

SAVINGS

Insurance Demystified: Answers to Top 10 Insurance FAQs

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by Rebecca Lake

Whether you're buying a home, renting a car, or traveling overseas, chances are you'll consider what kind of insurance – if any – you'll need. After all, the right policy can help protect you and your assets. But figuring out just how much coverage you'll need, what your policy actually covers, and the type of protection that makes sense for you isn't always easy. Here, experts answer some commonly asked questions about insurance.

What's a deductible, and how much should it be?

The deductible is what you're expected to pay before your insurance company contributes to your expenses. "That's important to know because the deductible is one of the biggest factors in determining premiums," says Brian Bartold, a licensed insurance professional with VFG Associates in Livonia, MI. Is a higher deductible better? Not necessarily. While it can result in a lower premium – in other words, the amount you pay for your policy – you have to weigh the long-term savings against what you'd pay up front.

But there's no one-size-fits-all answer. Take Bartold, for instance, who is single and in such good health that he hardly visits the doctor. He opted for a health insurance policy with a higher deductible and a lower monthly premium. But, he said, if he had a family, he would have chosen a policy with a lower deductible, because the odds of having to use the insurance would be greater.

Before committing to a certain deductible, Bartold recommends crunching the numbers to see what deductible makes the most sense for you. "Ask yourself, is saving \$15 a month really worth having to pay out \$500 more if a claim were to be made?" he says.

What does homeowner's insurance cover?

Generally, homeowner's insurance covers any damage to your home caused by fire, wind, hail, lightning, theft, or vandalism. You're also covered if someone gets hurt on your property – for example, if your dog bites your next-door neighbor or a delivery man takes a tumble down your front steps.

Earthquake and flood coverage usually requires a separate policy. When purchasing a policy, be sure to find out what it does and does not cover, how much the deductible will be and whether you need separate coverage for natural disasters. This due diligence can help you avoid any surprises, says Cheryl Constantino, a partner and personal CFO with Las Vegas-based The Wealth Consulting Group.

Does my homeowner's policy cover me if I rent out my home?

Homeowner's insurance usually doesn't cover business activity, which would include renting out part of your home to a paying guest. If your insurer decides you were using the home for business purposes, any claims for damages could be denied. If you're considering renting out part or all of your home, research whether the service you're signing up with offers additional insurance. Airbnb, for example, offers Host Protection Insurance, which gives you up to \$1 million in coverage for eligible losses.

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I'm a renter. Do I really need insurance?

You don't need to be a homeowner to benefit from insurance. Renter's insurance covers the cost of replacing your personal belongings in the event of a fire or break-in. It also includes liability coverage if someone is hurt while they're in your home, or if you, your family, or even your pet damage someone else's property. But Bartold recommends paying special attention to the liability limits. This covers the cost of defending you in court and court awards, up to the limit, according to the Insurance Information Institute. (They usually start around \$100,000.) Should you be hit with a lawsuit and the person suing you wins, you could be stuck footing the bill for the difference if the amount of money they're awarded is more than your liability coverage limit. Bartold suggests keeping an inventory of your personal items, along with an estimate of their value, particularly for expensive or hard-to-replace items, like antiques, laptops, and jewelry. Taking stock serves two purposes: First, knowing what you own can make filing a claim that much easier. Second, it can help you determine what your things are worth so you know how much coverage you need. (You should also do this for homeowner's insurance.)

Streamline the inventory process by using your smartphone to record a room-by-room walkthrough. You can also use apps like [Encircle](#),* which let you log and change items easily, or [Know Your Stuff](#),* which lets you catalog any details about your belongings and include photos.

Do I need to take out a different insurance policy if I'm subletting?

Your renter's insurance may cover liability claims made against you if your tenant or one of their guests is injured. It wouldn't, however, extend to their personal property or offer them liability protection. For that, they'd need their own renter's policy.

If you're considering subletting, give your insurance company a heads up about your plans. Some policies specify that the policy holder must be living at the property to be covered.

When do I need travel insurance?

There are different types of insurance you can buy before you head off to your next adventure, and each serves a unique purpose. Emergency medical coverage or a travel accident policy may be worth exploring if you're worried about getting sick or hurt while you're away from home. But keep in mind that restrictions around what qualifies for coverage varies by insurer, so read the fine print. For instance, your travel accident policy may only cover you for dismemberment or death. That may be acceptable if you're planning an extreme adventure, like going skydiving or hiking through a volcano while on vacation, but may not work if you're simply traveling to the next state over for business.

Booking an expensive trip and want to ensure you don't lose money if a natural disaster forces you to change your plans? You may want to investigate trip cancellation insurance, which may reimburse you for nonrefundable prepaid expenses.

A third type of coverage, baggage delay insurance, can compensate you if your bags are lost or left behind at the airport. In most cases, there needs to be at least a 24-hour delay before your coverage will kick in, and reimbursement is usually limited to \$1,000 or less. Depending on the policy, you may get cash for your bags or vouchers good towards a future trip.

As Constantino points out, some credit cards offer travel insurance to cardholders. Check your card's benefits to see if it's included.

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Do I need different insurance if I'm leasing a car? What about buying versus renting?

Whether you're buying or leasing a car, nearly every state, except New Hampshire, requires you to have liability coverage. This protects you if you're at fault in an accident, and if you hurt someone or damage their property. Your policy would cover the other driver's medical bills, lost wages, and repairs to their vehicle.

If you're taking out a car loan, most banks will require you to have collision and comprehensive coverage. A leasing company may require those coverages as well. These two kinds of insurance

pay for repairs to your car if you hit something or if the car is damaged by theft, vandalism, or falling objects.

When you rent a car, the liability and comprehensive coverage you have on the car you lease or own should be sufficient. If the car you're renting is a much newer model than yours, check your coverage limits to make sure they're adequate. If not, explore whether it makes sense to purchase the rental agency's insurance or whether your credit card offers rental car coverage.

When do I need life insurance?

When you're on the fence about whether to get life insurance, consider who would be impacted financially if you were to pass away, suggests **Tony D'Amico, a certified financial planner and CEO of The Fidato Group in Strongsville, OH**. "If you have a significant other and your income affects their ability to maintain a certain lifestyle, then life insurance is important to have," he says. On the other hand, it may not be necessary if you have no debt and there's no one depending on you to stay financially afloat.

D'Amico says there are two approaches to determining how much insurance you need. You can base the amount on what you would expect to earn over your lifetime, or you can estimate how much money it would take to meet your loved one's cash needs after you're gone. If you had children and wanted to be able to afford college, you'd need to factor in those costs.

Do I need to have disability insurance if I'm young and healthy?

Disability insurance is often associated with getting older, but younger people may want to consider it as well. According to the Social Security Administration, one in four twentysomethings will become disabled before reaching retirement age.

Of course, disability insurance isn't necessarily about protecting wealth, nor is it only for long-term or permanent disabilities, **D'Amico says**. Rather, it protects your ability to get a paycheck and pay your bills. D'Amico should know – a decade ago, he was seriously injured in a car accident and was out of work for a year. Fortunately, he'd purchased a disability policy in his 20s, which paid him a percentage of his salary until he was able to get back to work.

Ask your employer if disability insurance is included in your benefits package; it sometimes is.

What kind of insurance would I need for an investment property?

When you're flipping a home, a vacant home policy covers vandalism, theft, and personal liability, which is especially important when you have third-party contractors working on the

property. That way, if a worker were to fall off a ladder or drop a load of bricks on their foot, you'd be covered.

When you're renting out a property, landlord insurance replaces a homeowner's policy. It covers you against damage to the property caused by fire, storms, vandalism, or the tenant. You also have liability protection if a tenant or their guest is injured. Finally, you're covered against loss of income if damage makes the rental uninhabitable temporarily.

If you've already moved and are selling your now-empty home, you don't need to insure it for the usual 12 months required for a standard policy. Some insurers offer a three-month policy to cover a home while it's on the market, so do your research to find the policy that fits your needs. Deciding what type of insurance is a good fit can be overwhelming. But asking questions and comparing different policies can help you choose your coverage with confidence.

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Rebecca Lake has been writing about insurance, personal finance and small business for nearly a decade. Her work has been featured on a number of top finance sites.

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