 75 percent of your take-home pay, or about $11,250 a year, to live nicely without you. Subtract this from the annual Social Security benefit your family would receive if you died today—say $2,400. The remaining $8,850 is the annual gap you will want your life insurance to make up. To provide this much annual income for 20 years, until your daughter finishes college (assuming proceeds are invested to earn 3 percent after inflation and taxes), you'll need to have about $150,000 worth of life insurance. Add to this 50 percent of a full year's salary—or $10,500—for funeral expenses and a cushion for emergencies. Then subtract the value of the assets you own, excluding the equity from your home: say you have $5,000 in stocks and bonds; $8,000 in savings accounts: $6,000 in a profit-sharing plan at work; $4,000 worth of land you own; $30,000 in life insurance benefits from a policy at work, for a total of $53,000. So $160,500 minus $53,000 equals $107,500. This is roughly the amount of life insurance you should be carrying.

Where To Buy? If you work outside the home, investigate the group life insurance policies that may be offered at your place of employment. They're usually a good deal, in part because the employer often pays some or all of the cost. If that's not available, shop around and see how the rates of one company compare with the competition. Check out the financial stability of the firms you're interested in by reading the current edition of "Best's Life Insurance Reports," usually available at your local public library. Or send for NICO's 64-page guide to life insurance (available for $5, plus $1.25 for postage and handling, from the National Insurance Consumer Organization, 344 Commerce Street, Alexandria, Virginia 22314).

What To Buy? There are two general categories of life insurance. One is traditional "whole life" (also called "straight life" and "ordinary life"). A whole life policy will not only pay your survivor(s) a benefit when you die—it will pay *you* something, too, if you live long enough—though usually less than you have put into the policy as premium payments. Whole life policies have an enforced savings element, often pay dividends, and build up a cash value that you can borrow against.

The other type is called "term" insurance. It's pure protection for set periods only; that is, your premium buys only a benefit for your survivor if you die. Term insurance has no cash value, and can't be borrowed against.

Most consumer groups recommend that you steer clear of "whole life" policies. They're a bad buy during inflationary times because their return rate is typically low. (Although recently the average rate of return—lower than 4 percent on some policies—has increased, it's difficult for the consumer to determine which policies yield which return.) It's true that you *can* borrow against the cash value of your whole life insurance policy, but you're charged interest (usually between 5 and 8 percent) by the insurance company to borrow your *own* money, and if you die before the loan is paid back, the borrowed amount is deducted from the death benefit paid to your beneficiary. (Twenty states have begun to charge variable rates of interest on such loans—rates that move up or down with prevailing market rates.)

Consider buying annual renewable term insurance, instead. It's pure, year-at-a-time coverage; it's simple to understand; and it offers the most protection at the least cost. If you shop around, you can buy $100,000 in term insurance for less than $200 at age 30, for less than $300 at age 40, and for less than $600 at age 50. (Nonsmokers can get even lower rates.) Because your chance of dying increases as you grow older, so does the cost of term life insurance. But it's much cheaper than traditional whole life insurance, points out Andrew Tobias, author of *The Invisible Bankers: Everything the Insurance Industry Never Wanted You To Know* (Simon & Schuster). So Tobias advises that you buy as much annual renewable term insurance as you need, and invest the money you saved (by not buying whole life insurance) in a higher yield savings instrument.

A few more pointers:

• Don't be talked into buying whole life insurance at a young age with the argument that your life may be uninsurable later, says NICO. Renewable term policies can be renewed regardless of any changes in your health, until you reach an age specified in the policy. Most renewable term policies can be renewed up to age 70 or so.

• Check into the new "universal life" type of whole life insurance introduced in the late 1970s. This kind of policy separates the savings element of the policy from the protection element, and also pays attractive rates of interest because it invests your savings in high-yielding, short-term securities. More and more companies are offering this increasingly popular product. Shop around for the best deals.

• Examine carefully "variable life," a type of whole insurance in which the death benefit can vary according to the success that the investing instrument, such as stocks, is having at the time of your death. This option could be risky.

• Don't rush into signing up for *any* policy. Get a sample policy, read and examine it carefully on your own before you meet with the insurance agent.

• Don't automatically drop an old whole life policy, especially if it pays dividends. You can make your old policy a lot more valuable by borrowing out any cash value (usually at rates of 5 to 6 percent) and reinvesting that money at higher returns.

• Stay away from mail-order companies. Many have gone bankrupt, or denied claims under policy loopholes.

• Don't buy life insurance policies for your children. It's the breadwinners who need life insurance.

• Most life insurance policies allow you 10 days after you receive a policy to examine it and return it for a refund of any premium paid. If you think you've been sold the wrong kind of policy, don't be shy about turning it in for a refund.

Homeowner's Insurance

• Buy a policy equal to at least 80 percent of the replacement cost of your house (excluding the foundation). In the event of a partial loss, your insurers won't cover you fully unless you've insured your home for at least 80 percent of the replacement cost. The "full replacement" insurance offered by many insurance companies today-—the kind that replaces your house down to the brass doorknob—is worthwhile, experts say. But don't pay the higher premium for it out of your pocket. You can often lower the cost by raising your deductible.

• Select the highest deductible you can afford. The higher the deductible, the lower the premium costs.

• Shop around for the lowest rates.

• Inquire about discounts, advises author Tobias, for homes recently built or renovated, and about discounts for having installed such devices as smoke detectors, alarm systems, and dead-bolt locks.

• If you rent your home to others, don't assume everything is covered under your homeowner's policy. Check with your agent.

• If you have valuables, such as sterling silver and furs, be sure they are covered. "Riders"—special provisions added to the original policy—may be necessary.

Health Insurance

• If you're not covered at work by a group health plan, consider joining a Health Maintenance Organization (HMO). The prepaid plans provide complete medical care for one fixed, annual fee, usually without deductible payments by plan members. In choosing an HMO, call your county or state medical society for recommendations. Ask the HMO for a prospectus to check the costs of their plan versus the benefits.

• If you're not covered at work and can’t find an HMO, Blue Cross/Blue Shield is the best buy for the average person, according to NICO.

• While you're healthy, check to see just how much your present insurance would cover of a major illness or operation. According to author Tobias, if your coverage is limited to, say, $25,000 or

$30,000, you're probably underinsured.

• Don't buy cancer insurance. A Congressional subcommittee called it a "rip-off' because the coverage is so narrowly drawn. In addition, it's often sold through fear tactics. Why bet on whether you'll have cancer instead of a heart attack?

Disability Insurance

If you become disabled and unable to work, perhaps for the rest of your life, it's a double loss. Not only can't you contribute to your family income, but you're a financial burden as well. Experts say that too little attention is paid to disability insurance, although disability coverage is often included in group life/health insurance policies at your place of employment. Worker's Compensation and Social Security payments also can be sources of income to the disabled person and her or his family. But you might also consider additional coverage that pays benefits until age 65 and, to keep premiums low, begins to pay those benefits only after 90 days or 180 days of disability. Remember, though, that women are often charged higher rates than men, and often have greater difficulty getting disability coverage than men. Part-time workers (more than 70 percent are female) usually cannot get disability coverage; and it's very difficult for homemakers to get it, too, because of the difficulty in determining the worth of their services.

Auto Insurance

• Choose the highest deductible you can afford.

• Consider not buying collision insurance (which covers damage to your own car) if your car is old and has a low resale value.

• Check on discounts. Many insurance companies offer discounts for such policyholders as non-drinkers, graduates of driver-education programs, families in which the only driver is a woman aged 30 to 64, and those who insure two or more vehicles with the same company.