

Financial Risk Management: Insurance Information for Arkansas and Oklahoma Residents

University of Arkansas
Department of Agriculture Economics and Agribusiness

Importance of Insurance

- Workers compensation
- Premises liability
- Vehicle and equipment

Importance of Good Record Keeping Systems

- Illness and injury prevention
- Hazard communication
- Posters and other notices
- Employment records

Importance of Good Record Keeping Systems

- Agricultural management practices
- Obtaining and maintaining all permits
- Documenting exceptions to permit requirements
- Current regulation – environmental, employment, marketing

Types of Insurance

- Life
- Homeowner's or Renter's
- Auto
- Health

Life Insurance

Choosing the Right Life Insurance Plan

- Life insurance provides protection against financial losses caused by a person's death
 - Who does not need life insurance?
 - Individuals with no dependents
 - Individuals with no debt
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Benefits of Life Insurance

- Help with final expenses
 - Bills
 - Burial
 - Provide funds for survivors
 - Can prevent devastating financial situations
 - Depends on beneficiary
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Where to Get Life Insurance

- Employer
 - Policies will vary
 - Private insurance agency
 - Agriculture lender
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How to Qualify

- Medical exam
 - Age
 - Occupation
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Who can be Insured?

- Self
 - Children
 - Spouse
 - Other dependents
 - Employees
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Things NOT COVERED by Life Insurance

- Income and fringe benefits
 - Debt
 - Financial loss
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Types of Life Insurance

- ❑ Term insurance
- ❑ Whole life or cash value life insurance
- ❑ Endowment insurance
- ❑ Package contracts

Types of Life Insurance

- ❑ Group life insurance
- ❑ Mortgage and credit life
- ❑ Universal life insurance
- ❑ Variable life insurance
- ❑ Annuities

Term Insurance

- ❑ It provides maximum death protection with the lowest premium cost
 - Benefits are paid only if the insured dies during the contract time period – the policy “term”

Term Insurance

- ❑ Types of term insurance:
 - **Level-term contract**- issued for specific time period, same premium and payout throughout the term
 - **Decreasing-term contract**- level of protection falls each year
 - **Convertible term insurance**- can change terms fairly easily

Whole Life or Cash Value Life Insurance

- ❑ Provides payment of benefits before insured's death as the cash value accumulates in the policy as well as protection at the time of death

Whole Life or Cash Value Life Insurance

- ❑ Types of Whole Life or Cash Value Life Insurance:
 - **Ordinary life or straight life policy**- premiums paid as long as insured wishes or until policy expires
 - **Modified life contract**- lower premiums in early years of contract
 - **Limited payment life policy**- higher premium for set period, after which no further payments are due

Endowment Insurance

- Primarily a savings contract with a small protection that covers insured if they die before they savings plan is completed
 - Policy matures for the face amount at term end
 - **Most expensive protection coverage**

Endowment Insurance

- Types of endowment insurance
 - Limited-term contract- may extend for 5, 10, 15, 20, or 30 years
 - Retirement income contract- provide \$10/month of retirement income for every \$1,000 of face amount

Package Contracts

- Insurance policies may combine or alter the basic types of insurance to meet special needs for individuals or families

Package Contracts

- Types of package contracts:
 - Family income policy
 - Family maintenance policy
 - Multiple protection insurance contract
 - Juvenile life insurance coverage
 - Jumping juvenile insurance
 - Payor clause
 - Family group policy

Group Life Insurance

- Offered by employers, employee associations, unions, professional associations, savings or investment groups and fraternal societies
- Is usually a form of term insurance
- **Generally the least expensive form of life insurance for qualified members**

Mortgage and Credit Life

- Offered by many financial institutions to consumers who obtain mortgages, car loans, or other large purchases
 - This is decreasing –term insurance that will expire when the loan is paid off

Universal Life Insurance

- This provides both protection and a savings element
 - This is similar to a combination of whole life protection with a savings plan that is tied to interest rates currently being paid in the financial market

Variable Life Insurance

- Allows the insured to choose the investments that are made with the premiums and cash accumulates
- ***Should only be used by individuals who are very knowledgeable about investments***
 - Unprofitable investments will slow the growth of the policy's cash value

Annuities

- Actually another form of investment
- *Sold by insurance companies, but these contracts are not insurance policies*
- Designed to provide income for a set period of time in return for the payment of a premium
- Can help protect individuals from outliving their income

Helpful Knowledge

- **Conversion**- many term policies may be turned into a permanent form of coverage at or before the date the term policy expires, without providing proof of insurability
- **Double-indemnity**- a writer that will provide two times the face amount of the policy if the insured dies from an accident

Helpful Knowledge

- **Mortality table**- a table that shows the number of deaths per thousand and expectation of life at various ages
- **Renewability**- allows you to renew a term policy without undergoing a medical examination

Helpful Knowledge

- **Suicide clause**- requires payment of face value of policy if the insured commits suicide after the policy has been in force two years, but no payment during the first two years except for the return of premiums

Helpful Knowledge

- ❑ **Uninsurability**- a person's physical condition does not meet minimum medical and /or other standards such as occupation, which are listed on mortality tables
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Sources for More Information

- ❑ University of Arkansas Cooperative Extension Service; Little Rock, AR
 - **Judith R. Ulrich**; Ph.D., CFP, Extension Family Resource Management Specialist
 - http://www.uaex.edu/Other_Areas/publications/HTM/MP-336.asp
 - ❑ **State Farm Insurance Homepage**:
www.statefarm.com/insuranc
 - **Tommy Reddick**; State Farm Insurance Representative; Fayetteville, AR; 479-442-2291
 - **Mandy Bergdalle**; State Farm Insurance Representative; Enid, OK; 580-237-3403
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Homeowner's Insurance

What is Homeowner's Insurance?

- ❑ Protects you from damage that may affect the value of your home
 - ❑ Also includes personal liability and the theft coverage
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Homeowner's Insurance

- ❑ An inventory of your possessions helps determine how much homeowner's insurance you should carry, and can help get your things replaced (or returned) if stolen
 - ❑ Detailed records of antiques, jewelry, silver, sporting goods, major appliances, and collector's items are very important
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Renter's Insurance

- ❑ Works like homeowner's insurance
 - ❑ This insurance provides protection for those who rent property to insure their valuables against harm
 - ❑ Land lord does not generally provide coverage, must get yourself
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How Much Coverage is Needed?

- The amount of personal property coverage you need depends on how much your property is worth
 - The **minimum** amount of coverage a married couple should have is **at least \$20,000**
 - Premium on \$20,000 coverage is \$180.00 per year
 - Will vary from area to area

Sources for More Information

- **State Farm Insurance Homepage:** www.statefarm.com/insuranc
- **Tommy Reddick:** State Farm Insurance Representative; Fayetteville, AR; 479-442-2291
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Auto Insurance

What is Auto Insurance?

- An auto insurance policy is a contract between you and an insurance company
- You pay a premium, and in exchange, the insurance company promises to pay for specific car-related financial losses during the term of the policy

Why Do I Need It?

- In some states, to drive (get license plates) you must carry:
 - Liability coverage to pay for losses you cause others, or:
 - No-fault coverage to pay you and your passengers for medical related expenses caused by injuries from a car accident, regardless of fault, or
 - Both coverages

Why Do I Need It?

- Even in states where coverage isn't required, drivers must, by law, be able to pay for losses they may cause others
- Coverage for vehicle damage usually is necessary to finance a car

Without Insurance, your risks are:

- You risk paying for the full cost of:
 - Any harm you cause others, and/or:
 - Repairing or replacing your car if its damaged or stolen
 - No transportation to work, etc.
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Arkansas State Minimum Requirements

- The state of Arkansas requires a person to carry liability insurance, which only covers bodily injury
 - This is a 25/50/25 premium
 - 25,000 for personal injury
 - 50,000 for accident
 - 25,000 for property damage
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Arkansas State Minimum Requirements

- Base Rate is \$145.65 every six months
 - Amount will vary depending on:
 - Vehicle type
 - Amount of driving the person does
 - Age
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Oklahoma State Minimum Requirements

- The state of Oklahoma requires a person to carry liability insurance, which only covers bodily injury
 - This is a 10/20/10 premium
 - 10,000 for personal injury
 - 20,000 for accident
 - 10,000 for property damage
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Oklahoma State Minimum Requirements

- Base Rate will vary depending on:
 - Credit history
 - Driving record
 - Safety aspect of vehicle
 - Age of vehicle and age of person driving the vehicle
 - Vehicle type
 - Amount of driving the person does
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Oklahoma State Minimum Requirements

- If you have a lean on your vehicle you must carry comprehensive and collision damage insurance
 - Comprehensive covers acts of God, things that are out of your control, such as: hail, fire, storm, animal damage, vandalism, etc. Damage resulting from these types of acts will not be held against you, i.e. they will not be reported on your record
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Oklahoma State Minimum Requirements

- Collision coverage will pay for damages to your vehicle, up to the policy amount, if you collide with anything and you are at fault
- Premiums:
 - Comprehensive Coverage: Minimum: \$0 Maximum: \$500
 - Collision Coverage: Minimum: \$250 Maximum: \$500

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Health Insurance

What is Health Insurance?

- Health insurance helps to ensure that you and your family are protected against the financial hardships that may result from health care expenses

Where to Get Health Insurance

- Employer
 - Percentage of coverage is solely up to employer
- Private Insurance Agency
- Agriculture Lender

Types of Health Insurance:

- **Individual Medical Coverage**
 - Primary medical insurance coverage designed for people who don't have this type of coverage through their employer, or another group

Types of Health Insurance:

Medicare Supplement Insurance

- Designed for the senior citizen who participates in Medicare, yet desires additional coverage to help with many of the expenses that Medicare does not pay

Types of Health Insurance:

Hospital Income Insurance

- Ideal for supplementing your primary health insurance, it provides a pre-determined, daily benefit amount for those extra, unbudgeted expenses that arise due to a hospital stay for a covered sickness or injury- from meals out and child care to policy deductibles and co-insurance

Disability Insurance

- The amount of coverage a person receives through disability insurance will vary depending on:
 - Occupation
 - Income
 - Age
 - Health

Types of Disability Insurance:

Disability Income Insurance

- Ideal as a primary income replacement plan or as a supplement to your salary continuation or group disability plan. Designed to keep you financially stable during difficult times by paying a monthly income, directly to you, when you are sick or hurt and unable to work

Types of Disability Insurance:

Mortgage Disability Income Insurance

- An affordable disability product, designed to specifically protect one of your most important assets - your home. Provides you with funds to help meet your mortgage loan responsibilities should you become totally disabled

Types of Disability Insurance:

Individual Credit Disability Insurance

- Designed to help those who have a loan payment in equal, regular monthly installments, it pays a monthly benefit directly to your financing institution should you become totally disabled

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Presentation References

- ❑ University of Arkansas Department of Agricultural Economics and Agribusiness
 - **Jennie Popp;** 218 B Agriculture; jhpopp@uark.edu
 - **Janie Hipp;** 217 AA Agriculture; jhipp@uark.edu
 - ❑ University of Arkansas Cooperative Extension Service; Little Rock, AR
 - **Judith R. Urich;** Ph.D., CFP, Extension Family Resource Management Specialist
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