

# Why Buy Insurance?

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When you drop a quarter into a slot machine, you know that your chances of winning are pretty slim. But risking a quarter (or perhaps much more than a quarter) may be worth it to you if the potential payoff is great enough. Insurance is a lot like that. You pay premiums not because you expect to die today, get into a car accident next week, or lose your home in a fire next month. You pay them because the peace of mind insurance offers and the financial protection it can provide are worth it. You don't have to bear the risk of financial loss alone. Insurance is all about risk and financial protection.

## Do you feel lucky today? The concept of risk

We all face risk – the possibility of injury, illness, death, or property destruction – each day. Although you can never eliminate risk, you can guard against financial loss by shifting part of your financial risk to a larger entity (your insurance company) that's in the business of dealing with that risk. In return for your payment of premiums, your insurance company agrees to pay you (and/or others) a certain amount of money for a specified loss. This loss may or may not occur, so both sides gamble. Still, the potential benefits of insurance may be well worth the cost.

## You can limit or eliminate some of your risks with the right type of insurance

Consider the possible losses associated with each risk you've identified. For example, assume you have a spouse, two minor children, a mortgage, and various debts and expenses. If you die within the next few years, how much money will your spouse need to pay off the debts, meet expenses, and perhaps even send the children to college? Or what if your 68-year-old spouse (or parent) suddenly suffers a stroke and requires around-the-clock care in a nursing home? How will you pay for it?

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Insurance coverage can protect you, your business, and/or your loved ones from the financial loss associated with your risks. There are many different types of insurance to consider. These include life, medical, disability, auto, and homeowners, to name just a few. Most types of insurance are optional, but some – like auto insurance – may be required by your state or lender. Even if a certain amount of insurance coverage is required, though, you may want to purchase additional coverage to protect your assets. And if you have an employer that provides you with one or more forms of insurance coverage, you may want to supplement this coverage with an individual policy.

Explore your insurance options and try to quantify your potential losses. Because an insurance-needs analysis can be pretty complicated, it may be best to sit down with an insurance professional to figure out what types of insurance policies you should buy and how much coverage you actually need.

## Weigh the price of insurance protection against the potential benefits

Cost is always an important consideration. Even if you appreciate the importance of disability insurance, you may not be able to afford it. In addition, you should weigh the price of insurance protection against the potential benefits to you. For example, the chance that your dilapidated, 10-year-old auto will be stolen is remote – Even if it is stolen, your financial loss would not be great, so theft coverage would be a waste of money.

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For more information, please contact your advisor.

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