

Insurance 101

Know the basics of insurance, how it works, and how to choose the best insurance agent.



Insurance Agency

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Common Types of Insurance

You can get just about anything insured. Rolling Stones guitarist Keith Richards once insured his hands for \$1.6 million, while Bruce Springsteen stands to receive \$5.7 million from an insurance policy should his voice ever fail him. For most people, there are chiefly four types of insurance: auto, property, life and health.

AUTO INSURANCE



Car insurance is required if you drive a vehicle. These policies can cover everything auto-related, from paying for repairs to a damaged car after an accident to bodily injury to a bystander or passenger to covering for legal defense costs if you end up in a vehicle-related lawsuit.

LIFE INSURANCE



Some employers offer life insurance as a benefit. If a policyholder passes away, the life insurance policy then assists those that person left behind by helping account for burial costs, replace lost income and pay any remaining debts of the deceased. Many people choose to buy their own life insurance policy in addition to what the employer offers either to add more coverage or to have the protection independent from their employment status.

HEALTH INSURANCE



Health insurance pays for medical treatment in case of serious illness or injury. Many employers offer health insurance as a benefit to their employees. Other people buy policies directly from insurers or on marketplaces set up by the government. Supplementary types of health-related insurance exist, such as vision insurance for eye care or dental insurance for oral treatments. And there's pet insurance, a variant of health insurance for your furry family members, often covering illnesses, injuries and other emergencies.

PROPERTY INSURANCE



As the name suggests, this insurance covers the loss of property in case of an accident or crime. This can come in many forms. **Homeowners insurance**, for example, covers a person's home and belongings in case of accidents, natural disasters or crime. Homeowners insurance is so important that it's mandatory if you take out a mortgage to buy a house, because a lender will require the asset to be insured in case anything happens to it.

Of course, a renter's belongings can be just as crucial, so having a renters insurance policy can be just as important if you don't own your own home. Like a homeowners policy, **renters insurance** covers your property in case it is damaged by certain events. Both homeowners and renters insurance cover medical expenses if someone is hurt at your home.

Other types of property insurance exist for smaller items, too. When you buy a smartphone, for instance, you could purchase an optional insurance policy for it in case it is damaged, lost or stolen. The same is true for most large electronics you can buy nowadays.

5 Insurance Terms to Know



1. Insurance Policy

An insurance policy is similar to a contract between a policyholder and an insurer. The contract is agreed to in advance in case the policyholder suffers a specific type of loss — say, a vehicle collision, an injury or a burglary. If the event named in the policy happens, the insurer agrees to cover the financial cost of the loss. Such costs are usually too large for one individual to cover, so insurance is a handy way to protect yourself from unforeseen financial distress.



2. Premiums

The price you pay for insurance is called premium. It can be paid at once or on regular payments. Smaller policies, such as ones for your phone or electronics, are usually paid for with a one-time fee when you buy the device. Many insurance policies are paid for through regular payments over the time frame of your policy.

Essentially, you pay the premium in exchange for a larger lump sum that your policy would cover in case of emergency.

How much you pay for insurance depends on a risk-based calculation. For example, having a good driving record, favorable credit rating or vehicle less likely to be stolen —among other factors —may reduce the cost of your car insurance. A history of accidents, on the other hand, will raise risk, and consequently, the cost of your insurance.

Homeowners insurance works in a similar way; added security features may help lower your premium, while your insurance premium may increase if you have an older house that it's more susceptible to damage.

How you pay your premiums also varies based on your insurance type. Car insurance premiums usually are paid in monthly installments. In the case of homeowners insurance, the premium can be built into your mortgage payment; no additional payment is often necessary. The premium can be paid in monthly installments or paid in full at once. Most monthly installments carry a fee, however. If you get your health insurance through work, many employers usually just deduct the cost of your premium from your monthly paycheck, while some others pay for the entire cost of employees' insurance as a benefit.



3. Coverage

Again, the answer to this question depends on what kind of insurance you have. When you buy auto insurance, for example, you can choose which **coverages** to include in your policy beyond the coverages required by state law. In addition to basic coverages that will help you financially if your car is lost or damaged or if you injure another person, you might opt to add coverages that will reimburse you for the cost of renting a car or roadside assistance. Adding coverages, of course, means that the insurance company is taking on more risk, so expect a higher premium.

Coverages can vary in other types of insurance as well. In the case of health insurance, a standard policy might cover certain hospital bills or prescription drugs within a certain network of health care providers. You, however, could shop for a policy that also includes mental health benefits or allows for more financial coverage outside of that provider network. Homeowners, on the other hand, might opt for additional coverage for floods or volcanoes if their home is within a high-risk area of such calamities.

4. Exclusions

There are certain things that insurance policies just won't cover. These are called exclusions, and just about every form of insurance might have them. Standard homeowners insurance policies, for example, outline certain emergencies that they specifically will not cover, like flood or earthquake damages. Life insurance policies may have exclusions that won't pay if the policyholders dies from suicide, illegal acts or dangerous activities. Your health insurance might exclude treatments given by an alternative healer or injuries sustained in an organized sport or a car accident.

Whatever insurance you have, make sure you understand the exclusions in your coverage. It's important to fully understand them so you're not left holding the bag during an emergency you thought you might be covered against. In some cases, exclusions can be remedied by seeking additional coverages, so the more you know, the more you can protect yourself.





5. Deductibles

Some insurance policies — auto, home and health policies, in particular — come with a deductible. A deductible is basically the amount you agree to pay toward the cost of a claim before your insurance foots the rest of the bill. If your car insurance policy has a \$1,000 deductible, for example, you'll pay the first \$1,000 in repair costs. Your insurance company covers the remaining amount up to the policy limit.

The deductible in an auto insurance policy usually applies to each of your comprehensive and collision coverages. Say your car is damaged after a wreck, or a tree falls on it. You'd pay your deductible toward repairs, and your insurance company would take care of the rest of the bill.

Homeowners insurance's deductibles essentially work the same way, although while some policyholders choose a set dollar amount of deductible when choosing a policy, others choose a percentage of the cost of the home. Say, for example, you buy a policy for a \$300,000 house. A 1 percent deductible for that policy would require the homeowner to cover \$3,000 of the cost whenever they file a claim.

Health insurance deductibles are a little different. While car and home insurance deductibles are often per claim — that is, you pay your deductible every time you file a claim — medical deductibles often apply over the course of a year's worth of coverage. If you spend \$300 of your \$1,000 medical deductible, you'd still have \$700 of it left before the insurance company begins to cover the rest.

In addition, not everything included in your health insurance plan might involve your deductible. Many plans cover preventive visits to a primary care physician even before the deductible is met — but again, check your coverage to make sure you know what you're covered for

Finally, it's important to note the relationship between your deductible and your premiums. Generally, the lower your deductible, the higher your premiums. It's up to you to decide what's more important to you: a lower premium or a lower deductible that must be paid if you have a claim.



Why You Should Review Your Insurance

Many people avoid fiddling with their insurance policies — unless they are tempted to save money. Shopping for insurance isn't all about saving, however. Major life events and evolving insurance needs may be good reasons to talk with your insurance agent about your coverage.

When you review your policies, make sure you ask your agent to explain the recommended coverage. Ask questions about premium versus coverage, opportunities for savings and discounts, and new bundling options. Here are three reasons to review your insurance.

1. Risk Analysis: The nonprofit Insurance Information Institute advises consumers to review their insurance policies at least once a year or after a major life change, such as change in marital status, having a child, or buying or selling a home. You must ensure that you have the right coverage and policies for your evolving insurance needs.

2. Bundles: Have you bought a home, motorcycle or boat? You might want to consider bundling your insurance policies. Bundling is one way to save on insurance without compromising on coverage. Just discuss your insurance needs with the insurance agent, who can take a holistic look and find you the best insurance provider for your various policies.

3. Discounts: Price is one of the main motivations for switching insurance companies. But it's important to weigh what you pay for insurance against what you'll get if you actually need to use it. Discounts can be a good way to save. For instance, parents see their insurance rates climb when adding a teen onto their auto policy. Many insurance companies offer discounts that somewhat offset this increase if the teen has good grades or takes a driving course. Ask about discounts that might apply to your evolving situation.



Working With An Insurance Agent

Buying insurance can be overwhelming and confusing. There are so many options to consider: different coverage types, a wide variety of policy levels and limits, dozens of providers to choose from — and that's just a start. Think of the complex web of insurance regulations and requirements, and the serious consequences of not being adequately covered. All of this is enough to make your head spin.

Luckily, there's one decision you can make at the very beginning of your insurance-purchase process that will make the experience significantly simpler and ensure you end up with the correct coverage: choosing to work with an insurance agent.

Instead of going at it on your own, trusting an agent to handle your insurance needs is a smart move. You only want to make sure that you are working with the best insurance agent for you.

The biggest advantage of working with an agent can be summed up in one word: knowledge. The state requires insurance agents to go through a rigorous licensing process and continue to educate themselves throughout their careers, including ethics classes. This knowledge enables an agent to provide you with the proper level of coverage at the best value.

If disaster strikes and you ever need to file a claim, it's comforting to have an experienced agent there to guide you through the process. And, because you're starting a relationship with an agent who will get to know you, when your life changes this agent will be able to adjust your coverage so you're always well protected.

Agent Types

There are two different kinds of insurance agents: **captive** and **independent**. Captive agents work for a single insurance provider, and can only sell insurance offered by their provider. On the other hand, an independent agent works for an insurance agency, and is able to sell insurance offered by a variety of providers. Both types of agents are paid the same way, via commissions on the policies they provide to their customers. Captive agents are certainly worth considering, but it is noteworthy that an independent agent's wider selection of options may allow them to craft a policy that fits you better and offers more value.



How to Pick an Insurance Agent

Once you've decided to seek out an agent, there's still another important decision to make: choosing an insurance agent from the large pool of agents in your area. It's not as simple as walking into the nearest insurance office and purchasing from the first agent you meet. Different agents may be more or less suited to your specific needs, and some agents are simply better than others. How to choose? Here are some factors to keep in mind.

Word of Mouth. Talking to friends, family and coworkers about their insurance agents is a good place to start. Hearing their firsthand experiences is invaluable, and if someone really likes his or her agent, this person will be eager to put you in contact.

Online Reviews. Reading online reviews is another way to identify possible agents, but keep in mind that, in general, people are much more likely to take the time to post a negative review, so don't rely solely on these sources.

Vetting. You can research agents and providers by visiting the Washington State Office of the Insurance Commissioner website, which offers a wealth of information on all things insurance in Washington.

Location. Regardless of how you research agents, picking an agent near you is usually beneficial, not only for convenience but also because this agent's reputation within the community might be easier to gauge.

Once you have a small list of potential agents, simply call them up and explain that you are in the market for insurance. This initial chat can be indicative of how the relationship with this agent might progress, so pay attention to the conversation.

The agent should be asking lots of questions about you, your family, home, vehicle, even your interests, all with the goal of trying to understand your unique situation so he or she can offer coverage that fits your needs. If an agent sounds to be simply "checking boxes" on a form and rushing to get you a quote, it might be a red flag.

You might want to ask the following questions.

- How quickly do you respond to calls or emails?
- What is your background and experience level?
- What types of insurance do you specialize in, if any?
- How often do you schedule coverage reviews? (Tip: An annual review is ideal.)
- How involved will you be when I need to file a claim?

Ready to Buy?

Working with an insurance agent provides a myriad of advantages — as long as you find the right agent. With the right due diligence, however, you should be protected in no time, and on the path to having an agent relationship that yields invaluable of peace of mind.

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