

## Managing Tough Times – Insurance: Luxury or Necessity

When people are looking for ways to cut their spending, it may be tempting to slash insurance coverage. Done without real thought, this could seriously endanger a family's financial well-being.

Insurance is not a luxury. It is an essential part of securing your family's safety and well-being. Unless you are *very* wealthy, insurance is the only way to protect yourself and your family from financially disastrous events such as the death of a family provider, destruction of a home, or being responsible for an accident which causes serious injury to someone else. The average person simply *can't* save up enough money to be prepared for such events, so sharing the risk by purchasing insurance is the prudent way to go.

That said, however, be sure to avoid spending more money than you need to on insurance. Here are some tips for making sure you spend your insurance dollars wisely:

- 1) **Review your coverage regularly.** Insurance needs change over time.  
Example 1: Life insurance is very important for parents of young children who would need support if one or both parents die. When the children become adults, however, it may be unnecessary.  
Example 2: For an older, low-value vehicle, the cost of collision and comprehensive coverage is high compared to the relatively low benefit that would be received IF a claim was filed. NOTE: never drop liability coverage, however – an old car can cause just as much damage as a new car, leading to potentially disastrous financial liability.  
Example 3: The dollar figure on your homeowner's coverage needs review every 2-3 years; as building costs rise, even a policy with built-in inflation adjustment might not keep up with the cost of rebuilding a home.
- 2) **Follow the "large-loss principle."** Focus your insurance coverage on the most serious disasters, rather than spending money on policies which would pay out for small losses.  
Example 1: Small thefts or damages to our homes are not disastrous – most families could find a way to cover those costs. On the other hand, theft or damage amounting to tens of thousands of dollars is truly disastrous. With that in mind, consider policies with higher deductibles and therefore lower premiums.  
Example 2: Even death is not a major financial disaster when an individual has no dependents. Funeral costs can usually be managed. That individual *might* choose to purchase life insurance to cover funeral costs or to leave an inheritance or charitable bequest, but that is *much lower priority* than having adequate levels of essential coverage. For those without dependents, life insurance might be a place to cut costs when times are tight.
- 3) **Focus coverage on the loss, not the cause.** Policies which cover losses resulting from specific causes (such as an accident or cancer) will only pay for health care costs or death benefits IF the cause fits the policy. However, when serious illness/injury or death occurs the financial need exists no matter

what the cause. Insurance dollars are better spent on policies which cover health care costs or pay death benefits regardless of cause. For more information on dealing with tough economic times, visit your local extension office or check out ISU Extensions Managing in Tough Times website- [www.extension.iastate.edu/toughtimes](http://www.extension.iastate.edu/toughtimes) or [www.eXtension.org](http://www.eXtension.org) websites 24 hours a day 7 days a week. The Iowa Concern Hotline offers 24 hour confidential assistance for those dealing with stress, financial concerns, and legal questions. They can be reached by calling 1-800-447-1985. These resources can help you find reliable resources backed by research when you are forced to make hard choices during tough economic times.

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