HOW TO CUT YOUR INSURANCE COSTS

Add up what you pay in insurance premiums each year: medical, auto, homeowner's, life, and so on. Makes you wince, doesn't it? Here are some ideas from members of the Financial Planning Association about how to reduce your insurance costs.

Don't skimp on insurance. This probably doesn't sound like a way to save money. But keep in mind that the purpose of insurance is to transfer to an insurance company the financial risk you can't afford to carry yourself. Without formal insurance, you are de facto *self-insuring*—meaning you'll pay out of your own pocket in the event of a financial disaster such as loss of a home or a serious illness.

For example, many renters don't own renter's insurance, which covers the loss of their personal property (no, the landlord's insurance doesn't cover it). Renter's insurance is very affordable, yet how many times do you read about people who lose everything in an apartment fire and have no insurance?

Buy the insurance you need . . . Carefully review your insurance needs with your financial advisor. Auto, medical, and homeowner's insurance are probably obvious. But do you have disability insurance in case you lose income due to an illness or injury? Many financial planners recommend that clients buy long-term care insurance no later than their late fifties or early sixties to cover the high cost of potential long-term care. Do you have liability coverage beyond standard auto and homeowner's insurance in the event you are sued?

Watch out for gaps. People with multiple properties in multiple states, for example, often use multiple insurance agents for their property and casualty coverage, and can easily end up with expensive duplicated coverage—or worse, no coverage at all for some property because it was overlooked or because a policy expired. You may need "riders" or "floaters" to provide extra coverage for such things as jewelry or antiques whose value is limited under the standard policy.

. . . And don't buy what you don't need. You'll probably need life insurance . . . but not necessarily. Life insurance generally is for people whose death will have a significant financial impact on others—a spouse, children, dependent parents, heirs who might face a hefty estate tax bill. You may not need it if you are young and single. And as you age, you may need coverage for only a limited time or for a smaller amount.

You also probably don't need to spend dollars on insurance for flights, pets, specific diseases, loans, and car rentals.

Buy the right amount of insurance. While people sometimes buy too much of a particular insurance, more often they are underinsured.

A good example where this is common is life insurance. People frequently base their decision on premium costs, not what death benefits they need. The better approach is to first calculate how much money you will need to replace future lost income necessary for your dependents. Then look at insurance options. Some people might be able to afford to buy adequate death benefits through a whole life policy, which has an investment component. But many others would be better off spending their limited insurance dollars on term life, which has no investment component and which allows you to buy more death benefit coverage for each premium dollar.

Shop around . . . but don't buy on price alone. Costs vary significantly among carriers, so carefully compare for like coverage and features. But don't buy on price alone. You'll want to have a carrier that's financially sound so that it's there if you need the benefits.

Consider multiple policies with a single carrier. You often can get a better deal buying multiple policies through a single carrier, such as auto, homeowner's, and liability. But not all carriers are strong in all lines. They might be good for property and casualty but not life and health, so be sure any savings are worth it.

Help yourself. Staying healthy, putting smoke alarms and security systems in your house, and having a good driving record can keep premiums down.

Increase deductibles and avoid small claims. Choosing larger deductibles will reduce your premium costs (self-insure the deductible through an emergency fund). They also reduce small claims, which have become a sore spot in insurance because companies are increasingly raising premiums or even dropping customers who make multiple small (and large) claims.

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