

Financial Security: Insurance

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Personal insurance includes health insurance, disability insurance, life insurance, liability insurance, and property insurance. The purpose of insurance is to guard against risks.

Every day we are exposed to many risks which can cause a financial loss. Accidents, property damage, illness, and death are risks we often consider. However, other risks, such as the possibility of being sued or becoming disabled and unable to work, are also important. We each have to decide how we will protect ourselves should a risk become a reality. If you do not have a plan, you might have to go into debt or use funds set aside for other financial goals in the event of financial disaster.



Appropriate risk management strategies protect against catastrophic financial losses, regardless of the cause. Good comprehensive insurance coverage against severe setbacks is essential. Areas for coverage include life, health, homeowner's or renter's, auto, disability, and liability. Smart consumers can obtain this coverage at a cost that allows them the financial flexibility to accomplish other goals without being insurance poor. Note that this type of risk management should not be confused with investment risk, which is a different financial concept.

To determine when you need to purchase insurance, consider the best way to handle each of your risks. Because your risks change over a lifetime, evaluate your situation every few years and make appropriate changes. Can your savings cover a financial loss so that you don't need to buy insurance? Increasing the deductibles (the portion of a loss that you pay) on your policy usually saves you money as well. However, when self-insuring or carrying high deductibles on policies, you must set aside the necessary funds in your emergency cash reserve to pay for those expenses in case of a loss.

Risk management strategies can be combined with savings and investments to achieve financial goals (e.g., buying cash value life insurance). However, be careful to ensure that your strategies provide the best return on the money involved. Determine if insurance protection can be purchased less expensively so that you can invest the savings for a greater overall return.

Action Steps Risk Management

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