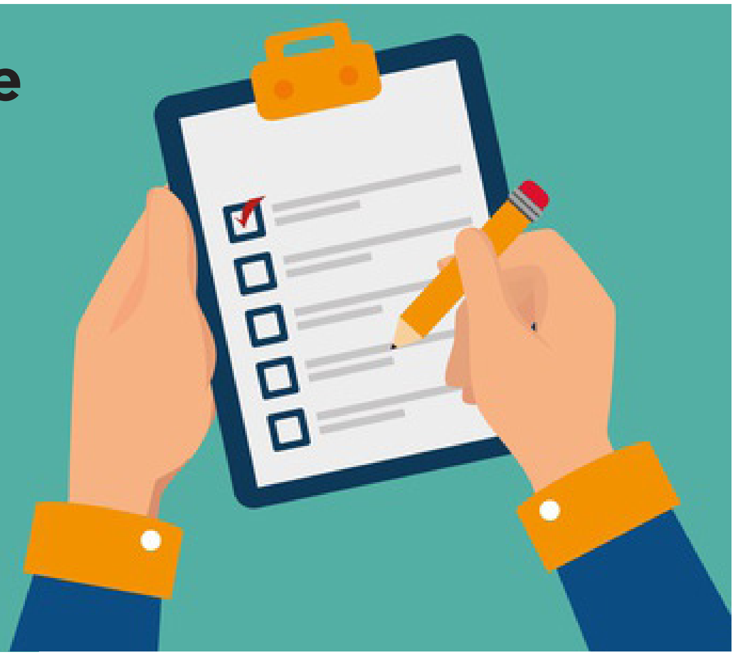
A Consumer Action Guide

# Time for an insurance checkup



## Assessing and adjusting your coverage

Insurance is not a "buy it and forget it" product. There are many events that can cause your insurance needs to change. For example, getting a new job that requires you to drive many more miles each year could require an adjustment to your auto policy, while remodeling or starting a home-based business would most likely call for changes to your homeowners policy. Having a baby or getting married means your health insurance needs will change. Even market changes such as an increase in construction costs could warrant an increase to your homeowners coverage so that you maintain the same level of protection.

Regardless of which types of insurance you own now, your coverage is bound to require some adjusting over the years. You may even need to purchase new types of insurance that you didn't need before. Circumstances change, and you don't want to find yourself underinsured or paying for coverage you no longer need. Use this publication as a guide to determine when you should reassess your insurance needs, understand what types of changes might be called for and find insurance planning tools and more information.

## Annual insurance checkup

An annual insurance checkup is a smart idea. Considering what new types of coverage you might need and reviewing your current coverage once a year, even if you don't think there have been any significant changes in your circumstances, will help ensure that you stay adequately protected and avoid any unpleasant surprises if you ever have to file a claim.

To stay on track, do your annual review around the same time each year—for example, during your birthday month, or during January (start the new year off on the right foot!), or in September, when the kids go back to school. For health insurance, make sure you know when your open enrollment period is.

## Life events

In addition to your routine annual insurance review, you should re-evaluate your coverage any time there is a life event or significant change in your circumstances that either increases or decreases your risk—and, therefore, your need for protection.

The list below alerts you to many, if not most, of the common reasons for needing to adjust your insurance coverage. In some cases you would need to purchase increased or new coverage, while in others you could save some money. Because insurance needs vary from person to person, and coverage terms vary from company to company, state to state and according to a household's individual circumstances, it's always best to

consult with your insurance company or its agent to make sure you've got the right types and amounts of coverage.

## Auto

Auto insurance protects you and others from losses involving your car. Liability coverage—the part of your policy that pays for injury and damages to other parties when you cause an accident—is required in all states except New Hampshire, which requires no liability insurance at all, and Florida, which requires $10,000 in property damage liability but no bodily injury liability. Specific coverage requirements vary by state. Learn more in "Auto Insurance: The basics" from Consumer Action (*bit.ly/auto_insurance_basics*).

You may, or will, need to purchase or adjust your auto insurance coverage if:

❑ You've gotten rid of a car or purchased one

❑ There is a significant change in the number of miles you drive annually (for example, because you have a much longer commute to a new job, or because you've retired and no longer commute) and your rates are based partly on miles driven

❑ You've moved to a new ZIP code and live in a state that uses that in its rate calculations (some get you lower rates than others)

❑ You add a driver to your household (a teenager who has gotten her permit or license, for example), or you remove a driver (because your adult child has moved out, for example)

❑ Your paid-off car has become old enough that you would not repair it if it were damaged. According to the Insurance Information Institute, you should consider dropping collision and/or comprehensive coverage on an older car that is worth less than 10 times that portion of the premium. Check your car's value online at Kelley Blue Book (*www.kbb.org*).

❑ Your assets have increased (which means you have more to lose—and protect—if you hurt someone in an accident)

❑ Your potential liability has increased (because, for example, you've started driving in a car pool or you are taking paying passengers as a driver for a service such as Uber or Lyft)

When reviewing your auto insurance policy, consider whether you need optional coverage such as rental car reimbursement (money toward the cost of a rented car while your own vehicle is in the shop being repaired as part of a covered claim) or roadside service (covers towing and other standard roadside assistance services).

These may be a wise choice for some drivers, but you should make sure that you truly need them. For example, if you have a second car in the household or could get by without one, you might not need a rental car while your own vehicle is in the shop. Likewise, if roadside service increases your premium, you should compare the cost and benefits with stand-alone services such as AAA. Also, some auto manufacturers provide roadside assistance free to car buyers—no sense in paying for double protection.

## Renters/homeowners

Renters and homeowners insurance, though intended for different purposes, cover many of the same losses, including injury to a visitor and personal property damage. So regardless of

whether you're a renter or a homeowner, it's important to review your insurance coverage if:

❑ You've acquired expensive possessions (jewelry, electronics, etc.) or gotten rid of them, or the value of items you own has changed significantly

❑ You've gotten a dog or no longer have one (Dog bites have become the top reason for homeowners insurance liability claims.)

❑ You've started renting out your home or a room in it (If you are earning money by renting out your space, on your own or through a service like Airbnb or VRBO, your insurer could claim you are running a business and deny coverage if a guest files a claim because he was injured or his property was damaged while in your home.)

❑ You've started a home-based business. Learn more in the home-based business insurance issue of Consumer Action News (*bit.ly/microbusiness_insurance*).

There are two types of coverage for your personal possessions: replacement cost and actual cash value. Replacement cost coverage pays the actual cost of replacing your possessions, while actual cash value coverage only pays the depreciated cost of the item—the difference, for example, between getting the full amount needed to purchase a brand new television versus getting $100 after your five-year-old set is stolen.

As you might expect, replacement cost coverage will be more expensive than actual cash value coverage, but the small additional premium is well worth it.

While the vast majority of homeowners have insurance (95 percent, according to a 2015 Insurance Information Institute poll), only 40 percent of renters do.

This could be because renters mistakenly believe that their landlord's insurance covers them, or because they feel that it's unnecessary since they don't own the building. But renters insurance provides a great deal of protection for a relatively low premium (between $100 and $250 per year). It typically will help replace lost, stolen and destroyed possessions, protect you if you are sued by someone who gets injured in your home and pay your additional living expenses if your home becomes temporarily uninhabitable.

## Homeowners

Because homeowners insurance covers some things that renters insurance doesn't cover—most obviously, the structure itself—there are some additional circumstances under which you will probably need to adjust your coverage:

❑ You've remodeled or added on to your home (including outbuildings)

❑ You've added a home security system or other safety features (a fire sprinkler system, for example)

❑ There is more or less risk associated with the property (for example, you've installed or removed a swimming pool or trampoline)

In addition to checking the amounts of coverage, you should review certain features of your homeowners policy to ensure you have the protection you need. Policies will vary among insurers and policies, but some common features to check are:

***Replacement cost vs. guaranteed/extended replacement cost:*** Both types of homeowners policies will pay to repair or replace your home with similar materials, with no deduction for depreciation. But guaranteed, or extended, replacement cost coverage will pay up to a certain amount over the policy limits if the cost to rebuild your home has gone up.

***Building code upgrade:*** This policy feature covers the added cost of rebuilding your home to meet current building codes.

***Inflation guard:*** This automatically adjusts your homeowners coverage to reflect increased construction costs.

***Personal possessions coverage limits:*** Most homeowners policies pay a standard percentage of the dwelling coverage to replace your damaged, destroyed, lost or stolen personal property. But if your possessions are worth more than that, you should do a home inventory to come up with a more accurate number.

Particularly valuable possessions, such as jewelry, artwork or collectibles, might require the purchase of a floater, endorsement or rider (different words for essentially the same thing—additional coverage for a specific item), as these typically aren't covered by standard homeowners policies.

Outbuildings on the property, such as a detached garage, pool house or workshop, are also often covered as a percentage of the main dwelling's coverage; adjust this if that amount wouldn't be sufficient to replace them.

***Flood/earthquake insurance:*** A standard homeowners policy doesn't cover damage from floods or earthquakes. If you want to purchase it, talk to your agent and shop around. Flood insurance is available through the National Flood Insurance Program (NFIP) (*www.floodsmart.gov*) and from some private insurers. Earthquake coverage is available through private insurers and, for California homeowners, through the California Earthquake Authority (*www.earthquakeauthority.com*).

## Personal liability

A personal liability umbrella policy (PLUP) protects your assets from major claims by providing additional liability coverage above and beyond your homeowners and auto policies, and provides coverage for some risks excluded by other policies, such as false arrest, libel/slander and rental units. The protection is relatively inexpensive and is priced per million dollars of coverage.

You should consider purchasing or increasing an umbrella policy if:

❑ You have a teen driver on your auto insurance policy (much higher likelihood of an accident)

❑ Your assets have greatly increased (However, even people with modest assets might want to add or increase an umbrella policy to protect their future earnings in case they lose a lawsuit.)

❑ You've purchased rental property

❑ You've joined the board of directors of a non-profit

## Life

The primary purpose of life insurance is to provide financial resources for loved ones who are dependent on your income. A policy also can help pay for funeral expenses, outstanding

debt and estate taxes. Your "death benefit" is the amount to be paid to your beneficiaries when you die. You might want to increase or decrease your life insurance death benefit if:

❑ You are earning much more (a higher income to replace for your family)

❑ You've retired and have less or no income to replace

❑ You've gotten married or had a child

❑ You've paid off your mortgage or other debt, or your children have finished their schooling (reduced financial obligations to cover through life insurance)

❑ Someone is no longer financially dependent on you (your spouse or partner has died, or your adult children are self-supporting)

## Health insurance

Health insurance covers all or a portion of your medical bills. Coverage can be obtained through an employer-sponsored group plan, a federal or state health insurance marketplace (exchange), or directly from an insurer (outside the marketplace). Health insurance is a necessity, both because the cost of medical care is so high and because coverage is required for most Americans under the Affordable Care Act.

Consider purchasing health insurance or making adjustments to your coverage if:

❑ You have lost coverage (through unemployment, divorce, being removed from your parents' policy at age 26, moving out of your HMO's service area, expiration of COBRA coverage, etc.)

❑ You are adding or removing a family member to/from the policy (for example, if you get married or have a baby, or if you get divorced, have an adult child get separate coverage, or turn 65 and start Medicare)

❑ You no longer qualify for an exemption from or subsidy for coverage under the Affordable Care Act (for example, your income has gone up or you can no longer claim hardship)

❑ It's open enrollment and you want to switch plans (for example, because you are dissatisfied with your current coverage, your current plan is being discontinued or you want a different premium, deductible, co-pay or other plan feature) (Note: The federal HealthCare.gov marketplace and many state-run health insurance exchanges auto-renew your plan enrollment, but some states do not. If your state does not auto-renew, be sure to verify your plan, income and family size before the annual open enrollment period closes.)

## Help from your agent

The company that insures you can be a useful resource. Most companies and individual agents encourage policyholders to make an appointment for an annual insurance review. Of course, the greatest motivation for this is the opportunity to sell you more insurance—something you should be aware of. Still, an insurance professional, particularly one familiar with your current coverage, can provide valuable guidance regarding what you need to stay adequately protected and even how to save money on premiums.

Contact your insurer to arrange an appointment for your insurance checkup. Be sure to be prepared to let the insurance representative know what has changed in your life, household,


finances, etc. since you last considered your insurance needs.

By the end of your insurance review, you should understand:

- What policies you have and whether the coverage is still adequate
- Where you might be uninsured or underinsured, what the company's recommendations are and how much any additional coverage will cost you
- What discounts you might now be eligible for (to reduce your premiums)
- Whether there are any particular risks you could reduce and how
- What your deductibles are and whether you should increase or decrease them

Your deductible is the amount of the loss that you have to cover out of your own pocket. Since this amount is flexible, consider every so often whether the current amount still works for you. Lowering your deductible will increase your premiums; increasing your deductible will lower your premiums. You, not your insurance agent, determine the amount of your deductible, but he or she can help you understand how much your premium will change with any increase or decrease.

The most important thing you can do to protect yourself is to be completely honest with your insurance company. If you are running a business out of your home, taking paying passengers in your car, allowing neighborhood children to play on your new trampoline, renting out your home or doing anything else that could increase your exposure to a claim or lawsuit, you should disclose the details to your insurer. That is the only way to ensure that you have the proper coverage, in adequate amounts, and that a future claim won't be denied—a situation that could potentially bankrupt you.

It's possible that your insurer won't cover you for certain things (called exclusions)—a trampoline or a certain breed of dog, for example. It's better to know this before doing something that will put your assets at risk or cause the company to cancel or not renew your policy.

## Tools for policyholders

The best way to ensure that you get reimbursed the correct amount for all the covered possessions that are damaged or lost in a claim is to have an updated home inventory on hand. An inventory can be written, or it can be a photo or video catalog, which can be a great source of proof of your claim. A digital inventory is the best type—it can continue to exist in the "cloud" even if your home were to be destroyed.

Your insurance company probably offers digital tools and written templates for you to create your inventory. You can also use tools from other sources. For example, United Policyholders offers a free home inventory spreadsheet (which can be completed online or printed and filled out by hand) and mobile app, along with some excellent tips (*www.uphelp.org/pubs/how-create-home-inventory*).

# Resources

**Insurance Information Institute (III)**

*www.iii.org*

III is an industry organization dedicated to improving public understanding of what insurance does and how it works. As such, the III website is full of tools such as a glossary, insurance company directory, consumer publications and inventory software/apps.

**United Policyholders**

*www.uphelp.org*

United Policyholders is a consumer education and advocacy organization that works to empower and protect the insured. Its website offers information and tips on a wide range of insurance-related topics, expert answers to policyholders' questions and a directory of professionals that can help you get your claim paid fairly.

**National Association of Insurance Commissioners (NAIC)**

*www.naic.org*

The NAIC website provides contact information and links to each state's department of insurance. Many states provide extensive online tools and information to help consumers research insurance companies and agents, understand how insurance works, make wise choices when purchasing coverage and be aware of the laws that protect policyholders.

**QuoteWizard**

*bit.ly/quotewizard_states*

Clicking on any of the tabs across the top of the page (Auto, Home, Renters, Health or Life) will take you to a page where you can access dozens of articles related to "coverage basics," "policy basics," "rate factors" and more.

**HealthCare.gov**

*www.healthcare.gov*

The federal online healthcare marketplace provides answers about the Affordable Care Act and health insurance requirements, allows visitors to compare health plan options and see if they qualify for premium assistance, and lets consumers make changes to their existing coverage or sign up for new coverage either here or through their state's exchange, if one exists.

## About Consumer Action

*www.consumer-action.org*

Through multilingual consumer education materials, community outreach and issue-focused advocacy, Consumer Action empowers underrepresented consumers nationwide to assert their rights and financially prosper.

**Consumer advice and assistance:** Submit consumer complaints to: *www.consumer-action.org/hotline/complaint_form/* or 415-777-9635 (Chinese, English and Spanish spoken).

## About this guide

This guide was produced by Consumer Action's Insurance Education Project, which provides educational materials to consumers and training materials and curricula to community-based organizations (CBOs) nationwide. Visit the project website at *www.insurance-education.org*.