

Which Insurance You Should Buy, Consider or Skip, According to an Insurance Salesman

Men's Health Magazine

An anonymous agent reveals the dirtiest secrets of his profession, and the rules for building your personal safety net

Remember Woody Allen? The movie director who married his ex-wife's adopted daughter? Well, Woody once said, "There are worse things in life than death. Have you ever spent an evening with an insurance salesman?"

Okay, I'm an insurance salesman, and as any young girl can tell you, spending an evening with Woody would be worse.

At least with me, you learn a little about insurance.

And I'll learn a lot about you. We'll sit there in your living room, and while you're reading my glossy brochures, I'll be estimating your worth, how close you come to living beyond your means, and how worried you are about risk.

For instance, I love your taste in clear plastic sofa covers and that lovely coaster collection! Why risk a horrible stain? Like all salesmen, I enjoy reading people and discovering how they feel about comfort, cash, coasters. . .and cancer.

Real-estate agents may know how to zero in on your dreams; car salesmen may sense your desires. I'm mainly interested in your fears.

Because the truth is, insurance is all about fear—specifically, how much risk you're willing to accept and still sleep well at night. Listen, something very bad is going to happen to every one of us.

The question most people have after "How long do I have to live?" is "How will I die?" Guys like you and me can't picture death, exactly, but we can certainly picture all the terrifying ways a person can die, and so what do you do? You incorrectly overestimate the probability of it happening anytime soon.

And you overinsure yourself. It's like you're thinking, "Yeah, okay, I'm going to die, but you"—meaning me—"you're gonna pay." And me, I'm thinking, "Yeah, buddy." I mean, I work on commission, and it's a sweet one.

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So every year when you pay your premium, I get another taste of your fear. I think you should be insured against every damn thing, because something's going to get you, guaranteed.

What follows is advice from a former top insurance salesman. That would be me. You can call me "anonymous" because if I told you my name, I'd lose all my friends who are still in the business.

This is the advice I give myself, but remember: You didn't hear it from me.

Rule 1

Insure Yourself Against Catastrophe, Not Inconvenience

Life is a gamble. You do not need to spend a penny on insurance if you're absolutely certain you'll live to be a healthy 110-year-old who dies of boredom watching *The View* after a 24-hour bout of rough sex with the volunteer nurse.

But if you have to pay for that home elder care, you'll need insurance. Insurance works best to cover expensive things that aren't likely to happen but would be devastating if they did.

In virtually every realm of insurance—auto, health, home—you want a high deductible. At least \$1,000.

Small claims are costly for insurers because they happen so often, and even the smallest event can mean a lot of paperwork and customer service. We build those costs into low-deductible plans.

Plus, multiple claims on home or auto policies, even small ones, can raise premiums.

A better way: Take the money you save on premiums and put it into an emergency fund. Set aside enough to cover at least 3 and ideally 6 months of living expenses. The fund can cover minor misfortunes that cost less than your deductible, as well as bigger ones you can't insure against, like a layoff.

In other words, don't sweat the small stuff. Just make damn sure you're adequately covered for a total loss of your home.

Believe it or not, two-thirds of homeowners aren't. If you're one of them, you could find yourself forking over tens of thousands if you have to rebuild.

But how much homeowners insurance do you need? Good question. Look at the dwelling replacement number in your policy and divide it by the square footage in your house.

If the result is under 200, you may have a problem. Depending on where you live, \$200 to \$250 per square foot is the average cost to rebuild a house.

Some agents underestimate the replacement cost to keep premiums low; we're all competing for your business, after all. But you can upgrade your coverage to cover the entire cost; it's not that expensive.

When it comes to liability coverage for the dumb stuff you do, keep your limits high. Take auto insurance. Remember, in a crash, somebody always pays.

It won't cost that much to raise your bodily injury liability from \$100,000 to \$300,000. Probably \$100,

give or take—no more than \$150.

Heaven forbid you should plow into a van full of nuns. If your liability coverage were lacking, you could lose your life savings or even your home.

Bodily injury coverage requirements on your auto policy vary by state, but they can be as low as \$20,000. That won't begin to cover you in a serious accident.

Don't skimp on property liability either. It's amazing, but a few states require only \$10,000 in coverage. That's about a bumper, a fender, and maybe a mirror if you back into a BMW.

Homeowners insurance as well as renters and condo insurance) is a treacherous realm, with dozens of clauses that can influence your coverage and premium. Often, coverage of a claim—for water damage, say—depends on the circumstance.

Burst pipe? You're probably okay. Slow leak? Probably not. Before you sign, take 20 minutes to read the fine print so you know what's covered and what isn't.

Rule 2

Hire an Agent

Yes, I know this sounds self-serving. But I'm out of the business and have nothing to gain, so I'm telling you: Do not even think about buying insurance online without talking to an agent first.

He or she can customize plans that make sure you don't miss out on covering big risks or end up with duplicate coverage.

Plus, you want someone who sees the whole picture, not just one piece. Your agent will advocate on your behalf with the insurance company when disaster strikes. Believe me, I've managed to sweet-talk insurance carriers into giving my clients a little break dozens of times.

And I've been Johnny-on-the-spot more times than I can count, when a client's house has been destroyed and I was there to hand over ready cash for clothes and a place to stay.

A human being can also bring a little common sense to the table. I had one client who was turned down by four or five companies because his summer house was less than 1,000 feet from the ocean.

I took a ride out to see the place, and yes, that distance was indeed less than 1,000 feet. But the house also sat on a hill so high that if the sea ever reached it we'd all be looking for Noah. He's now covered. How do you find one? Insurance agents live and die on referrals. The best way to find a good agent is to ask your friends about theirs.

Look for professional accreditations like CIC, CLU, AAI, and CPCU. You'll want an independent agent who can compare prices and coverage across multiple insurers.

If your rep works for a specific company, then you'll be sold only that company's stuff.

Rule 3

Health Insurance Is Complicated, and a Mistake Could Hurt You

A lot of young people don't have their own medical insurance and may stay on a parent's plan until they're 26. But if they don't, or they age out, they're on their own.

The risk is small: A 25-to 34-year-old has just a 10 percent chance of incurring medical costs over \$13,000. And most young folks have few assets, so docs and hospitals may find it hard to collect.

But make no mistake—if you have savings or a home, they'll come after you with lawyers. That could lead to wrecked credit, garnished wages, or the loss of that home.

Even if you get health insurance through work, you're probably still paying something for it. You often get a menu of extra coverage options that add to the paycheck ding.

Again, don't worry about small stuff like lowering your co-pay or prescription costs.

What you should be worried about—and be covered for—is the busted ankle that could result in a \$25,000 hospital bill if it requires surgery. Sound like a lot? That was the bill for my little fall a few years back, but I had insurance, so it cost me only a few hundred out of pocket.

Not all employers offer disability insurance and that's a shame, because long-term disability is a real threat. About one in four people will use it at some point before retirement—the number is higher among workers with heavy-duty jobs like construction.

By law, health plans will cover medical costs for even the most expensive illness or injury. But they won't pay your mortgage if you're laid up for months.

Disability insurance can be pricey on the open market, and if you don't fit the insurer's criteria, you might be turned down. In that case, go for accident or critical illness insurance. You'll get a payment to cover bills or your health care costs.

Rule 4

Insure Yourself Against Reality

Have a complicated, expensive life? Consider umbrella insurance. I pay \$184 a year for \$1 million of coverage.

An umbrella policy kicks in once your other liability policies have been tapped. If your rented boat sinks, or a party guest gets drunk and causes an accident, your umbrella policy should cover you.

In general, you should have enough liability insurance to cover all your assets. If you're sued for millions, most insurers will settle for the limits of your coverage, provided those limits are reasonably high.

So how much liability coverage do you need? You already know the answer to that, since it's the total of all you've got.

But if your assets exceed your liability limit, someone will probably be stopping by the house to take some of your stuff away.

What insurance don't you need? Almost everything can be insured. Right now, some lucky agent is collecting a commission for insuring Kim's butt. So retrain your impulse to be completely safe.

Just for starters, don't buy credit insurance, mortgage insurance, trip health insurance, cancer insurance, or wedding insurance.

I mean, would you buy no-trout insurance before you go fishing? How about no-fat-middle-seat-passenger insurance? Or no-cute-women-in-my-local-bar coverage?

Insurance on the cars you rent is trickier. Rental companies love selling it, but your comprehensive auto policy probably already covers you, as do many credit card issuers but check first).

Trouble is, if you have an accident, some companies try to hit you with additional costs that might not be covered by your existing insurance, like the amount the company loses while the car's in the shop, or the vehicle's diminished resale value because of that bent fender you caused.

Unless state law mandates coverage for diminished-value claims, you may get stuck with a big bill.

Car rental companies can be shadier than an Amazonian rain forest, and selling unnecessary insurance is just one way they'll try to pocket your money. It's perfectly legal, and you'll pay.

If you don't know whether your auto policy or credit card covers you, bite the bullet and buy the rental company's overpriced collision damage waiver insurance for peace of mind.

Here's another one to watch out for. A lot of my customers keep collision coverage on their cars long after it makes financial sense.

Have I ever called one and advised him to drop coverage on his old beater? Of course not. But I'll tell you: Don't spend money insuring an older or high-mileage vehicle against collisions.

As a rule of thumb, drop collision when the cost of the premium equals 10 percent of the car's value.

Dental and vision coverage rarely make financial sense. You're just getting prenegotiated discounts from your insurer.

Instead of spending hundreds all at once on the occasional root canal or pair of specs, you're spreading out the cost with a smaller monthly premium.

Rule 5

Life Insurance? You Bet

Term life is the way to go. Ideally, you should buy in as soon as you have your first kid.

Naturally you want to take whatever your employer offers for free, but if you have to pay, shop around.

You might find it cheaper elsewhere.

Make sure you're getting enough to provide for your family if you kick. Lots of impartial websites, like bankrate.com, offer life insurance calculators.

If you're paying into Social Security, your family can receive Social Security survivors benefits too. For the average man with a wife and two young children, that's roughly \$400,000 worth of payments. Be sure to include that in your calculation.

The best way to ensure you'll still have money when you're 85 is to keep some of your investments in stocks during your retirement.

And while most annuities are a bum deal due to high fees, a longevity annuity protects you from outliving your money. Put \$50,000 in one of these at age 65, set it to start paying at age 85, and you'll get around \$16,000 a year. Live to 100 and it becomes the best investment you ever made. But die at 84 and you—and your heirs—get nothing. Oh well.

Some agents will try to sell you life insurance for your kids. Creepy, no? It's also a dumb idea—unless you call your kid Justin or he's a YouTube sensation and pulls in more bank than you.

One thing you can't buy is insurance against making dumb insurance decisions. But if you've read this far, I've got you covered.

Cheat Sheet: Which Insurance You Should Buy, Consider or Skip

ILLUSTRATION BY MICHAEL BRANDON MYERS

Buy

- **Health** If you purchase from a health insurance exchange, pay the extra 8 percent premium for "open access," which allows you to see specialists without a referral, says Jack Hungelmann, author of *Insurance for Dummies*.
- **Term Life** Go for a 20-year plan when you have kids, says John Ryan, C.F.P., a Denver-area advisor.
- **Disability** You can save 40 percent if you're willing to wait 90 days before benefits kick in, says Hungelmann, and another 30 by limiting payouts to five years. Buy a policy that prorates your benefit if you're partially disabled.
- **Auto** Set your liability limits high enough to cover your assets, says Patricia Harman, editor of *Claims*, a magazine for insurance pros. Most insurers will settle within the coverage limits of your policy.
- **Homeowners** Make sure your agent doesn't lowball the replacement value of a home in order to offer a lower premium, says Amy Bach of United Policyholders.

Consider

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- Flood Twenty percent of flood claims are filed in low-risk and moderate-risk areas, and the weather isn't getting less crazy.
- Umbrella Buy this if your assets exceed the liability limits of your homeowners and auto policies. If a guest at your party kills someone while driving home drunk, an umbrella policy will protect you.
- Longevity Annuity It's designed to protect you from outliving your money. And it's better than a classic annuity because it has low up-front costs, says Michael Kitces, C.F.P., who advises other financial advisors. Still, it's a gamble. If you die before payments kick in, your heirs get nothing. But if you live to enjoy a few years of payouts, you'll earn your premiums back and then some.
- Long-Term Care This protects you from the high cost of assisted care, says Ryan—in America, 13 percent of aging parents pay for help. A semiprivate room in a nursing home costs \$80,000 a year.
- Dental and Vision These plans really just offer prenegotiated discounts in exchange for your premium payment, says Kent Anthony of First Group Insurance.
- Accident & Critical Illness Consider it if your employer doesn't offer disability insurance, or if it's beyond your personal budget.
- Auto Rental Your auto insurer and credit card may not pay the "loss of use" and "diminished value" provisions that some rental companies put in the fine print.

Skip

- Child Life Not worth it unless your kid is the family's breadwinner, says Bob Hunter of the Consumer Federation of America.
- Credit, Mortgage, and Trip Health Beware of any insurance that's pushed on you as an add-on to another sale, says Hunter.
- Cancer Obamacare laws make it redundant with your regular health coverage, says Hungelmann.
- Wedding If only you could insure your marriage instead.