

## Buying Insurance - Does It Make Sense?

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Does buying insurance make sense and when? Some surprising answers.

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Buying insurance for everything from automobiles to mortgages has become so commonplace that it is natural to assume insurance is a necessity of modern life. But is it really? Is there a better way to guard against life's unexpected occurrences - and save a lot of money as well? There is if you're willing to practice a bit of planning and self discipline.

{bot\_wrgoogle}To begin with, you have to understand the real purpose of insurance. Many people think it is a way to get some company to pay for unpredictable expenses. In reality, it is primarily a way for you to pay over time. In other words, you pay for that car wreck with ten years of insurance premiums before the damage actually happens, or you pay for ten years afterwards if it happens as soon as you buy the policy.

It is bit different with policies which cover the largest expenses in life, like health costs and homes burning down. Insurance companies really do "spread" the risk among many people in these cases. The cost of your homeowners insurance, for example, will probably never add up to the cost of a destroyed home, and since most homes never are destroyed, you essentially share the risk with all other owners insured by the company - just in case yours is the one to burn (of course the insurance company makes a nice profit for arranging all this).

On the other hand, suppose you buy collision coverage on all the used cars you own in your life. The thousands spent will be far more than any claims made in the life of most people. This makes collision insurance essentially a losing bet.

More than that though, you have to look at the real loss you would suffer versus the payouts on insurance claims - they're not the same. Why? Because we do not act the same when we have someone else paying the bills as when we pay for them ourselves. If you ding your car door on an uninsured used car, you might very well live with it for the life of the car. Cost: 0\$ If, however, you have collision coverage, you will have it fixed for \$500. In either case, the quality of your life won't change much unless you are really uptight about the appearance of your car.

### Buying Insurance - An Alternative

Here's an alternative: Stop buying insurance policies which don't cover life-altering events, and instead put the money you would have spent on premiums in a special account. In this way you'll have some protection of your own, but more than that. If you do not have many expenses that you have to pay for out of your special account, the money left over later in life is yours to keep.

For example, suppose you're paying an extra \$500 each year for collision coverage and you have a used car that is only worth \$4,000. Put that money into your "emergency account" and unless you have a total wreck every eight years you'll be further ahead. Many accidents are minor in any case, and you can probably afford the occasional \$1,000 repair without insurance. Let's put it this way: If you can pay \$500 extra for that policy and can't afford a \$1,000 surprise, you need budgeting skills more than you need insurance.

You can do the same with renters insurance if the furniture and personal items you would replace in the event of a fire are only worth a few thousand dollars. You can also skip buying any "insurance" policies on electronic devices. Put all the premiums you would have paid for any of these non-essential policies into your emergency fund.

Now, you may need to have insurance on the home you own, and health insurance is a good idea as well, but there are options with these. See how much you can save by raising the deductibles. Again, if you can't afford the first \$500 on a health policy, you need budgeting skills more than you need a lower deductible. Put the money saved into that fund as well.

With the money that would have gone to several different policies going instead into your special account, you'll quickly

build a little "insurance fund" of your own. Then, instead of buying insurance you don't need and paying more than you ever collect, you'll get whatever is left over when it is time for retirement. A lifetime of saved premiums can add up to a lot even after a few withdrawals for accidents, theft or health issues.

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