

[Financial literacy should include insurance considerations](http://www.netquote.com/home-insurance/financial-literacy.aspx)

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People who are inspired to learn more about their finances during Financial Literacy Month shouldn't overlook the effect that insurance can have on their bank accounts.

Each April, financial education advocates urge consumers to take time to study money issues. An important part of achieving financial literacy is understanding how insurance affects your bank account, says Tony Steuer, director of financial preparedness at United Policyholders, a consumer advocacy group. Having the proper coverage can shelter you from hardship and poverty, Steuer says. "It protects us against risks that we can't afford to take care of out of pocket," he says.

Basic insurance literacy starts with reading your auto, health, home and life insurance policies. Most of these policies gather dust after they're purchased, says Pete Moraga, a spokesman for the nonprofit Insurance Information Network of California.

"I can't tell you how many people get a policy, throw it in a drawer and never look at it until it is time for a claim," he says. "The result is you may not have the coverage you think. Always read your policy. If you don't understand it, call your agent or insurance company."

Evaluating your insurance protection needs is an ongoing process. As your circumstances change, so will your needs. Over time, the amount of possessions you own may increase, requiring more homeowner's insurance. The arrival of a child may lead you to buy additional life insurance. If your risk of filing a claim drops, you may qualify for a discount. For example, if you begin working from home and start driving less, you may be eligible for a reduction in your car insurance premium.

Before you make policy changes, determine how much coverage you have and the range of each policy, says Adam Kerns, assistant general counsel of the American Insurance Association trade group. "The key is to get all the information before making a decision," he says.

The goal of insurance is to make you financially whole following a mishap. You can learn insurance basics on websites such as those for the nonprofit Insurance Information Institute and the nonprofit LIFE, a consumer advocacy group.

Shopping around

Buying insurance doesn't have to be difficult. Numerous insurance websites and insurance agents can make the task simpler. The important thing is to do comparison shopping and make wise choices. "I think one of the biggest misconceptions is that insurance is cookie-cutter, that all insurance is the same," says David Isaac, senior product manager at MetLife. "We look at commercials and advertisements. They talk about how much money can be saved. It leads people to think that price is the only thing that matters."

Instead of focusing only on cost, determine what perils are covered. You also should weigh the possible benefits that a policy offers against what you'll have to pay. For example, if you're healthy and rarely visit a doctor, you may be comfortable choosing a health insurance policy with a high deductible to reduce your premium. If you become sick, your out-of-pocket costs will increase, but you'll still be covered for major illnesses.

Many insurance companies point out that you can save money by "bundling" car and home insurance policies with one company. Steuer says insurers fail to mention that it may be possible to save more money by shopping for policies separately and comparing prices, rather than buying a bundled package from a single company.

"You have to be responsible for yourself," he says. "Don't rely on the insurance agent or the insurance company to take care of you."

Steuer suggests checking your insurer's financial health before you make a purchase. The idea is to make sure the company will be around when it's time to file a claim. You can get help online by visiting various rating services, such as A.M. Best, Moody's and Standard & Poor's.

Finding the right homeowner's insurance

A basic error that consumers often make is when shopping for homeowner's insurance is confusing real estate market values with home replacement costs. You need to be insured only for an amount that is needed to replace your home. That amount, which includes the costs of materials and labor, usually is less than your home's value on the real estate market, since that includes the price of land.

"Even in an earthquake, your land still is going to be there," Moraga says. "It's about how much it will cost to rebuild the structure." Contractors and real estate agents can help determine your rebuilding costs.

Becoming a financially literate insurance buyer can take time, but Moraga says it's worth the effort. "You, as a consumer, have a lot of power over what you pay," he says. "If you are savvy, you can get your costs reduced. Knowing more will help you in the long run."