

Office for Financial Success – Financial Tip of the Week  
A service of the Personal Financial Planning Department  
College of Human Environmental Sciences  
University of Missouri-Columbia  
(10/16/2009)

Kar (sic)

This morning I had a couple of “good neighbors” speak to my Financial Planning: Careers class about careers in the property and casualty insurance field. It was very enlightening and, frankly, I still have trouble imagining a product that sells itself more easily than one that is either required by the mortgage lender, if you have a home with a mortgage, or by the state, if you own and drive a car in a state that requires automobile insurance. In Missouri, for example, in order to register your car you must prove that you have, at least, 25/50/10 insurance. That is, you must have at least \$25,000 in liability insurance coverage per person, \$50,000 minimum total liability coverage per accident, and \$10,000 minimum property damage liability. If you have this minimum insurance, you are woefully underinsured! Adding to this peril, nationally, it is estimated that more than one out of seven drivers on our roads do not have insurance. The number of drivers without insurance, by state, ranges from one-in-four drivers in Mississippi to only four-in-one-hundred drivers in Maine. (They must be afraid of moose.) Moreover, many drivers who are insured do not have uninsured or underinsured motorist protection, if they were to have property or bodily-injury losses, as a result of an uninsured or underinsured motorist. (It is a pretty good bet that, if a driver does not have insurance, it will do you little good to sue them.)

So, what is my tip to you? First, liability coverage is crucial to protect your long-run goals. If you are responsible for an accident – say your car spins out of control on an ice patch and it hits a semi-truck that rolls and badly injures, even kills, a passenger and totally devastates their Mercedes – your \$50,000 in liability coverage is not going to pay the bills and the claims from the lawsuit. You say, “So what? I do not have any money.” Maybe not now, but the other person will be able to garnish your wages for as long as it takes to recover their damages. For an extreme case, this could forever ruin your chance for financial success. Hence, your liability coverage should be at least equal to \$500,000 or \$1,000,000. Most, in fact, recommend that it equal the present value of all your human and non-human assets – everything you could lose – which could amount to much more than that.

Second, purchase uninsured and underinsured motorist coverage. Do you think those that are without insurance are better drivers? Do you think you do not have to worry about them? If so, get realistic in your evaluation of others. Don’t risk the loss of your future earnings, in this case by being disabled in a car accident that is the fault of a loser, uninsured driver. It is not worth the risk.

Again, here I am spending your money and giving it to the insurance company. So, let’s take some away from them. With your insurance you probably have collision, to protect your car in the event of an accident that is your fault, and comprehensive, to protect your car and its contents from perils other than collision. For these insurances, you should see how much lower your premiums would be if you increased your deductibles to a higher dollar amount. The more you self-insure, the lower will be your insurance premiums and, if you own a clunker with little value, stop your collision and comprehensive coverage all together. The most that they will pay you, regardless, is the market value of your car.

Ok, I agree with you that if you don’t have the money to cover the deductible you could be in a real fix. That is precisely why you must have an established emergency fund. I consider an emergency fund,

next to a good education that prepares you for a career, the cornerstone of a plan that leads to financial success.

(For more on emergency funds see our archived “Tips” from September 21, 2006 or last week’s for ideas on how to manage your cash.)

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