

MONEY WORKS

Financial Planning...Protecting Assets

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Protecting Assets is a reprint from June 2009 edition with additional content on long-term care and life Insurance

Given the current state of the global economy with rising unemployment, an increasing difficulty acquiring financing for new autos, homes or business ventures and wavering consumer confidence, the importance for protecting one's assets is more relevant than ever. The uncertainty of life is the one consistency people all deal with yet no one can pinpoint when a health crisis, automobile accident, burglary, an act of nature damages your home or someone falls on your property will occur. All the events mentioned and many more could compromise one's quality of life so each person should evaluate the appropriate level of protection needed to cover the potential hazards. Knowing the potential risks is important but as important is the likelihood that the risks will occur because both will play a significant role in addressing the risk. The options related to managing risk include 1) avoid risk, 2) reduce risk, 3) accept risk or 4) insure against risk. One can incorporate all or some in an effective risk management plan but oftentimes practicality will dictate the most appropriate approach. Ideally, people will avoid hazards that may harm them or their property, but not everything is avoidable nor can complete risk reduction occur without in some instances placing an inordinate burden. Oftentimes if the potential risk is infrequent or low and associated loss is small or insignificant, one

Insurance Types	
* Auto Insurance	* Health Insurance
* Homeowner's Insurance	* Long-Term Care
* Umbrella Liability	* Life Insurance

might decide it is best to accept the risk as it comes, but an individual would not choose the acceptance option if the potential loss is significant or if the frequency of occurrence is likely. Given that scenario, the best course of action is to seek to insure against the risk. Insurance is mechanism where a premium is paid from parties seeking to fund relief from a potential hazard. If the hazard occurs, then those parties impacted will have the insurance in place to pay for the damages suffered. (coverage charges). This option may save the user more money by having a plan that suits the planholder's usage.

There are a number of types of insurance and some are more well known than others, but a brief overview of the various types is discussed. **Auto insurance** insures against damage to an automobile and the expenses related to an auto accident. The auto policy details the coverage for an individual as well as the vehicle. The coverage includes 4 categories: Coverage A is liability coverage and includes bodily injury liability and property damage liability. Bodily injury protects the insured parties driving the covered vehicle but also protects the insured driving another's vehicle

with their permission. Texas requires minimum liability coverage of \$25,000 for bodily injury, \$50,000 for all persons injured and \$25,000 for property damage. The property damage liability coverage protects against any losses if the covered person damages another person's property with his or her car. If one wants to review their coverage levels it is usually written as such 25/50/25 (if we use the State's minimum liability coverage). Coverage B is medical payments coverage and only applies to the insured car. The coverage insures against the cost for medical treatment for the insured and other passengers in the vehicle when the insured is at fault. If an accident occurs while driving someone else's vehicle that other car owner would assume responsibility for the medical coverage for passengers in the borrowed car. Coverage C is uninsured or underinsured motorist coverage and protects against cost for bodily injury for parties either uninsured or those carrying insufficient insurance. This coverage is critical since the high number of uninsured drivers is so prevalent and in Texas as reported by the Texas Department of Insurance website, it is estimated 15% to 20% of all Texas drivers are uninsured at any time.

Protecting Your Assets... Insurance 101

“An umbrella liability policy associated loss is small or insignificant, one might decide it is best to accept the risk as it comes, but an individual would not choose a policy is useful if there are personal assets beyond the car or home that need protection from liability.

This type of policy can provide sizeable coverage for a minimum premium.”

This coverage pays when the insured is not at fault which differs from Part A which will pay the bodily injury costs when the insured driver is at fault. The underinsured aspect of Coverage C will cover bodily injury expenses over the underinsured motorist limit up to assessed damage as long as it falls below the policy limit. Coverage D is collision and comprehensive coverage and protects against damage to your car. Collision protects against damage to the vehicle of the insured person when he or she is at fault. Comprehensive insures against damage to the auto resulting from flood, theft, fire, hail, explosions, riots, vandalism or other events. Auto insurance is one of the more widely known types of insurance since a significant part of the population drives. Though not at large as the portion of the population which drives but a considerable number own or rent real estate which is covered by homeowner's insurance. **Homeowner's insurance** covers property damage, theft, or personal liability related to home ownership. This type of insurance is separated into six packages distinguished by the level of coverage. The six types are broken out to those related to insurance on the home (HO-1, HO-2, HO-3 and HO-5) and either renter's insurance (HO-4) or condominium owners (HO-6). Homeowner's insurance covers only named perils for example fire, lightning, smoke etc., and not events specifically excluded like earthquakes or floods. The condo (HO-6) and renter's (HO-4) insurance protect personal assets from theft, fire, vandalism and smoke. HO-1 specifically protects against fire, lightning, explosions, hail, riots, vehicles, aircraft, smoke, vandalism, theft,

malicious mischief and glass breakage. HO-2 further protects against the events in HO-1 and also covers falling objects, weight of ice, snow or sleet, the explosion of steam or hot-water systems, frozen plumbing, heating units, air conditioning systems and domestic appliances, power surges, overflow of water or steam and building collapse. HO-3 protects the home and other structures on the property except those specifically excluded like earthquake, floods, termites, war and nuclear accidents. The HO-8 category covers the same events as HO-1 except repairs are based on cash value not replacement costs. A cash value policy pays the value of damaged property excluding depreciation while replacement cost pays the actual cost of replacing the damaged property. Currently a home office is part of the typical house floorplan which is very convenient since the society's reliance on technology continues to grow but as it relates to insurance, a special home office provision or a separate home office policy is needed to protect the assets such as a personal computer in the home office. During the overview of auto insurance, liability was addressed and homeowner's insurance also covers liability issues if sued for an event occurring in or at the covered property. If there is a concern for additional liability coverage, a supplement to the auto and homeowner's insurance through an umbrella personal liability policy can provide enhanced protection. An **umbrella personal liability** policy is useful if there are personal assets beyond the car or home that need protection from liability. This type of policy can provide sizeable coverage for a minimum premium. Price has not been discussed as yet, but all the types of insurance have a common payment structure

which includes a *premium* and coverage *deductibles*. The *premium* is cost of obtaining the insurance and is paid when the policy is established. The *deductible* is paid when the insurance is used. For instance, if there is a claim on an auto policy, the deductible is subtracted from any proceeds issued from the insurance carrier. The premium or cost of the insurance can fluctuate based on the deductible selected and if a policyholder chooses a larger deductible then that will lower the premium required while choosing a low deductible will increase the policy premium. Health insurance is the next type up for review. Most Americans receive health insurance coverage through their employer as a part of the employment benefits package. **Health insurance** covers health care expenses for necessary medical care. Rising healthcare costs was a constant talking point during the presidential campaign last year and President Obama has on his agenda plans to reform health care. Just as there are types of homeowner's insurance there are also types of private health insurance which includes hospitalization, surgical and physician insurance. Hospitalization insurance covers the hospital facility and service fees such as hospital room, meals, pharmaceuticals, nursing services, operating rooms, labs, and x-rays while in the hospital. Surgical expense insurance provides reimbursement for the cost of surgery including anesthetics, lab fees and x-rays. Policies of this type most often specify a maximum reimbursement per surgical procedure and typically will not cover elective surgeries. Private health care plans are classified as either indemnity plans or managed health care plans.

Insurance 101 cont'd

An *indemnity plan* reimburses for part or all of expenses incurred from health care providers. Under an indemnity plan, the insured can decide whether to seek care from a primary care physician or a specialist and traditionally costs more than a managed health care plan. A managed health care plan allows the insured to receive services from specific doctors or hospitals participating in the plan and these plans are typically classified as *health maintenance organization* (HMO) or *preferred provider organization* (PPO). An HMO covers approved services by doctors and under this type of plan, the physician provides general care and referrals are provided to patients requiring a specialist. The PPO allows the insured to choose the health care provider covering most of the fees for services and under this plan a referral is not needed to see a specialist. When deciding the type of plan to choose, an individual should review the advantages and drawbacks to each plan. HMOs are normally priced lower but the tradeoff involves added bureaucracy to gain access to a specialist with a required referral from the primary care physician while PPO plans give unrestricted access to specialists but the insured typically pays a

premium for the greater access through more expensive plan costs. The last two types of insurance are long-term care and life insurance. **Long-term care insurance** covers expenses with long-term health conditions that cause individuals in need of assistance with everyday tasks and normally covers nursing home, assisted living facility or at home care. The cost of such insurance is considerable but still only a fraction of the actual cost if the insurance was not in place. Older individuals will typically require more care so their premiums are higher especially if individuals have reached age 60 or older. Insurance can prove helpful at the conclusion of life. **Life insurance** will pay policy proceeds to the specified beneficiary when the policyholder dies and is categorized into two types of life insurance: term or permanent. Term insurance is provided over a specified time period and does not accumulate a cash value. Under term insurance (ranges from 5 year to 30 year term), if the insured dies during the life of the policy, the named beneficiary will receive the policy proceeds, but if the insured lives beyond the policy life, the policy will expire at the end of the

covered term or timeframe. Term insurance is significantly less expensive than permanent insurance when the insured is younger but tends to exceed the cost of permanent insurance if the insured has reached an elevated age. Permanent Insurance includes whole life, universal life and variable life. Whole life insurance provides insurance as long as premiums are paid and provides benefits to the named beneficiary and builds cash value. The premium for whole life is used to fund the life insurance and savings or cash value. If the cash value is withdrawn, the amount from cash value in excess of the premium is subject to taxes. Universal life insurance provides insurance over a specified term and accumulates savings for policyholder over the time. Variable life insurance provides insurance over a specified term and allows policyholders to invest residual funds after the premium on the term portion is paid, in various types of investments. The distinction between universal and variable insurance centers around universal insurance known for its payment flexibility while variable is known for investment choice. Protecting one's assets necessitates serious consideration and the purpose of this article will help enlighten as one assesses the appropriate protection need.

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Obama Proposes New Retirement Initiatives

As President Obama works on fulfilling his campaign promise to reform health care, the President also has turned attention to the nation's savings rate in particular retirement savings in the U.S.

In an effort to encourage and enhance Americans' savings practices, President Obama proposed new options related to retirement savings in his latest radio and internet address. The

President recommended the government enact rules to make it easier for small businesses to automatically enroll workers in Individual Retirement Accounts (IRAs) and 401K retirement plans.

The President's address also proposed allowing a payment option for unused vacation and sick leave with those funds convertible into retirement savings.

Under the new proposed government rules, Americans would have the option to deposit tax refunds directly into retirement accounts or take those funds to purchase savings bonds.

The President's retirement initiatives would not require congressional approval with most taking effect immediately.

Reference: *News Daily* article Obama unveils measures to spur retirement saving 09/5/09 <http://www.news.daily.com>



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Learning is a lifelong experience



The JPMorgan Chase Center for Financial Education (CFE) was established in 2003 at Texas Southern University in the Jesse H. Jones School of Business. The Center is tasked to educate a mass audience on personal finance and economic issues such as credit management, home buying, savings and investing.

The Center's vision is to create financially savvy communities through a commitment to our mission of promoting lifelong financial education through teaching, research and community outreach programs and contributing to an individual's knowledge of personal finances, money management, credit awareness and estate planning.

Money Work\$™ is financial education newsletter created by Germaine Gray, Director of the JPMorgan Chase Center for Financial Education and the Center for Economic Education. The newsletter is published quarterly in December, March, June and September. **Money Work\$™** targets an audience interested in learning more about personal financial management and how money works.

Center News!!!

The efforts of the JPMorgan Chase Center for Financial Education will be shared with a national audience in October at the Second Annual Financial Literacy Leadership Conference in Washington, D.C..

Germaine Gray, Director of the JPMorgan Chase Center for Financial Education, has been invited to participate in a panel discussion on implementing financial education in a post secondary setting.

The Financial Literacy Leadership Conference offers an avenue for leaders in financial education to share best practices and strategies on expanding the void in financial education delivery.

Stock Market Game in BADM 101

The JPMorgan Chase Center for Financial Education seeks to expand the BADM 101 initiative by including an investment simulation utilizing the Stock Market Game™ platform.

The SMG play will further enhance the Center's commitment to financial education by moving beyond the one week commitment to personal finance issues in the BADM 101 course.

The incorporation of the Stock Market Game will offer students enrolled in BADM 101 an opportunity to research select and evaluate investment options for an investment portfolio.

The Stock Market Game™ is a ten week investment simulation where students invest a virtual \$100,000 in stocks, bonds and mutual funds traded on the New

York Stock Exchange, American Stock Exchange or NASDAQ.

The Stock Market Game™ also provides an opportunity for students to develop teambuilding skills during the simulation as students work in teams throughout the 10 weeks to develop and evaluate their unique student team portfolio.

Utilizing an investment simulation not only enhancing the students understanding of financial markets and financial research but will provide an opportunity to also enhance presentation skills since students at the conclusion on the simulation will present a formal presentation on the team's overall performance during the 10 week experience.

Teams are evaluated weekly and ranked according to their

portfolio's performance.

The fall 2009 contest brings an added incentive of \$125 awarded to the top performing team if their performance can beat an investment professional playing along with the student teams.

The game commences on September 28 through December 4.

The JPMorgan Chase Center for Financial Education will kick off the fall 2009 financial education initiatives on **Thursday, September 17 welcoming the Society for Financial Education & Professional Development to the Jesse H. Jones School of Business.** Three student sessions will be held at 9:30 am, 11:00 am and 2:30 pm in JHJ 113 covering credit and personal money management. Please plan to join us for a session.