11/26/2002
THE COMMUNICATOR

A MONOGRAPH THAT EXAMINES THE CLICHÉ

"I'M INSURANCE POOR"

ALL INSURANCE IS IMPORTANT, BUT . . . .

This year . . . chances are –

Fire Insurance
A consumer's home will be destroyed . . .

Automobile Insurance
A consumer will have an auto accident

Life Insurance
A consumer will die

Hospital Insurance
A consumer will be in a Hospital (an average stay lasts 6.4 days)

Disability Insurance
A consumer will Suffer a Long – Term Disability

Long-term means three months or longer. The average duration of such disabilities is 5.3 years.

ALL INSURANCE IS IMPORTANT

But . . . a consumer can be Insurance Poor, or **POORLY INSURED**!

Consumers are not anxious to buy insurance. The product has no chrome strips, no moving parts, one cannot eat it, sit on it, or ride on it, and one surely would not hang it on the wall to show friends. It lays in a dusty drawer, unseen and out of mind except when the premium due notice arrives, or in the event of applying for a claim.

If there have been no claim benefits paid out under a policy, the consumer is likely to have little appreciation of the product. Peace of mind is a dividend from an unused policy. It is difficult to appreciate a policy when there is no dollar basis by which to measure it's value.

"I'm Insurance Poor" is a standard cliché offered by many consumer's to express their dislike of spending so much money on lackluster products. In many cases the consumer is saying, "I'm poorly insured" for most people first insure things they own rather than themselves. "Things" can be repaired or replaced. The human body cannot be replaced and in many cases it cannot be satisfactorily repaired.

One of 1,200

of total desctruction

by Fire

HOME OWNERS INSURANCE

A consumer buys a house on a mortgage loan basis. The mortgage holder will insist on the house being insured against loss by fire. Even without the mortgagor's insistence, the buyer would typically seek out such insurance. If the price of the house is $300,000 the perception of the buyer is that he or she is facing a potential $300,000 loss. Willingly, the premium charged is paid, even though the risk can be handled in other ways.

♦ The house purchase price:	$300,000
♦ Subtract the down payment of:	$ 60,000
♦ The mortgage loan to be paid:	$240,000
♦ Subtract the value of the lot:	$180,000
♦ Remaining Obligation	$ 60,000

The remaining obligation can ultimately be paid off the same way the mortgage was to be paid off, on the monthly installment plan.

Homeowners Insurance pays the mortgage company in case of destruction of the house. It pays for the roofer who replaces the roof. The carpenters, painters and plumbers get paid for repairing the damage to or the rebuilding the house. The injured party gets paid in the event of bodily injury liability. The Homeowners plan <u>yields no direct cash benefits to the premium payor.</u>

AUTOMOBILE INSURANCE

Most families own several cars. The insurance premium will be substantially affected by the ownership of sports cars or having teenage drivers in the family. Statistics indicate that one out of every 250 car owners will have a claim on his or her auto insurance in a given year. Some states make auto insurance mandatory, but even with the mandating, most people seek out auto insurance. How valuable is it?

A $40,000 automobile may be stolen and never recovered. The auto owner would not like to sustain such a loss, but if the person lives, keeps his or her health, and continues to work and produce income, he or she can overcome a $40,000 loss.

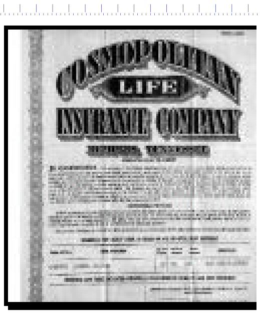
If it's a $2,500 dented fender, the cost can be put on his or her Visa card and paid off over a number of months. Insurance is nice but not necessary to overcome a $2,500 loss.

A great motivation to buy auto insurance is the liability protection provided by the policy. The fear of being sued and having to pay injury compensation to another person of $500,000 $1,000,000, or more conjures up visions of loss of home and all worldly possessions to satisfy the awarded damages. The consumer digs deep into his or her pocket to pay premiums on a plan <u>that benefits others</u>, such as the injured party, whom the consumer has knocked down in a crosswalk and broken all to pieces.

But consider the matter should the roles be reversed and the insured person lying in the crosswalk is the consumer. It is soon discovered that the driver of the car is an uninsured motorist. The driver did not reciprocate by sending his or her hard earned money to an insurance company to buy a policy to benefit our consumer, who is the injured party in this case.

If a consumer is sick of paying insurance premiums, then this examination of the practical cost-saving aspects of canceling the fire and auto insurance may be of great interest to the consumer.

The **Auto Insurance** pays the bank or lease company in the event of theft of the auto, the body shop for repairing dented fenders, the insured strangers who are damaged by the automobile in the event of bodily injury. <u>It yields no direct cash benefits to the premium payor.</u>



Life Insurance has many uses, but from the standpoint of the peril of death, there is one chance in 150 of death occurring in a given year.

With the divorce rate up to 6 out of 10, perhaps the person named as beneficiary should be making the premium payments, in the event that love stops and reality takes over. This is said partially in jest and partially to focus attention on the logic of disability insurance.

Life Insurance pays a cash death benefit, but not to the premium payer. The Insured person must die to trigger a benefit that is paid to the beneficiary. <u>It yields no direct cash benefits to the premium payor.</u>

MEDICAL INSURANCE

The fear of sustaining budget busting medical expenses and the popularity of health care plans being a major employee benefit has conditioned consumers to believe that such insurance is an absolute necessity. Medical insurance is bought by 85% of Americans. It is a product never questioned as to a need factor, and only price is an item for discussion. Medical insurance pays physicians, surgeons, anesthesiologists, the hospital for it's services and the pharmacists. These folks have their lifestyle supported by the consumer who who generously provided insurance benefits to pay them. Everyone gets paid EXCEPT the consumer. <u>Medical insurance yields no direct cash benefits to the premium payor.</u>

Kiplinger's <u>Changing Times Magazine</u> has stated, "Even the individual of limited means can pay off big bills and big debts if only the person retains good health and continues to earn an income."

Disability Insurance is the last insurance that many people buy, yet it is the keystone of all personal security. Disability insurance continues an income cash flow that pays for the home, the home insurance, the autos, the auto insurance, the medical insurance and the life insurance. There is one chance in 30 that the consumer will suffer a long-term disability beginning this year. Long term means 3 months or more. The average period of a long-term disability lasts longer than five years.

Disability Insurance is the only insurance that benefits the consumer directly! In the Case of **Disability Insurance,** the consumer pays, but the consumer also receives. The consumer receives **CASH** to do with what he or she needs to do or wants to do.

Only 27 percent of American income producers enjoy the peace of mind of owning **Disability Insurance.**

UNDERESTIMATION OF ASSETS

Professional third-party appraisals are demanded by banks relative to mortgage loans on real estate, business loans and any collateral to be pledged as security for any kind of loan.

Insurance Companies demand professional appraisals of buildings, jewelry, furs, art, autos and collectibles before insuring them.

The Sum of the appraised value of these assets make up one's net worth. But most people's greatest asset goes unappraised and overlooked . . . the capitalized value of future income

FUTURE INCOME VALUATION

In 5 years $_______________

In 10 years $_______________

At age 65 $_______________

Other time frame $_______________

THE INCOME ASSETT VALUATION CHART

Instructions for determining future income asset valuation.

Step 1: Determine the number of years yet to work.

Step 2: Locate on the chart the Assumed Rate of Growth: that is appropriate

Step 3: Multiply current earned income by the number found on the Income Asset Valuation Chart.

Step 4: The product of this multiplication is the asset value of future earned income.

NUMBER OF YEARS TO WORK	INCOME ASSET VALUATION CHART Assumed rate of growth and inflation				
	5%	6%	7%	8%	9%
5	5.5256	5.6370	5.7507	5.8666	5.9847
6	6.8019	6.9753	7.1533	7.3359	7.5233
7	8.1420	8.3938	8.6540	8.9228	9.2004
8	9.5491	9.8975	10.2598	10.6366	11.0285
9	11.0266	11.4913	11.9780	12.4876	13.0210
10	12.5779	13.1808	13.8164	14.4866	15.1929
11	14.2068	14.9716	15.7836	16.6455	17.5603
12	15.9171	16.8699	17.8885	18.9771	20.1407
13	17.7130	18.8821	20.1406	21.4952	22.9543
14	19.5986	21.0151	22.5505	24.2149	26.0192
15	21.5786	23.2760	25.1290	27.1521	29.3609
16	23.6575	25.6726	27.8881	30.3243	33.0034
17	25.8404	28.2129	30.8402	33.7502	36.9737

18	28.1324	30.9057	33.9990	37.4502	41.3013
19	30.5390	33.7600	37.3790	41.4463	46.0185
20	33.0660	36.7856	40.9955	45.7620	51.1601
21	35.7193	39.9927	44.8652	50.4229	56.7645
22	38.5052	43.3923	49.0057	55.4568	62.8733
23	41.4305	46.9958	53.4361	60.8933	69.5319
24	44.5020	50.8156	58.1767	66.7648	76.7898
25	47.7271	54.8645	63.2490	73.1059	84.7009
26	51.1135	59.1564	68.6765	79.9544	93.3240
27	54.6691	63.7058	74.4838	87.3508	102.7231
28	58.4026	68.5281	80.6977	95.3388	112.9682
29	62.3227	73.6398	87.3465	103.9659	124.1354
30	66.4388	79.0582	94.4608	113.2832	136.3075
31	70.7608	84.8017	102.0730	123.3459	149.5752
32	75.2988	90.8898	110.2182	134.2135	164.0370
33	80.0638	97.3432	118.9334	145.9506	179.8003
34	88.0670	104.1837	128.2588	158.6267	196.9823
35	90.3203	111.4348	138.2369	172.3168	215.7108
36	95.8363	119.1209	148.9135	187.1022	236.1247
37	101.6281	127.2681	160.3374	203.0703	258.3759
38	107.7095	135.9042	172.5610	220.3316	282.6298
39	114.0951	145.0585	185.6403	238.9412	309.0665
40	120.7998	154.7620	199.6351	259.0565	337.8824

INSURANCE POOR
OR
POORLY INSURED

Insuring the income that pays for all things, the house, the cars, the various forms of insurance, the retirement plan deposits AND food, clothes, home expenses, taxes, education and entertainment is simply the logical thing to do.

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