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## PERSONAL BUSINESS

By Karyn McCormack

# Insurance Plans You Can Avoid

**Chances are you've been pitched coverage for just about everything. Know which ones you need, and don't be afraid to say no to the rest**

At least once a week, offers for mortgage life insurance land in my mailbox. Without hesitation, these letters go straight to the shredder, as do the myriad offers for other "insurances" that I really don't need. Name a hazard of life, no matter how trivial or unlikely, and companies will offer to insure against it. The latest trend is insurance against the costs of identity theft -- which, despite public fears, are generally very low (see BW Online, 1/10/06, "[The Booming Biz of ID Protection](#)").

But that hasn't stopped people from buying these dubious insurance policies. "Many people buy policies out of fear and not need," says J. Marc Vorchheimer, founder of Integrated Financial Consulting, a fee-only planner in Nanuet, N.Y.

Insurance is necessary to protect you against financial calamities, not every small loss and hazard of life. So what you really need to have, financial experts say, is a term life insurance policy, as well as coverage for health and disability, your home, and autos. Still, marketers have come up with a slew of insurance products that, for the most part, are costly and unnecessary. With the help of a half dozen [fee-only financial planners](#), we found a few types of policies to avoid. In general, steer clear of policies that cover only one need or incident, even if the premiums don't cost an arm and a leg.

### **Mortgage Insurance**

Many new home owners will receive an offer for mortgage insurance right after the ink dries on the closing papers. The offers say a certain loan amount will be protected "in case of an unexpected tragedy." It's essentially a life insurance policy that pays the mortgage if you die. So the value of the insurance itself could go down as your mortgage is paid off.

The way these policies are marketed is unfair for people who don't understand insurance, says Dave Moran, senior vice-president at Evensky & Katz, a wealth-management firm in Coral Gables, Fla. You're better off buying a level term life insurance policy that pays a fixed death benefit no matter what your mortgage balance is. That way, if something happens to you, your family can pay the mortgage and have money left over for other needs, advises Mark Kenison, founder of Kenison Financial Services in Charlotte, N.C.

### **Credit Life and Disability**

When you buy or lease a car, the dealership will try to sell you this needless policy to make a few extra bucks. Again, this is basically a life insurance policy that will pay off your monthly car loan if you die or become disabled. "Credit insurance is a rip off," says Peter Katt, a principal at Katt & Company, a fee-only life insurance advising firm in Mattawan, Mich. If you look at the cost, you'd be better off buying a regular disability policy, Kenison says.

Other policies in this category include credit-card insurance and involuntary unemployment insurance, which are designed to pay your bills while you're unemployed. Beware: Some credit-card companies will offer this insurance free for a limited time and then start charging you. Instead, use the money to begin building an emergency fund that will cover at least six months of expenses, Kenison says.

#### **Accidental Death and Dismemberment**

These policies, which are typically offered by banks when you open an account and might cost only \$10 to \$20 a year, pay only if you die a certain way, such as in an accident, or lose a limb. "Anything that gives conditions on how you die is useless," says Steven Weydert, executive vice president of Bowyer, Weydert Wealth Planning Partners in Park Ridge, Ill. "It's a silly, superfluous insurance." Sometimes insurance companies will offer this for free just to get you in the door, Kenison says.

#### **Life Insurance for Young Children**

Parents do not need to insure against a revenue loss when your children don't make any money, Moran says. You can usually attach a rider to your life insurance policy to cover your kids, but don't purchase it separately, says Paul LaViola, CEO and senior financial planner at Financial Planning Solutions in Media, Pa. "Go out to dinner on that \$100 a year instead, or put it in a savings account for them," Vorchheimer says. Even better, establish a college savings fund such as a "529" plan (see BW Online, 6/7/05, "[Multiple Choice in College Savings](#)").

#### **Cancer or Other Disease**

It's important to have a comprehensive general health insurance plan, rather than one that covers medical expenses to treat one disease. If your health plan excludes a certain condition or disease and you believe you're at risk, shop around for another policy. A good rule of thumb from Kenison: "It's generally not a good idea to purchase single-purpose insurance." Cancer policies are "really preying on the fears of people," LaViola says.

#### **Life Insurance for a Flight or Travel Insurance**

Consumers can really get taken for a ride with the inexpensive life policies sold at airports that aim to cover you if you die in a plane crash. "This is especially sold on fear," Vorchheimer says. First of all, the chances of actually dying in a plane crash are minuscule. And you should already have enough life insurance.

As for trip insurance for an expensive trip, consider it if the policy costs 10% or less of the trip, Kenison says. The chances that something happens to cut your trip short or prevent you from taking it are slim, but if you spend a lot of money on the trip then it's probably worth it, he says.

#### **Extended Warranties and Cell Phone Insurance**

When you're purchasing a big-ticket item for your home like a jazzy big-screen plasma TV or Sub-Zero refrigerator, odds are you'll come out behind if you fall for the sales pitch for the extended warranty. Most new products are already protected by a warranty, and the chances of them breaking after the warranty period are fairly low. "If it's a risk you can afford to take, then don't buy it," Weydert says. Even if you have a tendency to lose or break your cell phone, "the cost to replace a cell phone is not catastrophic," LaViola says.

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