Karen Telleen-Lawton: Manage Life, Health Risks to Help Ensure Peace of Mind

It's important to take the time to balance your family's needs with insurance coverage

By Karen Telleen-Lawton, Noozhawk Columnist | Published on 01.11.2011 2:45 p.m.

Risk management is a conundrum: You can’t afford exposure to all the risks of modern life, nor can you afford to insure every risk. The trick is to evaluate the severity and frequency of potential risks.

For risks with low severity and low frequency, such as hitting a ball through a window, you can retain the risk and pay the damages directly. Low severity/high frequency events are important to reduce by changing your habits. Insurance deals with events that are high severity and low frequency.

After the Jesusita Fire, I examined homeowners insurance for its blessings and curses. Health insurance can be evaluated using the same basic reasoning of reducing risks and insuring against catastrophe.

Most employers offer medical insurance. The cost depends in part on deductibles and co-pays, plus the option of HMO (where your physician choice may be more limited) vs. PPO (where the coverage may be more limited).

It’s reasonable for a healthy young adult to choose a high deductible and high co-pay policy. For others, it’s important to look at your family history before making that choice. The best way to save medical costs long term is to make healthy life choices, such as diet, exercise and flossing. This can’t protect you from bad luck or genes, but it will reduce your costs below what they would have been otherwise.

Disability coverage is as important as medical insurance, especially for young adults. The morbidity rate (rate of disability) is high for young adult males.

Accidents and major illness cripple families with medical bills for years if unprotected.

For long-term insurance such as disability or life, you have to consider whether your insurer will be solvent when you have a claim. Insurance companies are required to pay into a state insurance guaranty association as a condition of becoming authorized. The resulting pool of funds is used to partially pay claims for bankrupt insurers. Insureds are not always in full.

One recommended guideline is to choose a company that has one of the three highest ratings from at least three of the rating services. The major ones are A.M. Best (which rates only insurance companies), Standard & Poor's, Moody's, Fitchand Weiss.

Life insurance products are confusing because there are a spectrum of products catering to a variety of needs. The most basic need is to fund a specific goal, such as child support, college education or mortgage payoff, if the main breadwinner dies. This can be covered with non-cancelable term insurance and is relatively inexpensive.

For a need that will continue into the breadwinner's older age, term insurance becomes increasingly expensive. Those who foresee a permanent need for insurance, perhaps as ready cash to settle an estate or to support a special-needs child or adult, tend to buy whole life insurance. This is much more expensive, but it builds up a cash value that can be borrowed. Some use it as sort of a forced savings program.

Being a very long-term product, whole life is particularly vulnerable to the health of the insurer. Variable whole life policies are safer in that each account is kept separate and thus more difficult to reach by creditors. But the savings component of variable policies is not guaranteed.

Understanding and managing your family's risk and subsequent insurance needs is no picnic. But in finding your balance point and re-evaluating it annually, you will have insured sustainably and improved your peace of mind.

— Karen Telleen-Lawton's column is a mélange of observations supporting sustainability. Graze her writing and excerpts from Canyon Voices: The Nature of Rattlesnake Canyon *at www.CanyonVoices.com*.