

INSURANCE: *Necessity or Nuisance?*



INSURANCE protects against financial losses due to some type of **RISK.**

RISK

is uncertainty - the uncertainty of incurring a financial loss and the uncertainty about the size of the financial loss.

Insurance covers

PURE RISK

(the possibility of a loss only).

HOW TO HANDLE RISKS

- Identify and evaluate your risk exposure and sources of risk.
- Determine the expected frequency and size of potential financial losses.
- Determine how to handle risks identified.

RISK MANAGEMENT TECHNIQUES

Avoid Risk Don't own items or expose yourself to activities that will cause a financial loss.

Retain Risk If you incur a financial loss, pay for the loss yourself.

Reduce Risk or Control Loss Reduce the frequency or size of the financial loss.

Transfer Risk Pay someone else to cover the financial losses. The most common way of transferring risk is to an insurance company.

INSURANCE THAT ALL OR SOME PEOPLE NEED

- Health
- Disability
- Life
- Homeowners
- Automobile
- Long-Term Care
- Umbrella Liability

INSURANCE THAT ALL OR SOME PEOPLE DON'T NEED

- Rental Car & Towing
- Dental & Vision
- Flood
- Private Mortgage (PMI)
- Credit Life
- Accident/Dread Disease

RULE: Insurance should be purchased when the likelihood of the financial loss occurring is small, but the size of the financial loss is large.



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