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Don't Buy Too Much Insurance!

Firms are pushing everything from cancer coverage to tuition protection. We check the latest policies—and lay out what you really need.

By JESSICA SILVER-GREENBERG

In this age of hurricanes, tsunamis, market crashes and banking crises, it isn't any wonder that people are feeling insecure. Companies are responding by rolling out a raft of newfangled insurance policies designed to protect against real—and perceived—risks.

Last month, for example, Home Value Insurance introduced a policy that promises to protect Ohio homeowners from tumbling property values. The firm plans to expand its offerings across the U.S. Great American Insurance Group, meanwhile, in August started selling policies that provide supplemental unemployment insurance, pitched as a way to guard against sudden job loss.

And earlier this year, American Express introduced an identity-theft protection service that helps policyholders detect fraudulent activity on their credit cards, while lender SLM, commonly known as Sallie Mae, began offering tuition insurance if a student drops out of college for medical reasons.

It is only natural to want to protect your family. But some insurance products that sound good don't hold up to closer scrutiny.

Enlarge Image
Edison

Loading up on policies "makes sense as a psychological phenomenon, but it doesn't make financial sense," says Zur Shapira, a professor of management at New York University who has studied insurance. After all, the more money you spend on protection, the less money you will have left to protect.

"If you can afford to replace it, don't insure it," says J. Robert Hunter, director of insurance for the Washington-based Consumer Federation of America and a former Texas insurance commissioner.

Christine Schmitz, a certified financial planner in Owing Mills, Md., recommends focusing on getting the most value from traditional insurance policies and skipping the rest. "Make sure you have great health insurance," Ms. Schmitz says. "Don't spend the extra $100 buying piecemeal insurance coverage."

Start by asking the following questions, says Scott Simmonds, an independent insurance consultant in Soto, Maine: How long will I have to wait before the coverage kicks in? What is excluded from coverage? How long will the coverage last? Then weigh those

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Also, ask a prospective insurer for the "loss ratio," which measures how much of your premiums are paid out in benefits, says Glenn Daily, a New York-based insurance consultant. The higher the number, the better the value. But be prepared: Firms aren't required to provide that information to policyholders, Mr. Daily says.

Here is a guide to the insurance policies you can safely skip—and those you shouldn't be without.

Juvenile Life Insurance

Just had a baby? Chances are that you will get an offer to buy the infant life insurance. The pitch: If a horrible illness afflicts him or her, the policy will provide you with a lump sum to put toward burial costs or unpaid medical bills. A number of firms, including Gerber Life Insurance, Northwestern Mutual Life Insurance and State Farm Insurance, offer a version of life insurance for babies.

In addition, many policies for adults allow policyholders to buy a rider that covers all the children in a family. Premiums average $213 a year, according to Mr. Hunter.

But the chances of a child dying are slim—only one in 3,000 children perish each year—meaning you are likely shelling out cash needlessly, says Jim , an insurance actuary in Concord, N.H.

Instead of getting a juvenile life-insurance plan, consider increasing your own coverage, suggests Consumer Federation of America's Mr. Hunter. "If the primary breadwinner dies, the financial consequences are far more severe, and there is a greater likelihood of that happening," he says.

Another supposed perk: The plans allow parents to get a head start on saving money for their children. Typically companies promise to set aside a portion of premiums that kids can tap into once they reach age 18. But the savings often don't materialize, Ms. Schmitz says, since they tend to accumulate only a couple thousand dollars of savings over the lifetime of the plan.

You can produce better long-term savings for your kids by investing money directly into a 529 college-savings plan, Mr. Hunt says. Such an account allows you to accumulate college savings without taxing investment earnings.

Tuition-Protection Insurance

Another insurance policy aimed specifically at parents: tuition-protection insurance. The biggest player in this niche is A.W.G. Dewar, owned by OneBeacon Insurance Group. The insurer offers policies at 200 U.S. colleges and universities as well as 1,300 primary and secondary schools.

The policies typically allow you to get back some tuition money if your child gets sick, has to withdraw from school or gets injured—but not if Junior fails to meet academic standards.

It is perfectly understandable why parents, forking over thousands of dollars a year in tuition, would want some guarantee, says Mark Kantrowitz, publisher of FinAid.org, an independent college-planning website. He points out that tuition at California's public colleges rose by at least 20% this fall, for example.

Costs vary by school and provider. Parents of undergraduate students at Duke University in Durham, N.C., for example, pay $257 per academic year for insurance through Dewar, while tuition insurance for students at Barnard College in New York costs $602 a year.

Still, he says, the insurance isn't always a good deal. Most colleges already offer some kind of refund if a student drops out because of a medical condition. What's more, the policies set serious restrictions; some won't refund tuition if the withdrawal is due to mental health or if a student simply drops out because of disinterest or other factors.

"While colleges have refund policies, their rate of reimbursement declines with each passing week and typically expires six weeks into the semester," says Dana Tufts, Dewar's president.

Identity-Theft Insurance

In June, Citigroup disclosed that a hacking attack had breached its computer systems,

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cyberattacks on financial institutions. Such attacks have made consumers more skittish, says Jean Salvatore, a spokeswoman at the Insurance Information Institute, a nonprofit supported by the insurance industry.

A wide range of companies are offering some form of insurance against identity theft, particularly credit-card theft. Some include credit monitoring and will send alerts if a new account is opened under your name or there are sudden moves in account balances. Some even offer to cover any expenses fraudulently charged to credit cards. Other companies offer broader coverage, such as cash to cover expenses associated with identity theft.

But such coverage is repetitive, say financial planners, because credit cards already come with built in identity-theft protection. Most cardholders aren't responsible for any unauthorized or fraudulent charges on a card and issuers provide free credit-monitoring tools, which render the extra coverage unnecessary.

In addition, some firms have come under fire for overstating the effectiveness of their products. Last year, LifeLock, which offers identity-theft protection starting at $10 a month, agreed to pay $11 million to the Federal Trade Commission and $1 million to 35 state attorneys general to settle charges that the company made false claims to pitch its services.

"The Federal Trade Commission thought that we were overstating the value of our product," says Todd Davis, LifeLock's chief executive. "But they weren't criticizing our business practices."

Payment-Protection Insurance

This coverage is offered by credit-card issuers. The promise: If you lose your job or get sick, the issuer will waive finance charges and minimum payments. The price of the insurance ranges from 85 cents to $1.35 a month for every $100 of the card's balance, according to the Government Accountability Office.

"The policies simply aren't worth it, especially because they often have undisclosed hurdles to actually getting that coverage," says Chi Chi Wu, a staff attorney at the National Consumer Law Center in Boston.

There isn't hard data tracking exactly how many issuers are offering this service, but analysts say banks have started to offer it in larger numbers, in part to recoup revenue lost from the series of law changes beginning with the Credit Card Accountability Responsibility and Disclosure Act of 2009. The law restricted certain controversial billing practices and siphoned fee revenue, according to Josh Frank, a senior researcher at the Boston-based Center for Responsible Lending. Add-ons such as payment-protection insurance help lenders offset revenue losses, he says.

The nation's nine largest card issuers received $2.4 billion in fees for debt-protection products in 2009, but paid out only $518 million in benefits to consumers—a low payout ratio, according to the GAO.

Some credit-card companies are pushing the plan to cardholders without disclosing its restrictions. Ronald Washington, a military veteran who lives in the Bronx, N.Y., says he purchased payment-protection insurance from Discover Financial Services, assuming the Riverwoods, Ill., company would make his credit-card payments if his pre-existing injury prevented him from working. He says he discovered months later that he never qualified for the insurance because he already was injured when he applied.

"I was never told that at all," Mr. Washington says. "Why would they take my money if I didn't qualify anyway?"

The Federal Deposit Insurance Corp. is reviewing Discover's fee-based-product-marketing practices, including its payment-protection plan, according to a July filing with the Securities and Exchange Commission. Minnesota Attorney General Lori Swanson also filed a lawsuit against the company, alleging that it aggressively and deceptively signed up customers for the program. The lawsuit is pending.

Leslie Sutton, a spokeswoman for Discover, declined to comment on Mr. Washington's complaint, but said the company "seeks to maintain long-term relationships with our cardmembers and has enjoyed the highest level of customer loyalty among leading

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Minnesota attorney general, Ms. Sutton says, "We believe our current practices address concerns."

Cancer and Critical-Illness Insurance

Insurers offer two types of policies designed to supplement existing health-insurance coverage: cancer policies and those that cover a broader range of critical illnesses. The problem: Many are riddled with exclusions and don't cover the most common form of the illnesses they purport to address, says Anthony Wright, who heads Health Access, an advocacy group in Sacramento, Calif.

For instance, he says, some cancer-insurance plans exclude skin cancer entirely, while others won't cover basal-cell skin cancer, the most common kind.

The plans range in cost, with premiums between $200 and $350 a year for healthy people, according to Cheryl Parcham, who analyzes private-market insurance plans for Families USA, a Washington-based health-advocacy organization. In addition, some of the policies might not be hefty enough to cover expenses if a policyholder gets sick, she says.

David Beach, a 42-year-old small-business owner, bought a cancer-protection rider along with a health-insurance policy from Mid-West National Life Insurance, a unit of HealthMarkets in North Richland Hills, Texas. The policy didn't cover the treatment he needed in January for a sarcoma in his left thigh—so he bought a more robust health-insurance policy that covered his care. Mid-West National declined to comment.

Some critical-illness plans don't cover common illnesses such as cancer, or set strict limits on the number of illnesses they do cover. Take Aflac's Lump Sum Critical Illness Insurance. The Columbus, Ga., company's plan covers only one illness within a 180-day period. The limitations are in place to keep costs down and "to find a balancing point" between costs and coverage, says Tom Morey, Aflac's vice president of product development.

Before purchasing one of these policies, look to see when the benefits expire. Unum Group's critical-illness policy pays only about half of its benefits if a policyholder gets sick after they turn 70.

"The 50% payout of benefits after the age of 70 is prevalent in the industry and enables insurance companies to keep this valuable coverage highly affordable," says Mary Clarke Guenther, an Unum Group spokeswoman, adding that Unum does offer plans without the benefit reduction.

Divorce Insurance

One firm is offering protection plans in case "happily ever after" doesn't pan out. Roughly 22% of women and 21% of men over the age of 15 have been divorced, according to the most recent data from the U.S. Census Bureau.

SafeGuard Guaranty, a firm based in Bernersville, N.C., rolled out a divorce-insurance program called WedLock last year. The idea: For $15.99 a month, you can secure $1,250 in coverage, which can be used to cover the costs of divorce or any other expenses. The only problem is that couples have to wait four years before they can cash in the policies. That means if you get divorced before your fourth anniversary, you don't get the benefit of any of the premiums.

SafeGuard CEO John Logan says the four-year restriction is meant "to protect ourselves against people who would game the system," and that policyholders can buy a rider that ensures their premiums are refunded if they divorce before the policy kicks in.

Mr. Daily, the New York-based insurance consultant, says divorce insurance is unnecessary since you could just set aside money into a general emergency fund. Mark Baer, a divorce lawyer in Los Angeles, says he always advises his clients against buying this kind of insurance. "It's just throwing money into a black hole," he says.

What to Buy

In addition to health insurance, some other types of coverage are indispensable. Among them:

• **Term life insurance.** This type of life insurance—which provides a death benefit for a

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best bet for most people, say independent insurance consultants. "Permanent life" insurance, by contrast, combines a death benefit with a savings account, and carries steep commissions. Unless you are using the policy to build tax-deferred savings, there are few real benefits.

• **Disability insurance.** It often is a good deal, say financial advisers, because it pays a portion of your salary, unlike other illness-related insurance that offers a lump sum.

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Check whether the plan will cover just a percentage of your salary or will factor in payments based on total income, including commissions and bonuses. And look for a plan that will provide benefits if you can no longer perform your current job; some plans will prevent you from receiving benefits if you are still able to do a comparable job. Finally, check whether there are ceilings on payments for certain conditions, such as mental-health illnesses.

• **Umbrella liability coverage.** These policies help protect your assets from seizure if you are sued, and are well-suited for people who have accumulated assets, like a home, and work in professions vulnerable to lawsuits, such as medicine.

Basic policies cover only a portion of your total assets and often skimp on coverage for brokerage accounts, cars and retirement accounts. If you consolidate your insurance accounts by getting car and home insurance from a single insurance firm, you can save on premiums for umbrella liability coverage, too. But if you are renting, and don't own your home, you can skip the coverage.

• **Earthquake and flood insurance.** Most homeowner's policies don't cover earthquake and flood damage. If you live in an area prone to natural disasters, it is worth forking over extra to get protection.

The vast majority of flood-insurance policies are offered through the National Flood Insurance Program, which is administered by the Federal Emergency Management Agency. The insurance covers water damage to homes from events ranging from tsunamis to mudslides, and costs, on average, around $570 a year, though premiums are higher in high-risk zones. You can get more information at FloodSmart.gov.

Some property insurers sell earthquake insurance as an extra in a standard homeowner's policy or separately. Deductibles range from 2% to 20% of the insured value of the home, says Mr. Simmonds, the independent insurance consultant.

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