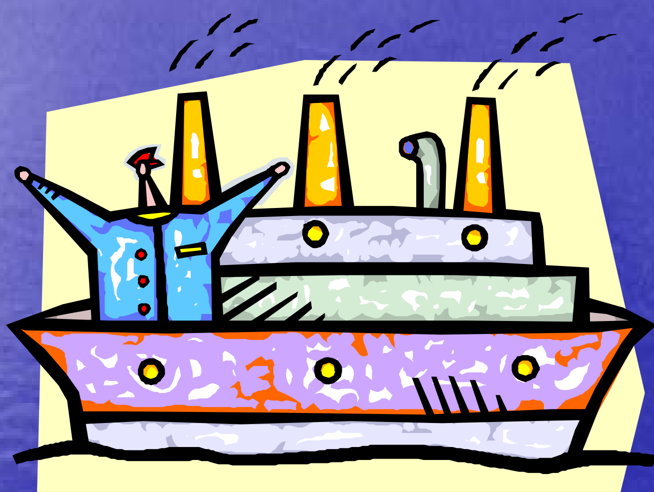
Become Captain of Your Financial Ship

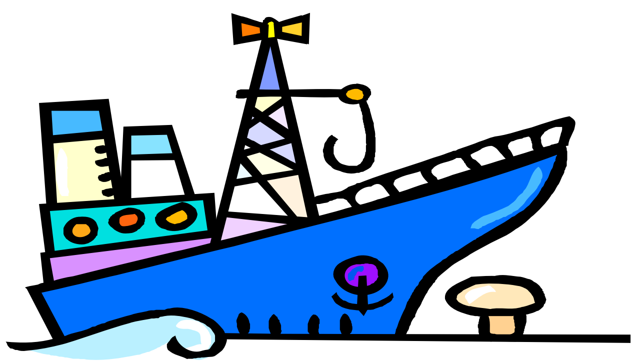


A Curriculum in Financial Management

Become Captain of Your Financial Ship

Trimming The Sails

Unit 2



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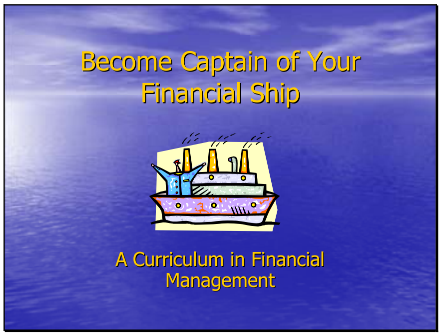
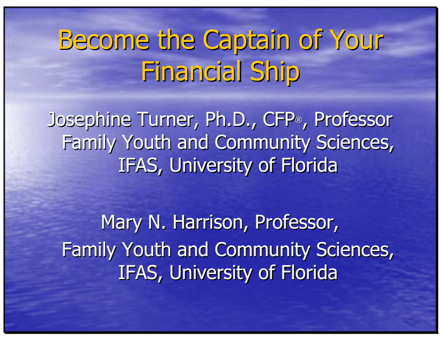

Become Captain of Your Financial Ship
A Curriculum in Financial Management


Become the Captain of Your Financial Ship
Josephine Turner, Ph.D., CFP®, Professor
Family Youth and Community Sciences,
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IFAS, University of Florida


Become Captain of Your Financial Ship
• Charting the Course
• Trimming the Sails

Questions

Trimming the Sails

- Needs vs. wants
- Track spending
  - http://fycs.ifas.ufl.edu/areas/
  - Money Management Calendar
  - Money Management Record Book

Questions

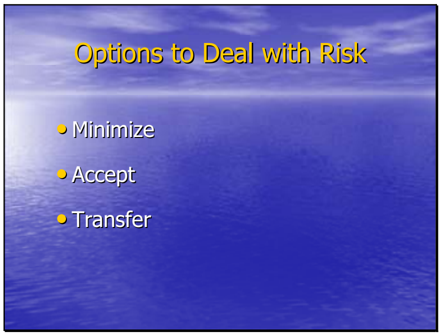
Savings

- Don't use all of your resources on the first leg of your journey.
- Pay yourself first.
- Open a savings account.
- Take advantage of tax sheltered plans when possible.

Questions

Protection

- Recognize risk
  - Personal
  - Property
  - Liability


Options to Deal with Risk
• Minimize
• Accept
• Transfer


Buying Insurance
• Determine need
➢ Disability
➢ Health
➢ Life
➢ Property
➢ Liability
• Shop for reliable company
➢ Florida Department of Financial Services
➢ www.fldfs.com
➢ 1-800-640-0886


Questions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FCS7168

How to Make a Spending Plan: Step 2, How Do You Keep Records?[1]

Josephine Turner and Nayda I. Torres[2]

In order to manage your money, you have to know how much you earn and spend. Get into the **habit** of keeping good records of your earnings and spending. Keep all of your:

- pay slips
- receipts and bills (food housing, utilities, clothing, medicine, cable TV, car repairs)
- bank statements

Prepare a record of your spending using a piece of paper. Fold a piece of paper in half. Then, fold it again two more times. It should be divided into eight sections. Label the first seven sections with the day of the week. Label the last section, "Totals." Refold the paper. Carry it with you and make a note every time you spend money. At the end of each week, add up your expenses in the "Totals" section. Use a new piece of paper each week.

Keep your records safe by putting them together in one place, like a file, large envelope, or box.

Organize your records too. Some people organize them by time such as weeks and months. Others organize them by expense categories. Some do both.

MON Groceries $81.32 Lunch $8.75	TUES Gas $30.00 Lunch $4.85	WED Hair cut $18.00 Soft drink $.75	THURS
FRI Cleaning supplies $9.67	SAT Laundromat $4.50	SUN	TOTALS

Try different ways to record, store, and organize your records. Find the way that works best for you. Whatever you do, make your method simple and easy enough that you get into the habit of keeping and organizing your records.

Remember, it's the habit that counts, not the exact method.

1. This document is FCS 7168, one of a series of the Department of Family, Youth and Community Sciences, Florida Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida. First published: February 1997. Revised: August 2005. Please visit the EDIS Web site at **http://edis.ifas.ufl.edu**
2. Written by Nayda I. Torres, Professor, Family and Consumer Economics and revised by Josephine Turner, CFP, Professor, Family and Consumer Economics, Department of Family, Youth and Community Sciences, Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida, Gainesville FL 32611.

FCS5205

Show Me The Money
Lesson 2 Record-Keeping: What To Keep, What To Discard[1]

Adapted by Josephine Turner[2]

Overview

Record keeping seems like an intimidating task, and yet there is nothing too time-consuming or difficult about keeping a finger on your financial pulse. Lesson 2 focuses on the benefits of setting up an efficient home filing system. It simplifies the record-keeping process by breaking it into three parts.

The process begins with a survey to evaluate your need for a record-keeping system. Once you have completed the survey and established a need for a home filing system, the next step is to determine which documents to save. Most important documents can be broken into two general categories – property and financial. These categories are then further subdivided (with specific examples listed), making it easy to determine how to organize your important records.

Finally, the lesson focuses on creating a record-keeping system to suit your family's needs. It outlines three important decisions you will have to make in order to establish a customized filing system. The lesson wraps up with some tips for periodically revising and updating your filing system.

Record-keeping Survey

Before you begin this lesson, ask yourself the following questions:

Yes	No	
___	___	Do I have a record system?
___	___	If yes, would it be easy for other members of my household to figure out my record system?
___	___	Am I sure titles to property and possessions are held in the best way for all concerned?
___	___	Do others in the family know where to turn for necessary information about the family assets and obligations?
___	___	Do I keep a list of people who are important financial contacts, such as tax counselors, attorneys, bankers, brokers, insurance representatives, employers, creditors, and debtors?
___	___	Can my important papers be replaced if there is a fire and my records are destroyed?

1. This document is FCS5205, one of a series of the Department of Family, Youth and Community Sciences, Florida Cooperative Extension Service, IFAS, University of Florida. Publication: July, 2001. Reviewed: August 2005. Please visit the EDIS Web site at **http://edis.ifas.ufl.edu** . This material was adapted for use in Florida with permission of the University of Idaho Cooperative Extension System.
2. Josephine Turner, Ph.D., CFP, professor, Family and Consumer Economics, Department of Family, Youth and Community Sciences, Cooperative Extension Service, IFAS, University of Florida, Gainesville, 32611.

If you answered "No" to two or more of these questions, you may want to improve your record-keeping system or get one started.

Benefits of a Record/Filing System

Record keeping can help you:

- ✓ Keep a close tab on where the money goes; this can be especially beneficial in uncertain economic times;
- ✓ Manage daily family financial responsibilities;
- ✓ Provide evidence of a significant event, such as a birth, death, marriage, or divorce, or of an important transaction, such as the repayment of a loan;
- ✓ Simplify the claim process if loss occurs from fire, theft, flood, or other insured casualties;
- ✓ Organize your financial activities, such as budgeting and planning for savings and investing;
- ✓ Prove that you are entitled to services and benefits, such as repair of household equipment under warranty; and
- ✓ Organize information for preparing tax returns.

If you have not been keeping many (or any) records, or if you have been indiscriminately saving papers for years, you may need to try to replace some important ones that are missing. When deciding whether to keep or discard documents, consider how likely you are to need that paper in the future.

Important Records and Papers for Your Files

Regardless of the extent of your records, they will most likely fall into two general areas of documents: property and financial.

Property

Personal. Keep copies of most personal records that have been recorded by either a government agency or the courts. These include birth, marriage, and death certificates; adoption papers; citizenship papers; marriage dissolution papers; and military service records.
Real Estate. Keep the following real estate records: deeds, title papers, mortgage documents, tax assessment notices, papers showing the price you paid for property and those showing the price when you sold. Also keep records of capital improvements to property including bills and receipts for the duration of ownership (or longer as needed for tax purposes).
Household Inventory. Such an inventory of your possessions will be vital in case you have to make homeowner's or tenant's insurance claims because of fire, theft, or some other casualty. An inventory also is helpful if you are preparing a net worth statement. Begin by photographing and listing the contents of each room, the basement, and the garage. Then list any other valuable items as well. Update the list at least once a year. Keep appraisals of especially valuable property, including art, furs, or jewelry.
Automobile, boat, and other titled property. Keep title papers as long as you own the property. Keep current tag receipts.

Financial

Home Accounts. Use a notebook to record income and expenses. This is an easy way to see at a glance what you earn and what you spend (computer programs, such as Money or Quicken, may help with accounting tasks).

Bank Accounts. Keep a list of each account, noting the financial institution, names of co-holders of the account, account numbers, type of account, and rate of interest (if any). Keep copies of the agreements you sign authorizing automatic deductions from you accounts. You should keep complete and up-to-date entries in your checkbook register for each check you write. The completed register should be filed with your checking account statements. Canceled checks are receipts that should be kept to show proof of payment for as long as you own the item or until your have loan papers marked “PAID.” All canceled checks whether check or copy of check should be kept for at least one year. Canceled checks used as a basis for tax deduction need to be kept even longer (see “Tax Records” heading, below) and should be filed with supporting materials for tax records. You will also want to keep annual statements of interest earned on savings accounts as part of your tax records for those years.

Credit Accounts. Keep copies of your retail credit and installment loan contracts. These documents specify credit terms and may be required for tax purposes or to settle differences with the creditor. Also keep complete record of all debts that other's owe you. List of credit card numbers, issuing companies, addresses, and telephone numbers should be kept for the duration of the account. You may use “Credit Card Safety” (UF/IFAS/FYCS Publication number FCS5209; UF/IFAS/EDIS number FY378) for this.

Investments. Investments in stock certificates, bonds, and other securities that are lost, stolen, or destroyed can be time-consuming or difficult to replace.

List all stocks, bonds, and mutual funds, noting serial numbers, purchase price, date of purchase, and name of person owning the certificate. Refer to this list frequently to remind you to collect interest when due or to cash in bonds on maturity. You should also keep ongoing records of dividend dates and payments, since you will need this information for tax purposes.

Tax Records. For income tax purposes you are required by law to keep records that will enable you to complete an accurate tax return. Needed are all receipts, canceled checks, vouchers, and other evidence to help you verify amounts claimed as deductions or credits. (Possible deductible expenses include medical bills, taxes, interest expense on home mortgages, contributions, and expenses related to employment.) Keep copies of income tax returns, checks, receipts, supporting evidence, and tax withholding statements for at least six (6) years. The Internal Revenue Service has three (3) years from the date you taxes were due or filed to audit your return. However, if you have under-reported your gross income by more than 25 percent, the IRS can audit your return anytime.

Insurance. Insurance policies you hold might include life, accident, health, hospitalization, homeowners, personal liability, disability, and automobile. Your insurance policies and records are necessary to make claims, to evaluate your coverage periodically, and to help your heirs settle your estate. These documents are easily replaced by the company. However, you should keep information on file about each policy. Information to record includes name of insurance company and agent, type and amount of coverage, policy numbers, names of those insured and the beneficiaries, amount and due date of premiums, and a record of payments and claims.

Wills. Keep your will up-to-date. Usually the original, signed copy of your will is deposited with your attorney or the probate court in your county. You may want to have other copies on file. Keep a written record of where you have placed copies of your will to help you when you need to update or change it.

Organizing Papers and Records

Once you have decided *which* papers to keep, you will need to decide *how* to organize them. The best system for efficient record-keeping depends on the individual family. The following three decisions should be considered before setting up or improving your record-keeping system.

1. Choose **one place** to keep your records. This "family finance center" might be as elaborate as a home office or as simple as a drawer in the kitchen. Other possibilities include a file cabinet in the family room, a cardboard box that fits under the bed, or even just an accordion folder. The important thing is to find a place where all the necessary financial documents can be stored. It is ideal if there is a place to work nearby.
2. Decide **who** will take major responsibility for record-keeping in your family. Encourage all family members, including older children, to learn how the filing system works. That way, other members of the family can find information if necessary. Some record-keeping tasks can be shared or delegated, but one person (with the skills and interest to handle the job) will want to take the leadership.
3. Develop a **regular schedule** for bookkeeping and resolve to stick to it. A routine will actually reduce the amount of time you spend on record-keeping tasks. Set up a regular time during the month to balance the checkbook, fill in the family income and expense records (written and/or computerized), and pay the bills.

There are three places for personal and family records: 1) A home filing system, 2) a safe deposit box and 3) on your person (wallet).

1. Setting up a Home Filing System

A home filing system can be as individual as the person who sets up and uses the arrangement. Usually it helps to alphabetize by large categories, then to alphabetize by subtitles (see "Home Filing System" for suggested headings and subheadings). If subheadings have individual folders, information should be easy to file and to recover (see filing guide attached).

You can also use this list as a guide to organizing your file and as a file index. Keep a copy of it in the front of your filing system.

2. Use a Safe Deposit Box

You will want to keep some records in a safe deposit box or a safe at home. As a rule, anything you can't replace, or that would be costly or troublesome to replace, should go in a safe deposit box. Here are some suggestions:

Adoption papers
Birth certificates
Bonds and stock certificates, IRA documents
Citizenship papers
Death certificates
Deeds, plats
Divorce decrees
Household inventory
Important contracts
List of records and important papers
Marriage certificates
Military papers, discharge. and disability papers
Passports
Social Security cards
Real estate papers, abstracts
Titles to automobiles and other property
Wills

3. File These Papers in Your Wallet

Auto insurance card
Charge cards and credit cards
Driver's license
Identification (name, address, whom to notify in case of an emergency, special health information)
Membership cards

Figuring Your Net Worth

Another form you will want as part of your records is a net worth statement. To determine your net worth, just add the value of all you own - your assets - an subtract the total of all you owe - debts. Worksheet 1, "Your Net Worth Statement," can help with this calculation.

You will need this information to:

- Apply for a loan
- Plot your financial growth
- Make plans for the future

Worksheet 1 also provides extra columns to calculate your net worth in upcoming years. It is a good idea to review your overall financial situation annually. Here are some guidelines for calculating assets:

- Ask a real estate agent to conduct a market survey of your property. This determines the value of your home in today's market.
- Check a used car price guide to establish the value of your car.
- Estimate the value of household items conservatively. Anyone who has had a garage sale knows that even televisions and stereo equipment often don't bring what you think they are worth. Use the appraised value for antiques and art.
- Check the newspaper for market value of stocks and mutual funds.
- Know the cash surrender value of whole or straight life insurance policies.
- Obtain the cash value of retirement plans such as 401K, 403B, or Keogh.

Here are some guidelines for calculating debt:

- Establish the balance of your home mortgage loan. This amount may be on your monthly statement. If not, ask the lender for an amortization schedule of your mortgage.
- List the balance due on all charge accounts, credit cards, installment accounts, and loans.
- List all current bills such as what you owe the dentist, this month's water bill, telephone charges, etc.
- Subtract your total assets from your total debts and you will have determined your net worth.

Summary of Suggested Activities for Starting or Revising Record-keeping System

Even the best record-keeping system won't fill your needs forever. Changes in employment or your family's lifestyle will require some adjustments in your record-keeping requirements. At least once a year, plan to review and update your files. January or February might be the best time for a recordkeeping overhaul since you are already reviewing your financial picture to complete your tax returns. Here are suggested activities to start or revise record-keeping:

Establish and organize the important papers you plan to keep.
Assemble and place appropriate records and papers in a safe deposit box.
Prepare or update your household inventory. There are numbers of publications that you can use for your household inventory or you can create your own.
Determine your net worth.

Home Filing System

When organizing a home filing system, the following list of headings and subheadings may be helpful:

Accounts and Records
- Account Book
- Automobile records
- Childcare
- Credit card information
- Education information
- Transcripts
- Diplomas
- Employment records and resumes
- Equipment warranties and instructions
- Health benefit information
- Health records
- Household inventory
- Income tax records
- Letter of last instructions, living will
- Magazine subscriptions
- Power of attorney
- Property tax records
- Real estate records
- Social Security records
- Wills (copies)

Addresses and Telephone Numbers
- Home/business
- Personal
- Advisors
  - Doctors
  - Ministers
  - Lawyers
  - Bankers
  - Insurance Agents
  - Relatives

Financial Accounts
- Canceled checks and account statement, current year
- Credit card list (with numbers to report lost or stolen cards)
- Deposit slips
- Installment agreements
- Loan contracts
- Safe deposit box, list of contents and key

Bills
- Paid bill receipts
- Unpaid bills

Correspondence
- Home/business
- Personal

Investments and Savings
- Bank savings
- Credit union
- Mutual funds
- Stocks and bonds

Insurance Papers
- Automobile
- Fire
- Health and accident
- Homeowner’s package
- Liability
- Live
- Property
- Theft

Personal
- Birthday dates
- Christmas card list
- Christmas gift list
- Hobbies
- Reading book lists

Organizations
- Church
- Civic
- School

Reference Material
- Budgeting
- Childcare
- Cleaning
- Clothing
- Crafts
- Equipment
- Foods and nutrition
- Furniture
- Gardening
- Health and safety
- Home furnishings
- Landscaping
- Laundry
- Remodeling and repair

Worksheet 1 Your Net Worth Statement

Assets (What we own)	**Year 2006**	**Year 2007**	**Year 2008**
Cash			
Cash on hand			
Checking accounts			
Savings accounts			
Certificates of deposit			
Investments			
Government bonds & instruments			
Mutual funds			
Bonds: Corporate & municipals			
Limited partnership programs			
Individual Retirement Accounts (IRA)			
Life insurance & annuities			
Cash value, accumulated dividends			
Annuities			
Vested retirement fund benefits			
Accrued pension or retirement benefit			
Real Estate			
Home (market value less mortgage)			
Other real estate			
Property			
Household furnishings			
Jewelry & furs			
Art & antiques			
Vehicle 1			
Vehicle 2			
Other valuables			
Other			
Loans receivable (owed you)			
Total Family Assets	**$**	**$**	**$**

Worksheet 1 *cont'd*

Your Net Worth Statement

Liabilities (What we owe) ***Unpaid bills***	**Year 2006**	**Year 2007**	**Year 2008**
Charge accounts			
Credit card accounts			
Taxes, federal			
Taxes, state			
Balances due on			
Education loans			
Installment contracts			
Loans (from banks, savings & loans,			
credit unions, insurance policies) Other:			
Mortgages payable			
On home			
On property for rent			
Total Family			
Liabilities	**$**	**$**	**$**
Summary			
Assets			
Liabilities			
Net Worth of Family	**$**	**$**	**$**

SPECIAL BULLETIN

FDIC Consumer News

April 2006

What You Should Know About Higher FDIC Coverage for Retirement Accounts

A look at what's changed with deposit insurance, what hasn't, and how to get more information

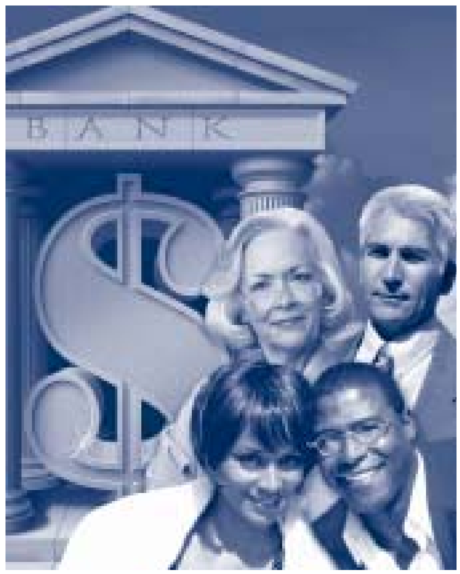
Americans work hard and save money in hopes of having a comfortable retirement. But as people live longer and spend more years in retirement than ever before, preparing financially can be complicated. Here's good news that may help families saving for their retirement.

For the first time in more than 25 years, Congress has raised the limit on federal deposit insurance coverage, which protects against loss if a banking institution fails. However, the higher insurance limit only applies to certain kinds of retirement accounts that people may have at banks and savings associations insured by the Federal Deposit Insurance Corporation (FDIC) and at credit unions insured by the National Credit Union Administration (NCUA).

The FDIC wants you to be clear about what has changed…and what hasn't. Here is an introduction to what you need to know about your FDIC insurance coverage.

1. Certain retirement accounts at FDIC-insured banks and savings institutions will be insured up to $250,000, up from $100,000 previously.

The higher insurance coverage applies primarily to traditional and Roth IRAs (Individual Retirement Accounts). Also included are self-directed Keogh accounts, "457 Plan" accounts for state government employees, and employer-sponsored "defined contribution plan" accounts that are self-directed, which are primarily 401(k) accounts. In general, self-directed means that the



consumer chooses how and where the money is deposited.

Under the FDIC's new rules, which take effect on April 1, 2006, all of your deposits at the same insured bank that are in this broad category of retirement accounts are added together and the total is insured *up to $250,000*. Your retirement accounts also are separately insured from any other deposits you may have at the same institution.

This increase to $250,000 for retirement accounts is important because many people saving money for their retirement have accumulated well in excess of $100,000. With the higher FDIC coverage, more Americans who rely on banking institutions for safety and easy access will know that more of their money for retirement will be completely protected if their banking institution were to fail. There's also the added convenience for people who, previously, might have gone to more than one institution to get full coverage of retirement deposits of more than $100,000.

2. The basic insurance coverage for other deposit accounts is still $100,000. However, as before, there are ways to qualify for far more than the basic coverage at one insured institution.

For example, the funds you have in checking and savings accounts (not retirement accounts) in your name alone are insured up to $100,000. Also, your portion of accounts held jointly with other people is also separately insured up to $100,000. Likewise, two other categories of accounts — business accounts you have at that bank and your share of employer-sponsored pension or profit-sharing plans — each qualify for separate insurance coverage of $100,000.

Let's say you have four deposit accounts at one institution — a checking account in your name alone (totaling $25,000), a savings account you own jointly with your spouse (your share equals $40,000), an account for a corporation you own (totaling $90,000), and your portion of an employer-sponsored profit-sharing account ($30,000). Even though the four accounts add up to $185,000, all of the money is fully insured by the FDIC because each account is in a different ownership category that is separately protected to $100,000.

In addition, trust accounts may qualify for separate insurance coverage of $100,000 per beneficiary (not per depositor) if certain conditions are met. That means you could have a $200,000 trust account naming your spouse and a child as the beneficiaries upon your death and all $200,000 would be insured by the FDIC ($100,000 for each beneficiary), separately from the money you have in other types of accounts at the same institution.

And remember, your retirement accounts that will be protected under the new rules to $250,000 are insured separately from your other accounts.

As you can see, the way different types of accounts are separately insured can add up to a lot of coverage for you and your family from the FDIC. This can be confusing, so to learn more contact the FDIC as listed below.

3. The insurance limits could rise in the future, but not until 2011, if at all.

The new law establishes a method for considering an increase in the insurance limits on all deposit accounts (including retirement accounts) every five years starting in 2011 and based, in part, on inflation. Otherwise, your accounts will continue to be insured just as we've described them.

That's an overview of what the new law means to you and your FDIC insurance. But here are some important reminders:

• No depositor has lost a single cent of FDIC-insured funds as a result of a failure. Fortunately, failures are rare nowadays. But if your bank or savings association were to fail, FDIC insurance would cover your deposit accounts, dollar for dollar, including principal and accrued interest, up to the insurance limit.

• FDIC insurance only applies to deposits, not investments. The FDIC protects checking accounts, savings accounts, CDs (special accounts you'd typically hold for anywhere from one month to five years) and other types of deposits. The FDIC does NOT insure the money you invest in products such as mutual funds, stocks, bonds, life insurance policies and annuities — even if you purchased them from an FDIC-insured institution.

• If you or your family have $100,000 or less in all of your deposit accounts at the same insured institution, you don't need to worry about your insurance coverage. Your funds are fully insured. If you have more than $100,000 on deposit at any one institution, you should take the time to be sure they're fully insured.

For more help or information from the FDIC...

Start by going to the FDIC Web site at www.fdic.gov to find consumer resources, including the brochure *Insuring Your Deposits* and the Electronic Deposit Insurance Estimator (EDIE), an interactive tool allowing you to get a summary of your FDIC coverage. Or, call toll-free 1-877-ASK-FDIC (1-877-275-3342) Monday through Friday 8:00 a.m. to 8:00 p.m., Eastern Time. For the hearing-impaired, call 1-800-925-4618.

FDIC
Consumer News

This is a special bulletin of ***FDIC Consumer News,*** a quarterly newsletter produced by the Federal Deposit Insurance Corporation. ***FDIC Consumer News*** presents information in a nontechnical way and is not intended to be a legal interpretation of FDIC regulations and policies.

To see back issues on the FDIC Web site, go to www.fdic.gov/consumers/consumer/news. To subscribe to a free service that provides an e-mail about each new issue posted to the Web site and a link to articles of interest, follow the instructions at www.fdic.gov/about/subscriptions/index.html.

FCS5227

UF UNIVERSITY of FLORIDA IFAS

Protecting Your Assets: Buying Insurance[1]

Josephine Turner[2]

Buying insurance can be baffling. And no wonder! As prices rise, people become more concerned about getting value for their dollar. Deciding what insurance you need and comparing different policies have become even more difficult. And adding to the already complex problem are the many new kinds of policies being offered today.

Whether you are buying long term care, disability, health, life, liability, or property insurance, you need to understand all aspects of insurance. You need to be informed.

What Is Insurance?

Insurance is "a device by means of which one party through a contract, called a *policy*, for a consideration, called a *premium*, undertakes to assume for another party certain types of risk or loss." Actually, insurance is a sharing of economic loss. A lot of people pool their money to help the few people who suffer loss.

Why Buy Insurance?

If you can't afford the costs that result from accidents, thefts, or manmade and natural disasters, you buy insurance so other people can share the cost of your loss. In other words, the money the insurance company gets from other people's premiums is used to help pay for your loss.

Before you can buy an insurance policy, you must have an *insurable interest*. That is, the loss you are insuring against must be an economic loss for you or your family. For example, you cannot buy insurance on someone else's automobile unless you would suffer a loss if it were destroyed. Nor can you buy insurance on someone's life unless you would suffer an economical loss if he or she died.

Questions to Consider

1. *What risks do you and members of your family face?* Here are some risks that many Floridians face:
   - **Health-related risk.** When someone in the family becomes sick or disabled, medical bills must be paid.
   - **Job-related risk.** If a breadwinner loses his or her job, for either a short time or permanently, living expenses must still be met.

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1. This document is FCS 5227, one of a series of the Department of Family, Youth and Community Sciences, Florida Cooperative Extension Service, IFAS, University of Florida. Publication date: January, 2002. Reviewed: August 2005. Please visit the EDIS Web site at **http://edis.ifas.ufl.edu**

2. Josephine Turner, Ph.D., C.F.P., professor of Family and Consumer Economics,Department of Family, Youth and Community Sciences, Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida, Gainesville, 32611.

- **Death of a breadwinner.** For some time we have realized that the family would suffer an economic loss if the breadwinner dies. But we have finally recognized there would also be an economic loss if the homemaker were to die because of the many essential family services provided.
- **Lawsuits for damages.** Accidents caused by carelessness or neglect can involve you or your family in a lawsuit.
- **Property lost or destroyed.** Your property can be lost, stolen, or destroyed by accidents, nature, or violence.

2. *What events could cause these losses or additional costs?* Check the ones that could happen to you:
   - Work or leisure activities could increase the chance of accidents.
   - Other people's neglect may increase the chance of health-related problems.
   - Health problems may be inherited.
   - Job loss could result from changes in health, the economy, job skills, new technology, or for other reasons.
   - Death may come from disease or accident.
   - Lawsuits for damages result primarily from accidents that are related to property you own.
   - Theft, accidents, and acts of nature are a major cause of property loss.

3. *How should you handle each risk?* There are three ways to handle these risks. Most people use a combination of these ways:
   - Be careful to prevent the loss. For example, give up high risk activities.
   - Keep the risk (self-insure). Set aside some savings to cover losses.
   - Transfer the risk to someone else. You transfer risks when you pay taxes for fire and police protection. You also transfer risks to insurance companies when you buy insurance policies.

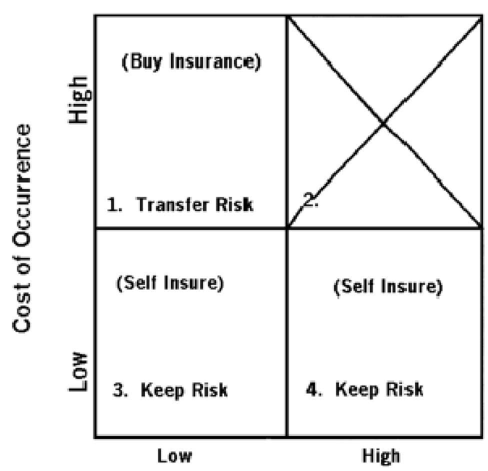
Making A Plan

After considering the risks and causes that could affect you and your family, you need to write out your plan for handling each one.

- Start a prevention program. Schedule regular checkups for your family and your property. Practice good health and safety habits and use common sense.
- Save money to cover the risks that you plan to self-insure against. Put this money in a special fund so it can be earning for you until you need it.
- Buy insurance to cover those risks you decide to transfer to insurance companies. But first, shop around for an insurance agent that you trust. Compare policies offered by different companies. Check on the insurance company's reputation and financial situation.

The following chart will help you set your insurance priorities. It will help you decide which risks you should keep or self-insure against and which risks you should transfer to insurance companies.

Risks To Keep or Transfer



Probability of Occurrence

BLOCK 1 - If the probability of the event is low but the cost is high, transfer the risk. Buy insurance.
Example: The probability of your house's burning down is not very high. But, if it were to burn down, your loss would be great.

BLOCK 2 - If the probability of the event is high and the cost of the event is high, no one would sell you insurance anyway. Or, the cost would be too high for most people to pay.

Example: If you had surgery for cancer last year and you try to buy health or life insurance, you would find it very difficult to buy complete health coverage and almost impossible to buy life insurance. Insurance companies will view this situation as a sure loss.

BLOCK 3 - If the probability of the event is low, and the cost is low, keep the risk. Don't buy insurance.

Example: Buying insurance to cover the loss of your eyeglasses, hub caps, or damage to your child's tree house is probably an unwise expense.

BLOCK 4 - If the probability of the event is high but the cost is low, keep the risk. Don't buy insurance.

Example: A special insurance policy to cover visits to the doctor's office is probably unwise. You likely will go to the doctor's office once or twice during the year. But most people can pay these expenses from savings. A better use of health dollars would be a major medical or catastrophic insurance policy that covers the large expenses for any health problem. You may, however, receive this coverage as a part of a benefit package where you work.

Buying insurance to cover risks in blocks 3 and 4 would probably cost you more money than paying the expenses out of pocket. These incidents don't cost much when they occur.

Only you can decide how much insurance to buy and how much you can afford to set aside for self-insurance. Study your risks and the methods of handling them.

Reference

Turner, Josephine. 1984. Protecting Dollars: Buying Insurance; Extension circular HE577, Alabama Cooperative Extension System, Auburn University, AL 36849