

Your Guide to Insurance

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What is insurance, and how does it impact your life?

Insurance is a unique product. You can't see it or feel it, but most of us need it for financial security. Insurance provides peace-of-mind that comes with knowing if you suffer a covered loss, you're protected.

Insurance is a system of sharing the burden of large financial losses among groups of individuals or businesses with similar risk characteristics. Grouping individuals and businesses based on specific risk profiles makes insurance more affordable for those who pose the lowest risk of loss, and vice-versa.

Most people couldn't enjoy the lifestyles they have without some form of financial protection. A bank wouldn't loan you money to buy a home, a new car or start a business without insurance. Insurance companies manage these risk pools in return for premiums.

Shopping for Insurance

It's important to shop around if you're thinking about purchasing insurance for yourself, your home, car or business. Like any other product or service, insurance varies from company to company. A smart consumer should compare service, price and the company's financial rating.

Insurance Companies

There are two kinds of insurance companies: mutual and stock. In a mutual company, the customers own the company. The company may return a portion of its profits to the policyholders in the form of dividends or lower prices.

A stock company is owned by its stockholders who share in profits through earnings distributions and increases in stock value.

All insurance companies are required by state regulators to maintain a surplus of collected premiums to cover large losses from wildfire, windstorm and other catastrophes.

Agent Vs. Direct

There are a number of ways to buy insurance. The most common ways are either through an agent or directly from the company. Each has its own benefits.

There are two types of insurance agents: those who represent just one company and those representing a multitude of companies. Agents who represent more than one company are normally referred to as independent agents.

With an agent, you receive personal involvement from someone who can provide one-on-one consultation if you need to modify or add to your insurance.

Purchasing insurance directly from a company can be less expensive than through an agent, because you're not paying for personal service from an individual.

Most insurers offer 24-hour claims and customer service.

Insurance?





Auto Insurance

What Drives Rates?

The price you pay for auto insurance is based on your level of risk, which is determined by decisions you've made. It's important to understand the risk factors insurers consider when determining your level of risk so you can make the necessary changes in your life to lower your insurance premiums.

Driving Record

Your driving record mirrors your behavior behind the wheel. If you've been involved in accidents and committed serious traffic violations, you can expect to pay more for insurance than if you have a clean driving record.

Number of Miles You Drive

The more miles you drive, the more time you spend on the road and the greater your odds of getting into an accident. If you drive less than 10,000 miles per year, you can expect to pay less than a person who drives 20,000 miles. Some companies offer discounts to policyholders who carpool or work from home.

Where You Live

Insurance companies examine local trends in accident frequency, car thefts, lawsuits, vehicle repairs and the cost of medical care when determining your level of risk.

Your age

Statistics show that more experienced drivers are involved in fewer accidents than less experienced drivers. Insurers normally charge more for teenage drivers and adults under 25 due to younger drivers' higher frequency of accidents.

Your Car

The kind of car you drive plays a big part in determining what you pay to insure it. Insurance companies evaluate the cost of the car, the cost to repair it, the likelihood of theft and the car's overall safety record. If you own a sports car, you should expect to pay more for insurance than if you drive a sedan or minivan.

Coverage

A higher limit of coverage gives you more protection and increases your insurance premium. Lower limits of coverage cost less in the short-run because you assume more financial risk following an accident.

Credit

Some insurance companies include your personal credit history as part of the underwriting process. These are called Credit-based Insurance Scores. Statistics show that drivers with lower scores file more claims than those with higher scores. Insurers look at a numerical score derived from your credit report. Insurance Scores do NOT consider ethnicity, gender, income level, marital status, age or home address.

The Auto Policy

There are six primary parts of an Auto Policy. It's important to understand them so you can make an informed decision about how much and what kind of coverage to buy.

Bodily Injury Liability

Provides coverage for injury or death claims made against you resulting from an auto accident. The coverage pays to satisfy a settlement or judgment up to the dollar limit you purchased. The cost of your defense is paid by the insurance company and is not deducted from your limit of coverage.

Property Damage Liability

Covers damage to the property of others, resulting from an accident, caused by you. This coverage pays up to the dollar limit you purchased for the repair of other vehicles or property such as road signs, fences, etc.

Personal Injury Protection (PIP)

Pays for medical expenses for all persons injured in your vehicle, regardless of fault. PIP also often includes benefits for loss of income, funeral expenses and extra expenses that you may incur. This coverage pays up to the dollar limit you've purchased on a per-incident basis. PIP is optional in Washington and Idaho but mandatory in Oregon. If you choose not to purchase this coverage, you may be asked to sign a waiver.

Uninsured/Underinsured Motorist

Bodily Injury/Property Damage

This coverage is optional in Washington and Idaho but mandatory in Oregon. It provides the insured driver(s) and passengers bodily injury coverage, up to the policy limits, for those involved in an accident caused by the owner or operator of an uninsured vehicle, a "hit-and-run" driver, or when the at-fault driver's policy limits are insufficient to cover the losses.

Uninsured/Underinsured Motorist Property Damage coverage is optional and provides coverage for damage to your insured car for the same circumstances. If you choose not to purchase UIMBI or UIMPD, you may be asked to sign a waiver.

Collision

This coverage pays for damages to your car as a result of your vehicle colliding with another object regardless of fault. It typically comes with a deductible, meaning that you agree to pay a specified amount before the insurance company pays for the remaining damages up to the current value of your vehicle. As a general rule, the higher your deductible, the lower your premium. This coverage is not required by law, but if your vehicle is financed by a bank the lender will likely insist you carry it.

Other than Collision

Also known as "Comprehensive," it pays for vehicle damage other than damage caused by collision, depreciation and normal wear

and tear. Examples of what is covered include: auto theft, vandalism, fire, hail, windstorm, collision with animals and glass breakage. This coverage also typically comes with a deductible. Like Collision, Comprehensive coverage is not required except under the terms of a bank financing agreement.

Exclusions

It's important to read your auto policy because it explains the limitations of your coverage. Some of the most common exclusions are: custom sound reproduction equipment, tapes and compact discs, video systems, custom wheels and paint, intentional acts, normal wear and tear, mechanical problems, customized parts/finishes, problems resulting from poor maintenance and theft of personal belongings. You may be able to purchase coverage for some items that would otherwise be excluded by adding endorsements for an additional premium.

How Much is Enough?

Your financial responsibility

Washington, Oregon and Idaho all require drivers to carry Bodily Injury Liability limits of at least \$25,000 per person/\$50,000 per accident. If your net worth exceeds \$300,000, consider buying additional liability insurance. Most insurers offer limits up to \$250,000 per person/\$500,000 per incident for an additional premium. If you feel you need higher limits, a Personal Umbrella Policy will supplement

your underlying coverage with an additional \$1 million or more. Typically, these policies cost between \$200 and \$300 per year for a million dollars in coverage. Ask your agent or insurance company representative for details.

Your car

If you drive an older model, its value might be low when compared to the cost of Collision or Comprehensive coverage. In this case, you may decide not to buy one or both of these coverages.

Deductibles & your personal finances

Collision and Comprehensive coverage usually come with deductibles. This means you agree to pay a specified amount. Options normally range from \$100 to \$1,000 per incident - for damage to your car that occurs in any accident. Your insurance company agrees to pay the remainder of the cost of repairs, up to the vehicle's actual value at the time of the loss. By eliminating the cost of processing small claims, the company can provide the coverage at a lower price. You must decide whether you prefer a small deductible at a higher price, or a higher deductible at a lower price.

Gap Insurance

Often referred to as debt and financing coverage, Gap Insurance refers to the "gap" between what you owe on your auto loan or lease and the current market value of your financed motor vehicle. It

is designed to pay the outstanding loan amount or lease residual payoff on a financed motor vehicle should you be involved in an accident and your vehicle is determined to be a total loss.

Teen Drivers

Rates

When teens or other new drivers in your household begin driving, it's important to inform your insurance agent or company. Younger or new drivers historically are involved in more accidents than those with more experience. This is reflected in higher insurance rates for those drivers. A 16-year-old female driver may increase your insurance premium by 50 percent or more, a male of the same age, 100 percent or more.

Lowering Your Cost

- Insure your young or new driver as part of a household package policy. If your new or young driver will be driving his or her own car, insure it with your company so that you can get a multi-policy discount.
- Most insurance companies offer discounts for earning at least a "B" average in school. So, encourage your student driver to get good grades.
- Buy a safe car. Choose a vehicle that is easy to drive and offers protection in the event of a crash. Avoid small vehicles and cars with high-performance capabilities that could encourage speed and recklessness.

How to Save Money on Your Auto Insurance

Comparison Shop

Prices vary between companies and can change over time. NW Insurance Council offers a list of member companies with links to their web sites at <http://www.nwinsurance.org/members.htm>. Ask your friends, check the yellow pages or research online.

Don't shop on price alone. The insurer you select should offer both fair prices and excellent service. Check the financial ratings of the companies, too.

Raise your deductible

Deductibles represent the amount of loss you must assume before you make a claim. By choosing higher deductibles on Collision and Comprehensive coverage, you can lower your costs substantially. For example, increasing your deductible from \$200 to \$500 could reduce your Collision and Comprehensive cost by 15 to 30 percent.

Drop Collision and/or Comprehensive Coverage on Older Cars

It may not be cost-effective to carry Collision or Comprehensive coverage on vehicles with value that is diminished due to age or condition. Any claim you make would not substantially exceed the cost of the coverage and deductible added together.

Buy a Sensible Vehicle

Vehicles that are expensive to repair and maintain tend to have higher insurance costs.

Other Discounts

Some insurance companies offer discounts for insuring more than one vehicle, for not being involved in any accidents in the previous three years, for completing driver safety courses and for having an anti-theft device in your vehicle.

Umbrella Liability Insurance (Excess Liability)

If you own property and have investments and savings worth more than the liability limits of your policy, you may want to consider purchasing an Excess Liability or Umbrella Policy.

Excess Liability or Umbrella policies provide additional coverage. These pay after you have exhausted the liability insurance in your underlying auto, homeowner or renters policy. The Umbrella is a separate contract and normally cannot be obtained from an insurance company unless all underlying auto and home insurance risks have been placed with that insurer.

The cost of an Umbrella Policy is based on how much underlying insurance you already have in your Homeowners Insurance and the kind of risk you represent. The more underlying liability coverage you have, the cheaper the Umbrella Policy. In general, insurance

companies may require a minimum of \$300,000 liability coverage on your home and your car, if you own one.

Other Key Auto Insurance Issues After Market Parts

The parts most often damaged in accidents are crash parts. These are the sheet metal pieces that cover the engine and frame of the vehicle. The crash parts do not affect the safety of the vehicle. Some insurance companies offer their policyholders a choice between original equipment manufacturer (OEM) parts and generic repair parts. The development of a market for generic parts has brought prices for vehicle-replacement parts down and has saved consumers money.

(OR/ID) Your insurance company is not required to replace damaged parts on your vehicle with new replacement parts. If a suitable used part is available that will restore your vehicle to its pre-loss condition, that part may be utilized. If you wish to have a new part substituted for the after-market part, you may be required to pay the cost difference.

Insurance companies that use generic parts guarantee the parts they use. If the part doesn't fit properly, the insurance company will generally install an OEM part at no extra cost. Ask your insurance agent or a company representative about your company's claim settlement guidelines so you'll know what to expect if your car has to be repaired following an accident.



Homeowners Insurance

Protecting You & Your Home

Homeowners Insurance provides financial protection for your home and possessions against sudden and accidental loss from perils such as fire, vandalism, theft, wind and certain water losses. Earthquake, flood, mudslide and landslide are normally not included in a Homeowners policy but are often available as riders or stand alone policies. Ask your agent or company representative for details.

There are four primary parts of a Homeowners Policy: coverage for the structure of your home, coverage for your personal belongings, liability protection and coverage for additional living expenses if your home is rendered uninhabitable by a covered loss.

Cost Factors

Insurance companies consider many factors to determine the price of your policy:

- The square footage of the house and any additional structures.
- Building costs in your area.
- Your home's type of construction, materials and features.
- Amount of property crime in your neighborhood.
- The likelihood of damage from natural disasters, such as wildfires and windstorms.
- Your loss history (past claims).
- The proximity of your home to a fire hydrant (or other source of water) and the Fire Protection Class assigned to your community. The lower the Protection Class, the better your fire protection is assumed to be.
- The condition of the plumbing, heating and electrical system.

What's Covered?

Standard Homeowners policies provide coverage for damage caused by the following perils:

- Fire
- Lightning
- Hail
- Explosions
- Theft
- Freezing weather
- Wind
- Vandalism

Homeowner Liability Insurance

This part of your policy protects you from losses resulting from bodily injury or property damage that you or your family members cause to others. It also pays for damage caused by pets. As with Auto Insurance, your Homeowners' Liability Coverage will pay a judgment or settlement arising from accidental acts by you or a member of your family. The cost of your defense is paid by the insurance company and is not deducted from your limit of coverage.

Homeowners insurance policies provide a minimum of \$100,000 liability coverage, but higher limits are available. Most insurers offer Homeowners Liability Coverage up to \$500,000 per incident.

Exclusions

Homeowners Insurance does not protect you from every disaster or unfortunate circumstance. Remember, your insurance policy is a binding, legal contract between you and your insurance company.

It's important that you regularly review your policy to understand its limits, definitions and exclusions. Standard Homeowners Insurance policies do not cover:

- Automobiles or other motorized vehicles
- Watercraft
- Flood
- Mold
- Water Damage that occurs over time and is not sudden and accidental
- Earthquake
- Mudslide, landslide and earth movement
- Intentional acts by the homeowner or a family member
- Damage caused by a lack of routine maintenance and upkeep.

Some water damage is covered if it is the result of a covered peril such as a windstorm.

Insuring Your Personal Possessions

Standard Homeowners Insurance policies provide coverage for your personal belongings in an amount equal to 70 to 80 percent of the amount of insurance you have on the structure or "dwelling". The limits of the policy typically appear on the Declarations Page under Section I, Coverages, A. Dwelling.

It's a good idea to conduct an inventory of your personal property. Creating a list of everything you own and details related to the cost to replace these items can speed up the claims process. Visit

<http://www.nwinsurance.org/iiiHomeInventory.msi> and download free Home Inventory software created by the Insurance Information Institute. Photographs or a video inventory also is recommended.

Optional Coverage Endorsements

Most Homeowners policies contain limitations on certain types of personal property such as jewelry, silver, furs, antiques, firearms, fine arts and other items of special value. If your needs are greater than what the standard policy will allow, you may be able to supplement your coverage with an endorsement, sometimes called a rider or floater, that will provide the extra coverage you need for an additional premium. Review the contract for specific limitations or ask your agent or insurance company representative to explain the limits to you. You can find this information in Section I of your policy, Personal Property, Special Limits of Liability.

Replacement Cost or Actual Cash Value?

If you have a Homeowners Insurance Policy, you should know your policy's settlement provision for personal property. Replacement Cost coverage will replace your damaged or stolen items with new items of like kind and quality. Actual Cash Value provides only for the current value, which factors in depreciation.

For example, a tree falls through the roof onto your eight-year-old washing machine. If you have a Replacement Cost policy for contents of your home, the insurance company will pay to replace the old machine with a new one. If you have an Actual Cash Value policy, the company will pay only the value of the used machine. That means you will have to either buy a used machine or pay the

difference between what your insurance company paid you and the cost of a new machine.

Check your policy under Section 1, Conditions, Loss Settlement or ask your agent or insurance company representative.

How to Save Money on Your Homeowners Insurance

The price of Homeowners Insurance varies from company to company and is always subject to revision on an annual basis.

The NW Insurance Council offers the following tips to help you save money as you shop for insurance:

Shop Around

NW Insurance Council offers links to member companies' websites at <http://www.nwinsurance.org/members.htm>. You can also ask your friends, check the yellow pages or search the Internet.

The insurance company you select should offer both a fair price and excellent service which includes 24-hour claims reporting and handling. Also check the financial ratings of the companies.

Raise Your Deductible

Common deductibles for a Homeowners Insurance Policy range from \$250 to \$5,000. Deductibles are the amount of money you agree to pay toward a loss while your insurance company agrees to pay the remaining amount, according to the terms of your policy. By increasing your deductible to \$500, you could save up to 12 percent; \$1,000, up to 24 percent; \$2,500, up to 30 percent and \$5,000, up to 37 percent, depending on your insurers' premium structure.

Buy your Homeowners and Auto Policies from the Same Company

Most companies that sell Homeowners, Auto and Liability coverage will give you a five- to 15-percent discount on your premium if you buy two or more policies, or package your auto and home insurance with one company.

Insure Your House, Not the Land

Your insurance policy will cover the home for its estimated replacement cost, which does not include the value of the land. For example, a home with a market value of \$500,000 may only need \$300,000 in coverage for the structure. Your insurance agent or company representative has programs available that will estimate your homes' approximate replacement, or rebuilding cost.

Improve Your Home Security

Most insurers offer discounts of at least five percent for a smoke detector, burglar alarm, or dead-bolt locks. Some companies may offer to cut your premium by as much as 15 or 20 percent if you install a sprinkler system or a fire and burglar alarm that alerts the police or another monitoring agency.

Stop Smoking

Smoking accounts for more than 23,000 residential fires a year. Some insurers offer to reduce premiums if all household residents are nonsmokers.

Renters Insurance



Affordable Coverage

Renters Insurance provides financial protection against the loss or destruction of your possessions when you rent a house or apartment. Your landlord may be sympathetic to a burglary or fire you've experienced, but destruction or loss of your possessions is not covered by your landlord's insurance. Renters Insurance is relatively inexpensive, because it covers only the value of your belongings and not the building you're living in.

Standard Renters Insurance policies cover your possessions against losses from fire or smoke, lightning, vandalism, theft, explosion, windstorm and some water damage caused by broken plumbing. Flooding, however, is not covered. Like a Homeowners policy, Renters Insurance also covers your responsibility to other people injured at your home or elsewhere by you, a family member or your pet and pays legal defense costs if you are sued.

Renters Insurance also covers additional living expenses if you are unable to live in your home because of a fire or another covered peril. Most policies will reimburse you the difference between your additional living expenses and your normal living expenses.

There are two types of Renters Insurance policies you can purchase:

1. **Actual Cash Value** – pays to replace your possessions less a deduction for depreciation up to the limits of your policy.
2. **Replacement Cost** – pays the actual cost of replacing your possessions (no deduction for depreciation) with like kind and quality items up to the limits of your policy.

Like Homeowners Insurance, Renters policies usually come with limitations on certain types of personal property, such as jewelry, furs, silver, antiques, firearms and fine art. Consult your agent or company representative, or read your contract, to see what personal property limitations are contained in your policy. If you find that your needs are greater than the basic policy provides, you may be able to purchase additional coverage in the form of a rider or floater.

Business Insurance



Coverage

Insurance companies that sell business insurance usually offer policies that combine protection from major property and liability risks in one package. A common type of package purchased by small and mid-sized businesses is the Business Owner's Policy (BOP). Bigger companies usually purchase Commercial Package policies or customize their policies in order to protect against special risks.

Standard Business Owner's Policies offer the following coverage:

1. **Property Insurance** – Covers buildings and contents owned by the company. There are two different forms, Standard and Special. Special Form policies provide more coverage and tends to have marginally higher premiums.
2. **Business Interruption Insurance** – Covers loss of revenue resulting from an insured loss that disrupts business operations. It can also provide extra expenses so the business can operate from a temporary location while repairs are made to your place of business.
3. **Liability Protection** – Covers your company's legal responsibility for harm it may cause to other people or businesses resulting from the actions or inactions of the owner or employees. Businesses that sell or manufacture products also carry additional coverage that compensates individuals or businesses that are harmed by the product sold or manufactured by the business.
4. **Business Auto Coverage** – not included in a standard BOP policy but can be added as an optional coverage, or as a stand-alone commercial auto policy.

BOPs do not cover Professional Liability, Worker's Compensation or Health and Disability Insurance. These risks require special coverage that is available in a stand-alone policy from an agent or insurance company representative.

Exclusions

Flood, earthquake and acts of terrorism are generally not covered by business insurance policies, but can be purchased as riders or separate policies. Consult your insurance agent or company representative for details.

Flood

If you wish to buy Flood Insurance, or your lender is requiring you to purchase it, contact your insurance agent or the National Flood Insurance Program. For information about the program, call (888) CALL-FLOOD or look at its web site <http://www.fema.gov/nfip/>.

Earthquake

Coverage for earthquake damage is excluded in most property insurance policies, including Homeowners and Business Owners Package policies. If your business is located in an earthquake-prone area, you'll need a Special Earthquake Insurance Policy or a Commercial Property Earthquake Endorsement.

Terrorism

Under the Terrorism Risk Insurance Act of 2002, only businesses that purchase optional terrorism coverage are covered for losses arising from terrorist acts.



Life Insurance

What to Know

Life Insurance can provide financial support for the family in the event of a wage earner's death.

Most families should consider Life Insurance. Coverage can provide funds to pay taxes, funeral expenses, debts or mortgages, education and other expenses during the family's readjustment period.

There is no single policy that is best for everyone. The policy that meets your current needs may fall short in the future. It's important to keep your insurance plans up to date based on your family's changing needs.

Only you can determine which life insurance plan is best for you and your family. Consider which factors are most important to you before buying a policy. Factors include the coverage period, payment structure, medical qualifications and dependence on investment income.

Sit down with your insurance agent and discuss your family's financial situation to best decide your life insurance needs.

Term

Term Life Insurance is the simplest form of Life Insurance. It pays only if death occurs during the term of the policy, which is usually from one to 30 years.

Whole Life/Permanent

Whole Life or Permanent Life Insurance pays a death benefit whenever the policyholder dies. Whole or Permanent Life Insurance accumulates cash value that grows over time and can be borrowed against or cashed out if the policyholder decides not to continue the policy.

There are three major types of Whole Life or Permanent Life Insurance – Traditional Whole Life, Universal Life and Variable Universal Life. There are variations with each type. To find out more about these types of Whole Life Insurance, visit NW Insurance Council at <http://www.nwinsurance.org>.

Health Insurance



What to Know

Health insurance provides people with ways to protect themselves against financial catastrophe and to assure themselves and their families of access to the health care system.

There are two kinds of health insurance: Fee-for-Service and Managed Care. Although these plans differ, they both cover a range of medical, hospital and surgical expenses. Most cover prescription drugs. Some also offer dental coverage.

1. **Fee-for-Service**

These plans generally assume that the medical professional will be paid a fee for each service provided to the patient. Patients are examined by doctors of their choice, and the claim is filed by either the medical provider or the patient.

2. **Managed Care**

More than half of all Americans have some kind of managed-care plan. Various plans work differently and can include: health maintenance organizations (HMOs), preferred provider organizations (PPOs) and point-of-service (POS) plans. These plans provide comprehensive health services to their members and offer financial incentives to patients who use the providers in the plan.

Disability Insurance

There are two types of Disability Insurance policies: Short-Term Disability (STD) and Long-Term Disability (LTD):

1. **Short-Term Disability** includes a waiting period of 0 to 14 days with a maximum benefit period of no longer than two years.

2. **Long-Term Disability** includes a waiting period of several weeks to several months with a maximum benefit period ranging from a few years to the rest of your life.

Disability policies have two different protection features:

1. **Non-cancelable** means the policy cannot be canceled by the insurance company, except for nonpayment of premiums. This gives you the right to renew the policy every year without an increase in premium or a reduction in benefits.
2. **Guaranteed renewable** gives you the right to renew the policy with the same benefits without being canceled by the company. However, your insurer does have the right to increase your premiums as long as it does so for all other policyholders in the same rating class as you.

Long-Term Care

Because of old age, mental or physical illness, or injury, some people find themselves in need of help with eating, bathing, dressing, continence and/or getting out of a chair or bed. These six actions are called Activities of Daily Living—sometimes referred to as ADLs. In general, if you can't do two or more of these activities, or if you have a cognitive impairment, you are said to need "Long-Term Care." Long-Term Care costs, like most health care costs, are rising faster than the rate of inflation. Four years or longer in a nursing home could cost \$200,000 to \$450,000 or more (in today's dollars). If you can't pay this out of your own pocket and don't qualify for Medicaid, you should consider buying Long-Term Care Insurance.

