Lesson 7: The Importance of Insurance—Prov. 13:22; 22:3

Introduction: The world is filled with uncertainties. While you can not anticipate every future circumstance, some events (such as death) are virtually assured (barring the rapture). A wise and godly individual prepares for the inevitable, the probable, and often even the possible. Insurance is the modern method of preparation for future circumstances.

I. Types of Insurance (Excluding Life Insurance)

A. Homeowners, Auto, and Personal Liability
   1. Homeowners and auto policies are generally required by law or by the bank.
   2. Make sure your coverage is adequate for both.
   3. Opt for a higher deductible (say, $1,000) for your auto insurance. Your rates will be lower, and you already have $1,000 in the emergency fund to cover an accident.
   4. Watch auto insurance billing carefully. Companies tend to slowly increase their rates, even if you have no accidents.
   5. Personal liability policies protect you from lawsuits. Directors and officers of various institutions should carry such coverage.

B. Health Insurance
   1. Health insurance is almost a necessity with increased costs for health services.
   2. If self-employed, check with the local chamber of commerce to see if they have a group plan you can join.
   3. If possible, opt for a high deductible (say, $1,000 or more). This will substantially lower your rates. (Do NOT decrease your maximum out-of-pocket expense.)
   4. Self-employed people should consider a Medical Savings Account (Medical IRA). Ask a reputable accountant.

C. Disability Insurance
   1. Disability insurance provides you with an income should you become unable to work.
   2. While Workman's Compensation may pay out under some circumstances, benefits are limited. Disability insurance will pay throughout life if the disabilities are permanent.

II. Life Insurance

A. Two General Types

1. Term Insurance
   a. Covers the life of an individual for a specified time period—10, 20, or 30 years.
   b. Does not accumulate cash value and has not investment feature.
   c. When the term expires, you have nothing and coverage ceases.
   d. Term insurance is cheap. It should make up the bulk of your life insurance plan—especially if you're young.
2. Whole Life/Universal Life
   a. Covers the life of an individual throughout life, provided the premiums are met, of course. It never expires.
   b. The rates, though significantly higher than term, do not change throughout one's life.
   c. The younger you are when you purchase whole life, the lower the rates will be.
   d. Includes an investment feature and accumulates cash value; however, insurance is NEVER a good investment. If you borrow against the cash value, you will be charged interest on your own money. Not a smart move.

B. A Sound Insurance Strategy

1. Conventional wisdom teaches that you should own only term insurance and invest the difference in premiums you would have paid with whole life. This is NOT sound advice:
   a. Term insurance eventually expires. Renewing a term policy increases the premiums dramatically. Health conditions at the time of renewal can make it unaffordable.
   b. People simply don't "invest the difference."
2. A Good Insurance plan involves both term and whole/universal life.
   a. Purchase a small whole life policy with a death benefit of around $100,000-150,000. If you're young, the premiums will be low throughout life. You will have this policy until you die, guaranteeing money to your beneficiaries.
   b. Purchase multiple term policies, staggering their expirations if possible. When young, you need *more* insurance because you have fewer assets and more obligations. Once you're older, you should have more assets and the kids should be grown and on their own.
   c. When young, your combined death benefit on policies covering the husband should be 8-10 times his gross take home pay.

d. Beneficiaries of life insurance benefits should invest the money and live on the income generated from the investment.
e. Husbands should leave their wives and children enough so that the wife does not feel pressured to marry or otherwise significantly change her lifestyle.
f. Should the husband die and leave his wife significant insurance benefits, the wife should consider a prenuptial agreement protecting the death benefit money—preserving it exclusively for her and her children. Not romantic, but VERY SMART!

III. Types of Insurance You Don't Need

A. Credit life—promises to pay the balance on certain debts (such as a car loan) should you die.
   1. It's too expensive.
   2. Purchase enough term insurance to pay your debts.
B. Credit Card Protection—makes your payments if disabled or pays off the debt should you die.
   1. It's too expensive.
   2. Purchase enough term insurance to pay your debts.
C. Cancer Insurance—promises to pay for medical expenses associated with cancer.
   1. Your major medical covers cancer.
   2. It's a gimmick and could lead to the insurers arguing over who pays the bills.
D. Accidental Death—promises to pay out if you die in an accident.
   1. It's too expensive.
   2. It's a gimmick. If you're dead, you're dead—no matter how you died. Have sufficient term insurance.
E. Prepaid Burial Policies—pay for your funeral in advance, without worrying about inflation.
   1. $3,000 invested for 40 years could equal $355,000.00—Enough to bury you in style! Invest your $3,000 yourself.
   2. Prearrangement is OK, just don't prepay for it. Leave some money behind earmarked for it, or—better yet—have enough term insurance to cover it.
F. Mortgage Life—promises to pay off your mortgage should you die.
   1. It's too expensive and it decreases in face value as you pay off the house. (Coverage goes down, premiums stay the same.)
   2. Buy sufficient term insurance to pay off the house.

BE EXTRA CAREFUL ABOUT BUYING INSURANCE. MOST OF IT IS RIP-OFF. TERM LIFE INSURANCE IS BEST OVERALL.