Ask the Budget Guy submitted by Allen Gunter

Nothing For Something?

Don't you just love a bargain? Getting a discount, a special deal? And what's better than getting something for nothing!

But have you ever tried to get nothing for something? No? Are you sure?? What about car insurance? I'll bet you've never bought car insurance because you *wanted* to have an accident and collect on it!

Insurance is a funny thing. You spend all kinds of money on premiums hoping that you get nothing in return. But bad things *do* happen, even to good people. And while insurance can't make it all better like a kiss and a hug from Mom when you were two, it can at least help soften the financial impact.

First Rule of Insurance: Insurance is for catastrophic events — the big stuff, not the little things. So go for the highest deductible you can get on your car and homeowner's insurance. Take the amount you save in premiums and put it into savings until you have the amount of the deductible set aside. From then on, the savings is all gravy!

I don't have enough room to get into all of the types of insurance you should consider. And much depends on your personal situation. But here some things to think about the next time you sit down to review your insurance.

Car Insurance: If you drive an older vehicle, look into dropping the collision and comprehensive coverages. They're not required by law and may not make sense if the annual cost for them is more than 10% of what your insurance company would pay if your vehicle were to be totaled.

Homeowner's Insurance: I recommend replacement coverage so that you get what it will cost to actually rebuild your house and replace the furniture and items you lose. Otherwise, all you will get is the current cash value — sort of like trying to sell everything in a garage sale and then buying new stuff with the proceeds. You're gonna be a tad short!

With most replacement value policies, you need to keep your insured value within a certain percentage (80% is typical) of the actual current value (excluding the value of your land). So be sure to keep your coverage up-to-date or better yet, get inflation protection.

Got any special items like jewelry, art, antiques, a stamp collection, high end computer or home entertainment set-up? Get a special "rider" just for them. The limits in a regular policy won't be enough even if you have replacement coverage.

Disaster Insurance: Your homeowner's insurance also won't cover flooding or earthquakes. Earthquakes aren't much of a concern in Austin, but depending on where you live, flooding could be. Flood insurance doesn't cost much, but it sure can come in handy!

Personal Liability Insurance: Often called "PLUP" for "personal liability umbrella policy," this insurance "wraps around" your car and homeowner's insurance to provide extra coverage. If you're at fault in an accident, or if someone gets badly hurt on your property, you can pretty much count on being sued for more than you're worth. And if you're worth more than the maximums on the applicable insurance policy, you're in trouble. So get a PLUP. It won't cost you much and could save you from losing a bundle.

Disability Insurance: Between the ages of 20 and 65, you are about three times as likely to become disabled as you are to die. So you need disability insurance just like you need life insurance. If you don't work for an employer that provides it, go out and buy some. Look for a policy that together with Social Security disability provides at least 60% of pay and starts paying after six months of disability.

Life Insurance: There are two reasons for most of us to buy life insurance — to cover a loss of income or to cover increased expenses due to death. In other words, you probably should have life insurance if someone is dependent on you in some way, whether it be for the money you bring in or for the things you do for them that they would otherwise have to pay someone else to do (like cutting the grass or daycare for the

continued, next page

kids). If you have no dependents, you don't need life insurance.

Once you've decided who in your family should be covered you're ready for the tough question — how much do you need? To answer that question completely would require many more pages than our kind newsletter editor would ever allow me to use. Besides which, there is some number crunching involved and that's what computers are for.

So do an Internet search for "how much life insurance." (I can help you if you don't have a computer with Internet access.) You'll find that every major life insurance company has an online calculator as do all of the major financial websites.

They're not all the same, but that's actually good since there's no single right answer. Use more than one website and compare the results and the assumptions they use (like inflation and rates of return). It won't take much for you to hone in on an amount of coverage that you're comfortable with.

Knowing who to cover and for how much leaves you with one more question - what kind of insurance to buy.

There are two basic types of life insurance — term life and whole life. Think of term life as the sandwich at the Burger Barn and whole life as the combo meal. Term life is pure life insurance. You buy it for a specific number of years, and when the term is up, so is your insurance. If you die before the term is up, your beneficiary gets some money. If not, nothing gets paid.

If you've got life insurance through your job, it's probably term life. Shop around— unless you've got a significant health problem, it's usually cheaper outside the workplace and you'll still have it if you're laid off or change jobs.

Whole life adds fries to the basic burger—some type of side fund or investment account. Your premiums are higher, but part of each premium goes into this account and is invested in some way. You can borrow against the account, use it to pay premiums when times are tough, or withdraw it all if you decide to cancel your insurance. Whole life comes in a variety of flavors — variable life, universal life, etc. — with different investment options and other features.

If you've ever seen projections for a whole life policy, you've seen some very attractive numbers. Those projections live and die by the assumptions used to create them, though, and rather optimistic assumptions are usually used. When you get projections with different assumptions to reflect other possibilities for the future, you get results that aren't so attractive.

Furthermore, all of the "bells and whistles" that come with whole life policies have strings and costs that make them less attractive than they seem. And when it comes to investing, there are better and cheaper options than you'll generally find in whole life policies.

So while there are situations where whole life makes sense, most of us will be better off buying term insurance and investing what we save in a 401(k), Roth IRA, college savings plan, or even just a regular investment account.

Life insurance NOT to buy: Don't buy mortgage insurance, credit life, or any other insurance where the death benefit goes to a bank or anyone else other than your beneficiary. Not only is this stuff over-priced, it also does more to protect the bank or other creditor than it does your dependants.

Just make sure your term life includes enough to cover your debts. Then your beneficiary can decide how best to use it based on their needs at that time — paying off the mortgage immediately may not be as important, for example, as clearing up some big medical bills. And if you have to buy mortgage insurance to get the loan, replace it with regular term insurance as soon as your mortgage allows.

After all, when you're looking to get nothing for something, you want to be sure you get the best nothing your something can buy!

Want a little help with some aspect of your financial life? **Call the Budget Guy**, Allen Gunter, at 301-1246 or send an email to *BudgetGuy@SHPC.org*. I will help you in any way I can, and it's free and completely confidential. **If you'd like to learn how to get out of debt and build financial security in a small group setting,** ask Roger Wade (301-4921; *rcwactuary@austin.rr.com*) about the Dave Ramsey Financial Peace University program at SHPC.