Wondering whether to buy or keep a cash value life insurance policy?

For $45, the Consumer Federation of America will estimate the true investment return, or interest rate, on a cash value policy. The same service is available for second-to-die policies for $75. James Hunt, an actuary with 40 years of experience, adds a personal note with his recommendations, as well as a detailed explanation of the technique used and advice about technical aspects of life insurance. Send a self-addressed stamped envelope to the Consumer Federation of America for details or call 202-387-0087 and leave your name and address or fax number. Or, read about the service at www.consumerfed.org.

A Buyer's Guide to

Insurance

CONSUMER FEDERATION OF AMERICA

A Buyer's Guide to Insurance

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The Consumer Federation of America is an association of some 260 non-profit, pro-consumer groups with a combined membership of 50 million people. CFA was founded in 1968 to advance the consumer interest through advocacy and education.

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Tele: 804-371-9694 Fax: 804-371-9873

Vermont
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89 Main Street, Drawer 20
Montpelier, VT 05620-3101
Tele: 802-828-3301 Fax: 802-828-3306

Washington
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14th Avenue & Water Street
PO Box 40255
Olympia, WA 98504-0255
Tele: 206-753-7301 Fax: 206-586-3535

Wisconsin
Insurance Commissioner
121 East Wilson
PO Box 7873
Madison, WI 53707-7873
Tele: 608-266-3585 Fax: 608-266-9935

West Virginia
Insurance Commissioner
PO Box 50540
Charleston, WV 25305-0540
Tele: 304-558-3354 Fax: 304-558-0412

Wyoming
Insurance Commissioner
Herschler Building
122 West 25th Street, 3rd E
Cheyenne, WY 82002-0440
Tele: 307-777-7401 Fax: 307-777-5895

Oklahoma
Insurance Commissioner
PO Box 53408
3814 N. Santa Fe
Oklahoma City, OK 73152-3408
Tele: 405-521-2686 Fax: 405-521-6635

Oregon
Insurance Director
Dept. of Consumer & Business Services
350 Winter Street, NE, Room 200
Salem, OR 97310-0700
Tele: 503-378-4271 Fax: 503-378-4351

Pennsylvania
Insurance Commissioner
1326 Strawberry Square, 13th Floor
Harrisburg, PA 17120
Tele: 717-783-0442 Fax: 717-783-1059

Rhode Island
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Dept. of Business Regulation
233 Richmond Street, Suite 233
Providence, RI 02903-4233
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South Carolina
Insurance Director
1612 Marion Street
PO Box 100105
Columbia, SC 29201
Tele: 803-737-6160 Fax: 803-737-6205

South Dakota
Insurance Director
118 West Capitol Avenue
Pierre, SD 57501-2000
Tele: 605-773-3563 Fax: 605-773-5369

Tennessee
Insurance Commissioner
Volunteer Plaza
500 James Robertson Parkway
Nashville, TN 37243-0565
Tele: 615-741-2241 Fax: 615-741-4000

Texas
Insurance Commissioner
333 Guadalupe Street
P.O. Box 149104
Austin, TX 78701
Tele: 512-463-6464 Fax: 512-475-2005

Many books have been written about the four types of personal insurance—auto, homeowners or renters, life and health. This booklet can't cover everything, but most consumers can save hundreds of dollars by following the advice offered here.

For additional information, check back issues of *Consumer Reports* at the library. This well-known, independent magazine periodically reports on insurance, suggesting which companies offer lower rates and better service. Also, many state insurance departments have information on grievance procedures, insurer solvency, complaint ratios and premium rates. State insurance departments do not offer qualitative assessments of the insurers they supervise. They will only say if a company or agent is licensed to do business in the state. Each state also has some form of guarantee fund if an insurer should go bankrupt. But this protection may not apply to non-licensed insurers.

If you check into the financial ratings of insurers, bear in mind that many companies with high ratings offer poor consumer value. For life and health insurance, company ratings can be obtained without charge from Standard & Poors (212-438-2000 or www.standardandpoors.com/ratings) and Moodys (212-553-0377 or moodys.com/insurance). Standard & Poors is also a source of financial ratings for property-casualty insurers. For more comprehensive information, the Consumer Federation of America offers a 100-page guide to saving money on life insurance. Written by James Hunt, a life insurance actuary with 40 years of experience, this 1991 guide has been updated to early 2000 and will be completely rewritten late in 2000. The cost is $15.

General Tips

When buying insurance of any type, ask yourself: do I need this? Protect against economic catastrophes first, and do so comprehensively. Remembering the words *catastrophic* and *comprehensive* will avoid a lot of mistakes. Examples of insurance products that fail to meet these two tests are discussed in the section titled "Insurance Polices To Avoid."

Most people should consider only five policies:

- Homeowners or renters, if you own a home or rent an apartment
- Health, if not covered at work
- Auto, if you own a car
- Life, if someone is dependent on your earnings
- Disability, a form of health insurance, if not covered at work

Buy these coverages properly and you probably need nothing else.

Companies with "mutual" or "exchange" in their names are similar to cooperatives, meaning there are no stockholders to pay. Such insurers usually offer better value. This is especially so for those seeking cash-value life insurance policies, which do not lend themselves to comparison shopping. On the other hand, guaranteed-premium, term life policies are often a good value at stockholder-owned insurance companies.

2 Auto Insurance

There are five major coverages in a typical auto insurance policy: *bodily injury liability*, if the driver injures someone; property damage liability, if the driver damages someone else's car or property; *collision*, if the driver damages his or her own car in a wreck; *comprehensive*, if a car is stolen, vandalized or damaged other than in a motor vehicle accident; and *uninsured—and underinsured—motorists*, if the driver is hit by someone with no—or too little—insurance. In no-fault states, *personal injury protection* coverage provides medical and loss-of-wages coverage.

How to Save Money

If you don't need it, don't buy it. Every dollar in auto insurance premiums returns about 60 cents in claims. The rest is overhead. So, an average driver can save about 40 percent—the overhead—by "self-insuring" those risks he or she can afford to assume. And the driver keeps the interest on what's saved.

North Carolina
Insurance Commissioner
PO Box 26387
Raleigh, NC 27611
Tele: 919-733-7349 Fax: 919-733-6495

North Dakota
Insurance Commissioner
600 East Boulevard
Bismarck, ND 58505-0320
Tele: 701-328-2440 Fax: 701-328-4880

Nebraska
Insurance Director
Terminal Building, Suite 400
941 O Street
Lincoln, NE 68508
Tele: 402-471-2201 Fax: 402-471-4610

New Hampshire
Insurance Commissioner
169 Manchester Street
Concord, NH 03301
Tele: 603-271-2261 Fax: 603-271-1406

New Jersey
Insurance Commissioner
20 West State Street CN325
Trenton, NJ 08625
Tele: 609-292-5363 Fax: 609-984-5273

New Mexico
Insurance Superintendent
P.O. Drawer 1269
Santa Fe, NM 87504-1269
Tele: 505-827-4601 Fax: 505-827-4734

Nevada
Insurance Commissioner
1665 Hot Springs Road, No. 152
Carson City, NV 89710
Tele: 702-687-4270 Fax: 702-687-3937

New York
Insurance Superintendent
25 Beaver Street
New York, NY 10004
Tele: 212-602-0429 Fax: 212-602-0437

Ohio
Insurance Director
2100 Stella Court
Columbus, OH 43215
Tele: 614-644-2658 Fax: 614-644-3743

Louisiana
Insurance Commissioner
950 North 5th Street
Baton Rouge, LA 70802
Tele: 504-342-5423 Fax: 504-342-8622

Massachusetts
Insurance Commissioner
470 Atlantic Avenue, 6th Floor
Boston, MA 02210-2223
Tele: 617-521-7794 Fax: 617-521-7770

Maryland
Insurance Commissioner
525 St. Paul Place
Stanbalt Building
Baltimore, MD 21202-2272
Tele: 410-333-2521 Fax: 410-333-6650

Maine
Insurance Superintendent
State Office Building
State House, Station 34
Augusta, ME 04333
Tele: 207-582-8707 Fax: 207-582-8716

Michigan
Insurance Commissioner
611 West Ottawa Street
2nd Floor North
Lansing, MI 48933
Tele: 517-373-9273 Fax: 517-335-4978

Minnesota
Insurance Commissioner
133 East 7th Street
St. Paul, MN 55101
Tele: 612-296-6848 Fax: 612-296-4328

Missouri
Insurance Director
301 West High Street, 6 North
Jefferson City, MO 65102-0690
Tele: 314-751-4126 Fax: 314-751-1165

Mississippi
Insurance Commissioner
1804 Walter Sillers Building
Jackson, MS 39205
Tele: 601-359-3569 Fax: 601-359-2474

Montana
Insurance Commissioner
126 North Sanders
Mitchell Building, Room 270
Helena, MT 59601
Tele: 406-444-2040 Fax: 406-444-3497

Don't buy collision on older cars. This is often the most expensive coverage. If a car isn't too valuable, collision may not be worth it. Comprehensive coverage costs less, and the risk of total loss due to theft may be higher. Collision coverage does have one advantage. If another driver hits your car and the amount of your damage exceeds the collision deductible—that is, the initial loss amount for which the insurance company is not responsible—the company will try to collect from the other driver's insurance company.

Increase deductibles. If you do buy collision, consider increasing the deductible from $100 to $250, which saves almost 20 percent. Increasing to $500 saves about 50 percent. Increasing the deductible to $1,000 saves even more. Similar savings are available on comprehensive coverage. In no-fault states, a personal injury protection deductible may be available.

Don't buy incidental coverage. Those with adequate medical insurance should consider skipping medical payments coverage. Other examples of coverage that offer little in benefits yet add to costs include substitute transportation coverage and towing and labor coverage. Likewise, memberships in auto clubs sold by agents are often of little value.

Agents almost always sell insurance on a commission basis. The more you pay, the more they earn. So agents have an incentive to increase premiums. Agents representing only one company usually receive lower commissions. So their prices can be lower than those who sell for several companies. Insurers that don't use agents usually have the lowest rates. Furthermore, consumer satisfaction tends to be higher for the lowest priced companies. So you don't have to give up good service for a low price! The best way to use an agent is to get a good low price from a company that doesn't use agents and then ask an agent to beat that price. If you don't want to go through this every year, stick with the company that doesn't use agents. Amica Mutual, Erie Insurance Exchange and USAA—for active or retired armed services officers only—are the best companies that don't use agents. In New Jersey or Pennsylvania, try New Jersey Manufacturers Insurance Company.

Shop around! There are often surprising differences in rates among companies. Compare rates to those charged by State Farm, the nation's largest auto insurer with competitive prices. Use State Farm only as a guide, however, since its rates, while competitive, may not be particularly low and State Farm may not let you get your car repaired at the shop of your choice or with original manufacturer's parts. If these claims issues are important to you, ask insurance companies their policies on claims when shopping around. Use *Consumer Reports*' list of good service companies as a guide. Some of the best service insurers, according to *Consumer Reports* readers, are among the lowest in cost. Also, check with your state insurance department. Twenty-nine state departments have auto insurance price information and 19 have complaint data on auto insurance.

What about buying auto insurance over the Internet? Watch out! Although the web promises to be a wonderful tool for auto and other insurance shopping, most companies collect commissions in return for sales through their sites. Thus, they won't show USAA or other no-load or low-load companies. A good site to visit for complaint data comparisons by state and company is www.insure.com/complaints. Click on a state to get a listing of companies by their complaint ratio for the line of insurance you want. Or click on a company to get a digest of its rankings by state with an arrow indicating if the ranking is above or below average in each state. For prices, check your state insurance department's web page. Go to www.NAIC.org/consumer/state/usamap and click on your state. If your state has no price information, try a big state nearby. Also consider the independent and excellent price service of Consumer's Union at www.consumerreports.org or call 800-224-9495. Click on "auto insurance service" on the website. The price for quotes is reasonable, $12 for the first car and $8 for each additional car.

Having trouble getting coverage? Only a few states—California, Hawaii, Massachusetts, Michigan, North Carolina and New Hampshire—guarantee claim-free drivers the right to buy insurance from the companies they choose. Those who don't live in one of these states and have the wrong statistical profile

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Floyd Memorial Building
704 West Tower
Atlanta, GA 30334
Tele: 404-656-2056 Fax: 404-657-7493

Hawaii
Insurance Commissioner
250 S. King Street, 5th Floor
Honolulu, HI 96813
Tele: 808-586-2790 Fax: 808-586-2806

Iowa
Insurance Commissioner
330 East Maple Street
Des Moines, IA 50319
Tele: 515-281-5705 Fax: 515-281-3059

Idaho
Insurance Director
700 West State Street, 3rd Floor
Boise, ID 83720
Tele: 208-334-4250 Fax: 208-334-4398

Illinois
Insurance Director
320 West Washington Street, 4th Floor
Springfield, IL 62767
Tele: 217-782-4515 Fax: 217-782-5020

Indiana
Insurance Commissioner
311 West Washington Street, No. 300
Indianapolis, IN 46204-2787
Tele: 317-232-2385 Fax: 317-232-5251

Kansas
Insurance Commissioner
420 Southwest 9th Street
Topeka, KS 66612-1678
Tele: 913-296-7801 Fax: 913-296-2283

Kentucky
Insurance Commissioner
215 West Main Street
PO Box 517
Frankfort, KY 40602-0517
Tele: 502-564-6027 Fax: 502-564-6090

State Insurance Departments[1]

Alaska
Insurance Director
PO Box 110805
Juneau, AK 99811-0805
Tele: 907-465-2515 Fax: 907-465-3422

Alabama
Insurance Commissioner
201 Monroe Street
Montgomery, AL 36104
Tele: 334-269-3550 Fax: 334-241-4192

Arkansas
Insurance Commissioner
1200 West 3rd Street
Little Rock, AR 72201-1904
Tele: 501-686-2900 Fax: 501-686-2913

Arizona
Insurance Director
2910 North 44th Street, No. 210
Phoenix, AZ 85018-7256
Tele: 602-912-8400 Fax: 602-912-8452

California
Insurance Commissioner
300 Capitol Mall, Suite 1500
Sacramento, CA 95814-4339
Tele: 916-445-5544 Fax: 916-445-5280

Colorado
Insurance Commissioner
1560 Broadway, No. 850
Denver, CO 80202
Tele: 303-894-7499 Fax: 303-894-7455

Connecticut
Insurance Commissioner
P.O. Box 816
Hartford, CT 06142-0816
Tele: 203-297-3802 Fax: 203-566-7410

District of Columbia
Insurance Commissioner
441 Fourth Street, NW, 8th Floor North
Washington, DC 20001
Tele: 202-727-8000 Fax: 202-727-8055

Delaware
Insurance Commissioner
Rodney Building
841 Silver Lake Boulevard
Dover, DE 19904
Tele: 302-739-4251 Fax: 302-739-5280

[1] Find your state's web page by going to www.naic.org/consumer/state/usamap.htm and clicking on your state.

may be forced to seek coverage at higher rates from substandard companies or the assigned risk plan. In some states substandard companies charge more that the assigned risk plan. So those with bad driving records should check the assigned risk plan rate first.

Homeowners or Renters Insurance

Homeowners insurance provides protection from risks including fire, lightning, wind, hail, theft and vandalism. Almost everything is covered except earthquakes, nuclear accidents and floods. Nuclear power plants are not liable for all of the exposure they have, so if a power plant incident occurs, consumers may be out of luck economically—and in more serious ways as well. Homeowners policies also include liability protection if you are sued for damages or injuries for which you are at fault, except when driving a car.

Renters insurance is usually inexpensive. It covers furniture and other personal property and most liabilities renters may incur. Special coverage is available for condominiums, cooperatives and mobile homes.

Buying Hints

As with auto insurance, a low price doesn't necessarily mean less service. Check *Consumer Reports* for a list of companies to consider. Also, 17 state insurance departments provide price information and 15 provide complaint rankings. Most offer general information.

In deciding how much homeowners coverage to buy, deduct the value of the land and foundation from a property's market value to determine the policy limit. For old houses, whose replacement cost is more than the market value, base the limit on the replacement cost. In this case, however, you must buy a policy with a limit of at least 80 percent of the replacement cost to receive full reimbursement for partial losses. For example, if it would cost $100,000 to replace a home, buy a policy for at least $80,000.

Beware! Some insurers have sharply increased deductibles for those living in hurricane zones. Also, some have stopped offering replacement cost policies. So make sure homes are insured to their full value. Some insurers also have stopped offering protection for code upgrades if home damage occurs. This means that if a home is superficially damaged and building codes have changed, the insurer will only pay to restore the home to its old state. The homeowner pays for the cost of the upgrade needed to meet changed building code requirements.

Remember... The more coverage you buy, the better off your agent and company are. Premiums tend to be proportional to policy limits. A $120,000 policy costs about 20 percent more than a $100,000 policy, even though the insurer's risk is far less than 20 percent more because most claims are for partial losses. So don't automatically go along with an agent's suggestions for higher limits. Carefully consider the value of replacing a home. Beware of inflation-guard automatic increases in coverage and premiums. The percentage insurers select may be too high—or, less frequently, too low.

Increased deductibles can save money. The higher the deductible, the lower the cost. See the auto insurance section.

If a home is rented to others, don't assume everything is covered under a homeowners policy. Check with the agent or company. The same applies to business equipment if you have an office in your home.

Be sure any valuables are covered. Separate riders may be necessary if the value exceeds $1,000.

Keep an inventory. Claims will be collected more easily and perhaps will be thousands of dollars larger if there is a good record of belongings. That includes photographs and receipts for major purchases like televisions and computers. Photos of each room, kept in your safe deposit box, are a good idea as well.

Note... The federal government sells flood insurance to those who qualify. For details, call 800-638-6620 or, better, check out www.fema.gov/nfip.

Earthquake insurance is not included under your homeowners policy. Ask for a quote. It can be very inexpensive in areas with lower risk. California residents should shop carefully. As we write this, California Earthquake Authority rates are too high, and the deductibles are also excessive. Better deals are often available from private insurance companies.

Go to small claims court or to a lawyer. Small claims court, where you can be your own lawyer, may be appropriate for small claims. For major claims, it may pay to use a lawyer. In some states, if a court finds an insurance company acted improperly and was particularly abusive, you may collect additional money. So keep good records!

Don't give up. Since the insurers write the policy language, courts hold any ambiguity against the insurance company. So if it is unclear whether the company correctly denied a claim, you have a good chance of winning.

More policies you probably don't need:

- Insurance that only pays for those hurt or killed in a mugging
- Bank mortgage life insurance
- Life or health insurance sold to cover a car loan or other loan
- With some exceptions, health insurance on a pet
- Health insurance that pays $100 a day for hospitalization in lieu of comprehensive coverage
- Insurance that pays if it rains too much on your vacation

Trouble with a Claim?

Here are steps to follow if you have difficulty getting a fair claim settlement:

Keep a file on what happens. Write down who said what and the dates of any statements. It could mean thousands of dollars later because the company, the state insurance department and attorneys need clear facts to work with.

Contact the insurance company. It is best to do this in writing and to insist on a reply in writing. Ask the company's position on the situation. Do not send any original policy materials! If needed, send copies. If the company doesn't respond in a fair manner, go to the next steps.

Contact your state insurance department. Each state's insurance department has a section set up to assist consumers with complaints. Insurance departments won't take your side in every dispute, but they can make sure the company responds to a complaint. Send copies of all correspondence with the company. A list of all state insurance departments and their addresses follows this section. Call first, before writing. Check directory assistance for a toll free number. When writing, be sure to give the name of the insurance company and the policy number. Do not send your policy; send a copy if the insurance department needs this information.

A few words on umbrella policies....Approximately $300 a year will purchase $1 million of liability protection over auto and homeowners policies. This is inexpensive catastrophic protection that is worth considering for those with significant assets.

Life Insurance

A 1979 Federal Trade Commission study concluded that life insurance is so complex, consumers can't evaluate the costs of different policies. It said prices vary widely for similar policies and consumers lose lots of money if they surrender cash value policies in the first 10 years. Although the FTC study has long been forgotten, the advice remains the same. To avoid problems, follow these guidelines.

Don't buy what you don't need. Life insurance protects a family against income loss if the breadwinner dies. Sometimes it is needed to protect a dependent parent or other person. Those without dependents don't need life insurance. Should single people buy life insurance? Much is sold on the theory that buying it now protects against changes in health later that could make insurance costly or unavailable. There is something to this, of course, especially for those planning to marry. Do non-working spouses tending children at home need life insurance? It costs lots to replace their services with hired help. On the other hand, the death of a non-working spouse eliminates some expenses for food and clothing and could eliminate the need for a second car. If life insurance is purchased on a non-working spouse, make sure the cost isn't so high it limits coverage for the breadwinner.

Don't buy policies that cover children, since they rarely have dependents. Also, the cash value policies agents like to sell on children usually contain disproportionate selling and expense charges. Instead, explore mutual fund investments for children, such as those available from Vanguard mutual funds (800-662-7447 or Vanguard.com). Vanguard is the only mutual fund owned by its shareholders. As a result, it has very low expenses. An excellent alternative is TIAA-CREF (800-223-1200 or tiaa-cref.org).

Term life insurance is best. Term life insurance is death protection only. As with other forms of insurance, those with no claims get nothing back. The basic form of term life is annual renewable term, called ART. Its premiums increase as the policyholder gets older. ART is almost always renewable to at least age 70 without evidence of good health. Male nonsmokers in excellent health can buy $250,000 in annual renewable term life for as little as $200 a year at age 30, $240 a year at age 40, $410 at age 50 and $730 at age 60. Women pay less, smokers much more. Lower first-year premiums are available from insurers whose renewal premiums rise more rapidly.

Most term life insurance sold today, however, is not ART. Instead, it's level premium term life for coverage periods of 5, 10, 15, 20, 25 and 30 years. Generally, premiums are guaranteed for these periods, although as we write in early 2000, new insurance regulations have caused many insurers to limit guarantees. Level premium coverage has two disadvantages. If premiums continue to decrease, as they've done for many years, those who buy policies lock in rates that are too high, relative to ART, and lose the difference when they then shift to a lower premium. Also, premiums skyrocket after the period of level coverage if your health deteriorates. If you're inclined to buy level premium life, whose rates may have come close to hitting bottom, we suggest 20-year terms or less. A favorite of ours is Ameritas' 10-year, guaranteed level premium term (800-552-3553). Its premium is close to lowest and the policy may be converted with no health questions to its attractive, no-agents' commission cash value policies if you can't qualify for another 10-year period at low rates due to deteriorating health.

Term life rates vary widely depending on age, sex, smoking, amount purchased, health, and pattern of premium payments. There is no alternative to shopping around, which can be done by calling local agents or quote services or, most easily, on the Internet. The quickest and best way to compare term rates is at www.term4sale.com (ask the local library for help if not on line).

Northwestern Mutual Life and Berkshire Life have low ART rates and agents most places. Level premium term life has become the mainstay of the "quote services," which will send you quotes or proposals from the lowest cost insurers in their computers. Two good

death. On the other hand, those who expect family responsibilities soon may wish to get coverage early to guard against a health change that could raise costs. Substantial term life insurance is inexpensive for young nonsmokers, so paying for what you don't need yet, but will soon, is not a serious burden.

Life insurance if you're married with no children and your spouse has a good job. Couples should talk this one over. If one spouse dies, can the other get along on his or her income? If the answer is yes, perhaps no life insurance is necessary beyond that available at work. Even though the loss of a spouse may not be financially catastrophic, each has a large financial interest in the other's income. That may tilt the scales in favor of insurance in some cases.

Life insurance on your children. Emotionally, the death of a child is a catastrophic event. In the economic sense, however, the loss of a child is not normally catastrophic.

Contact lens insurance. These policies pay for losing a contact lens. This is not a catastrophic economic loss. Also, the premium cost is about equal to the cost of a lens at a discount eyeglass store.

Cancer insurance. This is not comprehensive coverage. But those with a family history of cancer perhaps can beat the insurance company at its own game with cancer insurance. Cancer insurers argue that their policies will provide money to cover added costs of being sick. Those who need to worry about this need to worry about other, more likely causes of serious illness. Consider a disability income policy.

Rental car insurance. Technically this is not insurance at all. Instead, it's something called a "collision damage waiver." But it's like insurance. These policies cover damage to a rental car. But they are expensive—$10 to $15 a day, or around $5,000 a year! Not only that, most auto insurance policies or credit cards cover this risk. If you don't have coverage under auto insurance, shop for it next time the policy is up for renewal. Coverage through credit cards may require annual fees but, if you rent cars often, it's a lot cheaper than enriching Hertz and Avis.

It's a close call, but you may want to forgo non-forfeiture benefits. If there's any chance of giving up the policy later, think about investing the premiums in a mutual fund.

Finally, consider saving premium dollars by purchasing nursing home coverage only. The idea is to cover less expensive home health care with retirement income. The chances of needing home health care are greater than nursing home care, so premium savings can be significant. Keep in mind, however, that round-the-clock home health care can be more expensive than nursing home care.

Insurance companies push Cadillac LTC coverage. Perhaps that's why so many policies are terminated and so much money is lost.

Insurance Policies to Avoid

Buy insurance that comprehensively protects against catastrophic dollar loss and severe financial distress. Don't use insurance to protect against sure things, like the first doctor's visit of the year. It is also unwise—and expensive—to insure against just a small part of a risk when catastrophic loss could occur. For instance, what good is cancer insurance if you have a heart attack and need by-pass surgery? What's needed is protection against the economic consequences of all illnesses. Buying specific illness coverage is like buying toothpaste one squeeze at a time—and that's expensive!

While it is not an exhaustive list, here are some common policies that aren't normally needed.

Air travel insurance. Those with dependents need to be protected for the economic consequences of premature death from any cause—be it a heart attack, auto accident or air crash. People are not worth more dead as a result of an air crash. And, if one occurs, the family has someone to sue. That's a luxury usually not available when a heart attack occurs. Air travel insurance is not comprehensive and should be avoided. Most credit cards offer substantial coverage free if you charge flights on the card.

Life insurance if you're single. There is no reason to buy life insurance if there are no dependents, since there is no economic catastrophe associated with

quote services are Quotesmith (800-556-9393 or quotesmith.com) and Selectquote (800-343-1985 or selectquote.com). Compare results to term rates of USAA (800-531-8000) and Ameritas (800-552-3553). For a $50 fee, Insurance Information Inc., at 800-472-5800, can be helpful in more complex situations. In addition, its data base includes insurers that the quote services don't have.

Massachusetts Savings Bank Life Insurance has extraordinarily low term rates in the states where it operates: Connecticut (later in 2000), Maine, Massachusetts, New Hampshire, and Rhode Island.

Buy only term life insurance from quote services. Stay away from cash value policies, which some of the quote services offer. These policies are discussed below.

Term life insurance won't work well if you are over 55 and want life insurance when you die in your eighties or nineties. Unless you are supporting dependents late in life or buying life insurance for estate tax purposes, you probably don't need life insurance beyond age 65 or 70.

Don't buy life insurance with cash values. Cash value policies have premiums higher than term life policies. They build a kind of savings account that is available upon surrender of the policy or that can be borrowed against during the life of the policy. Cash value policies include whole life, which guarantees coverage for life without risk of a premium increase; universal life, which identifies interest rates at the time of sale and in annual reports thereafter; and the popular variable universal life, whose cash values are invested in accounts similar to mutual funds. It's hard to tell good cash value policies from bad ones, and those who don't hold the policy for 20 years or more lose money. So it's probably better to stick to pure term life.

On the other hand... Life insurance with cash values can be a good investment, especially in light of its tax advantages. But you can easily lose thousands of dollars by buying life insurance blindly. Two life insurers that offer policies free of agents' commissions are USAA Life and Ameritas, both mentioned earlier. Since commissions and related agents' selling expenses can add up to more than one year's premium, the savings can be impressive. The best agent-represented life insurer is Northwestern Mutual Life, whose cash value policies, when bought carefully and kept indefinitely, should match the "low-load" insurers. Consumer Federation of America's low-cost Rate of Return Service can help in buying a cash value life policy, even one from a low-load insurer. For $45, life actuary James Hunt will estimate the true investment return, or interest rate, on a cash value policy and will make alternative recommendations when appropriate.

But I already own a cash value policy! Many cash value policies have poor value and should be replaced. But many others are exceedingly valuable. Whole life policies written by mutual life insurers tend to be the most valuable. Many universal policies are valuable during the period when the surrender charge is decreasing, but thereafter most of them are candidates for replacement by those in good health. CFA's Rate of Return Service is also indispensable in assessing the worth of a policy you own.

Don't let an agent talk you into dropping an old policy. This is extremely important. And despite class action law suits involving improper replacements, it still occurs. Most often we see a whole life or universal life policy replaced with a variable life policy. While an investment in stocks inside a variable policy can work in the long run, such policies are very expensive, and replacements of high-yielding whole life policies are a gamble.

Don't buy mail-order or TV-marketed life insurance. A narrow exception is small dollar amount, "guaranteed issue" policies that have no medical questions. Such policies, both term and whole life, can be a good value for those in poor health for whom regular life insurance is unavailable or carries very high medical ratings.

Also, to protect against catastrophic costs, purchase a policy with a long benefit period, such as three years or more. To decide how large a daily benefit to buy, consider Social Security retirement income and any pensions that will continue in a nursing home or under home health care.

For most people, many years will pass between purchasing an LTC policy and using the benefits. So consider buying inflation protection. At four percent inflation, a dollar today will be worth 68 cents in 10 years, 38 cents in 20 years, and 31 cents in 30 years. While overall inflation is low right now, medical care inflation and the cost of medically related personal services is not. Because the cost of LTC is directly related to the daily benefit purchased, consider a measure of self-insurance. If LTC costs $75 per day today, perhaps $60 per day with inflation protection makes sense. Inflation protection is offered on a simple or compounded basis. A simple inflation rate means that the same dollar increase in benefits will apply each year, which is a decreasing rate of inflation. The simple inflation rate keeps the premium down but may not be worth it in the long run. Consider instead a compound rate or, if available, a policy that lets the dollar benefit be adjusted upward from time to time. Because so much money is lost when LTC policies are given up, minimizing the initial premium can minimize potential losses.

We strongly recommend qualified long-term care insurance policies, as defined by federal legislation that became effective January 1997. Benefits received from tax-qualified LTC policies are excluded from federal income taxes, and premiums are considered deductible medical expenses if you itemize, but only to the extent that they total more than 7.5 percent of adjusted gross income. One requirement of qualified plans is that they must include an option for a "non-forfeiture benefit" upon termination of an LTC policy. The non-forfeiture benefit usually is some form of reduced paid-up coverage, not cash. But it will add significantly to the premium cost. Put another way, premiums for LTC policies without non-forfeiture benefits are lower because insurers anticipate earning profits from terminating policyholders and using some of those profits to subsidize continuing policyholders.

allows the terminally ill or nursing home bound insured to go beyond the loan value and draw down the death benefit on a discounted basis. For tax reasons, it is often prudent to retain a whole life policy until death. Many are worth continuing on a premium-paying basis as an investment.

If you decide to buy an LTC policy, get started by calling USAA Life General Agency (800-531-8000). USAA does not write the coverage itself, but it surveys the market to find other companies' policies suitable for its members. Prices vary from region to region, and LTC insurers do not all follow the same formula. USAA can guide you to the best in your region. Teachers Insurance & Annuity Association (800-223-1200) provides LTC policies to employees of colleges and universities and certain non-profits. It is possible TIAA will expand to others, so call to ask who's eligible. It's probably best to buy an LTC policy from a mutual life insurance company and least wise to buy from a stockholder-owned insurer, unless—like USAA Life and, effectively, TIAA—the parent is a mutual company. Suppose future LTC claims prove lower than forecast today. Would a stockholder-owned company reduce premiums or pay dividends like a mutual insurer? Any shopping list of companies should include Northwestern Mutual Life.

Consistent with the theme of concentrating premium dollars on catastrophic events, consider extending an LTC's "elimination period"—the time between entering a nursing home and the start of benefits. *A Shopper's Guide to Long-Term Care Insurance* notes that "two out of three people who turned 65 in 1990 will either never spend time in a nursing home or will spend less than three months in one." So significant savings can be achieved by "self-insuring" a couple of months. If a nursing home costs $100 a day at some future date when a currently insured person needs LTC benefits, the extra cost of defraying the difference between a 30-day and a 90-day elimination period would be $6,000. Surely this is a sum most people who buy LTC policies can handle, especially considering how much the saved premium cost could amount to if safely invested.

Think twice about credit life and disability insurance to pay off loans upon death or disability. It is way overpriced in many states, although New York and Texas are major exceptions. It also is almost always too expensive for those under age 45, because rates do not vary by age. There are exceptions, however. Older buyers and those in poor health or who smoke, especially if two or more of these circumstances apply, may find this insurance reasonably attractive. Still, do not be coerced into buying credit insurance. It is not needed to get a loan approved. Credit card insurance usually includes a third coverage, involuntary unemployment insurance, which takes care of your monthly credit card payment. The typical rate for the usually required package of three coverages is $.75 per $100 of outstanding balance per month. So it is like adding 9 percent to the annual percentage rate on a card—a substantial burden. Don't sign up for it unless there is reason to think it's a good deal. Consider canceling if you already are being billed for it and you're a better-than-average risk.

If you are retired, in good health, and feel you don't need life insurance, think twice before cashing in a policy. If the policy is whole life and pays annual dividends, a better strategy may be to make the policy paid-up for a reduced face amount. That often has the effect of turning it into an excellent, tax-favored investment. If the policy is universal or variable universal life, consider reducing the insurance amount to its minimum for the premium you want to pay.

Never surrender a cash value life insurance policy without learning the taxable gain or loss involved. Generally, a life policy develops a taxable gain on surrender if the surrender value exceeds all premiums paid. This should not be confused with a capital gain. Likewise, if premiums exceed the surrender value, there is a taxable loss on surrender. Taxable gains disappear at death. This is similar to the rules applied to other assets, such as stocks. Both gains and losses can be transferred either to another life policy or to an annuity, provided it is done carefully under the succeeding insurer's rules.

If you want to convert a policy into retirement income, see what other companies' life annuities pay before leaving the proceeds with your own life insurance company. A good source of quotes is www.annuityshopper.com, or 800-872-6684. You can easily transfer your funds in one insurer to another insurer if you follow the instructions of the new insurer carefully.

Want to learn more about life insurance? Consumer Federation of America's 100-page guide to saving money on life insurance, by life actuary James Hunt, explains both life insurance and annuities for $15. The current edition was written in 1991 but comes with an update. A new edition is expected this year.

CFA's Rate of Return Service. For $45, CFA will estimate the true investment return, or interest rate, on a cash value policy. ROR's are especially helpful in deciding whether to buy or keep a cash value policy. ROR's are helpful in deciding whether to keep an existing cash value policy or in choosing among competing new policies. The same service is available for second-to-die policies for $75. James Hunt, an actuary with 40 years of experience, adds a personal note with his recommendations, as well as a detailed explanation of the technique used and advice about technical aspects of life insurance. Send a self-addressed stamped envelope to the Consumer Federation of America for details or call 202-387-0087 and leave your name and address or fax number. Or, read about the service at www.consumerfed.org.

Disability Income Insurance

If too much attention is paid to life insurance, too little is paid to disability income insurance, which provides a monthly income to those who are disabled for extended periods. *Consider: if you are disabled, you're still a financial burden to your family. Once you're dead and buried, you're not.*

The best coverage pays benefits until age 65 and, to keep premiums low, includes an elimination period of at least 90 or 180 days of disability. The elimination period is the time after a disability occurs before benefits begin. For fear of encouraging claims, disability insurers place a percentage limit on the amount of monthly income you can insure. The percentage can

- And, of course, prescription drugs, if you can afford the high extra premium

Those who are 65 and not on Medicare may be able to purchase Parts A and B of Medicare. Check with the local Social Security office.

Long-Term Care Insurance

Long-term care insurance is a relatively new form of health coverage. Long-term care policies pay for a variety of services for those with a prolonged illness, disability or cognitive disorder, such as Alzheimer's disease. In general, they cover nursing home and home care services for the chronically ill that Medicare or other health insurance does not cover. Often these services are called custodial care. These policies cover help with daily activities at home like bathing, dressing, eating and using the toilet. State insurance departments have copies of *A Shopper's Guide to Long-Term Care Insurance*, which is a good source of basic information.

There are several problems with long-term care insurance. Since the concept is relatively new, it's not known whether policies sold to date will offer reasonable value in the long run. Also, like whole life insurance, coverage is sold on a level premium basis, but the premiums are not guaranteed to remain level. Because claim costs rise rapidly with age, the level premium approach develops reserves that are forfeited to the insurer if the policy is terminated. Unlike whole life insurance, there are no cash surrender values. The experience to date has shown high rates of policy termination, with substantial losses to terminating policyholders. Also, unless policies are bought with inflation protection, which adds substantially to cost, benefits may prove wholly inadequate to younger buyers in future years.

Those thinking of buying LTC insurance might consider instead purchasing or continuing whole life policies beyond retirement. The borrowing value could then be a source of funding for nursing home care, if needed. Home care services, except 24-hour services, are less expensive and may be affordable without borrowing. Many whole life policies include an accelerated death benefit rider, which without extra charge

If you're eligible for Medicare...

Those whose coverage at work is not extended upon retirement should consider health insurance that supplements what Medicare provides. Perhaps the best choice if available from an HMO or managed care organization in your area is a "Medicare-risk" contract, which provides essentially what Medicare and a supplement together do. This integrated coverage is usually available for a monthly premium substantially less than a supplement would cost. Unfortunately, there were wide-spread cutbacks in these contracts in 1999.

Local Social Security offices provide a *Guide to Health Insurance for People with Medicare*, which discusses what both Medicare and standard Medigap plans cover. Medigap policies fill the gaps in Medicare, although they don't pay for every imaginable expense.

Be cautious about mail order solicitations for Medigap policies. Most of these set premium rates by age, so the cost will increase each year—with age and with medical care inflation, which has been much higher than the general inflation rate. A Blue Cross/Blue Shield Medigap supplement is probably better. But some form of age rating may apply here as well.

Compare any Medigap policy to those USAA Life offers (800-531-8000). If you are an AARP member, check its Medigap plans.

For most people, a policy from one of these sources is enough coverage. You are probably better off resisting the temptation to buy one or more other policies. Instead, take the money you would otherwise spend and bank it.

When shopping for a Medicare supplement, these gaps in Medicare are most important to think about if buying other than the least costly standard supplement, Plan A:

- The coinsurance payment required after 20 days in a Skilled Nursing Facility, when transferred from a hospital
- Doctors' fees in excess of what Medicare allows
- Foreign travel, which Medicare does not cover at all, if you plan such travel

exceed 70 percent but policies that pay 50 percent to 60 percent of income are most common.

Because of its cost, disability income insurance is usually sold to upscale professionals—lawyers, physicians, dentists and self-employed business people. Most others must rely on disability benefits under Social Security. Perhaps 30 percent to 40 percent of U.S. workers have group long-term disability coverage at work. Should this fortunate minority seek additional coverage? It's debatable, but we think the typical covered worker shouldn't worry about buying more.

Relatively few insurers offer disability coverage, but these include some of the major life insurers. Compare the policies of two or three insurers to get a good buy. USAA Life (800-531-8000) offers coverage that makes good sense. The best among agent-represented companies is probably Northwestern Mutual Life, which has well-trained agents almost everywhere. As with life insurance, the risk of disablement increases with age. Like whole life insurance, most disability insurance is sold on a level premium basis. That means policyholders overpay in the early years, and insurers build up reserves against future claims. Unlike whole life, however, there are no cash surrender values. So if you quit the policy—perhaps you've found a less expensive one—you lose any reserve that has been built up. For this reason, Northwestern Mutual's increasing premium disability income policy, whose initial premiums are lower, may be more attractive.

Health Insurance

Most working Americans receive health insurance through their employers. Those not so fortunate—and there are more than 40 million of them—have problems getting adequate coverage at a reasonable price. Comprehensive coverage in early 2000 for those without health insurance at work typically costs more than $2,000 a year for an individual, or nearly $6,000 for a family. But these premiums can vary widely, especially by place of residence and age. If you have a medical problem, health insurance may be unavailable unless the state has a program requiring insurers to offer policies to everybody. We can't offer detailed advice here, but these suggestions may help.

If you are not eligible for Medicare...

Join a Health Maintenance Organization. You'll get the coverage you need, generally without deductibles or large coinsurance payments. Unfortunately, many HMOs do not extend coverage beyond employer groups. Expect to pay substantial premiums for HMO coverage.

Blue Cross/Blue Shield is often a good alternative. But shop carefully—the Blues can be costly for those not part of an employer group. Also, in many states, Blue Cross/Blue Shield is no longer the "insurer of last resort."

Comprehensive major medical policies may be the most affordable choice for younger people and those willing to take large deductibles. But many of these policies require a substantial coinsurance payment after the deductible—typically 20 percent of the covered charges. So select a policy with a limit on these charges. To keep premiums low, take as large a deductible as possible. Most hospitals will stretch out a substantial bill for those unable to pay all at once.

For quotes on comprehensive medical coverage, try USAA Life at 800-531-8000. USAA Life is a subsidiary of United Services Automobile Association, which for nearly a century has offered auto and homeowners coverage to members of the armed forces and their extended families. USAA operates an agency that, where possible, provides the USAA "family" with insurance coverage that it does not itself offer, such as comprehensive medical insurance. An alternative source is Quotesmith, noted earlier, at 800-556-9393.

If you are self-employed, ask your professional or business association if a group health policy is available. But don't assume that health insurance through a professional association is a good deal. Some plans attract those with medical conditions who are unable to secure health insurance elsewhere. Shop around.

Those who are under 65 and whose health is impaired face a difficult situation. The state insurance department may have programs for those who are refused health insurance by private insurers. The local Blue Cross plan may offer an open enrollment period from time to time. Those who are 50 or over can join the American Association of Retired Persons to become eligible for supplemental coverage. Look for other mail order insurance whose pre-existing exclusion is limited to six months or less. But neither AARP nor mail order insurance is a substitute for a comprehensive policy.

Under the law, employees and their dependents who lose health insurance because the worker leaves employment are eligible to continue coverage for 18 months by paying 102 percent of the group policy premium. But the law—called COBRA—does not apply to employers of fewer than 20 people. COBRA also applies to others losing coverage, including children who reach the maximum age for group coverage and spouses of employees becoming eligible for Medicare. When COBRA coverage ends, employees may be eligible to convert to an individual policy. This option is valuable for those whose health is impaired, even though the coverage may be scaled down and costs may be high.

Those who can't afford one of these alternatives may qualify for Medicaid, which is health insurance for low-income people. Check with the local social service agency.

In general, avoid:

- *Unsolicited mail order health insurance policies,* including offers to buy "group" health insurance under some sponsorship, such as a fraternity or an auto club. Commissions or other payments to the sponsor often increase your rates. Just because it's called "group" doesn't mean it's less expensive.
- *Student accident insurance* offered by schools and colleges, even if sickness is covered too. They often don't cover serious illnesses adequately.
- *Cancer insurance.* Branded a rip-off by a congressional subcommittee, this is a mistake unless there is a serious family history of cancer.

Those who can't afford good health insurance may be better off not buying any and putting the money saved in the bank.