FINANCE FRIDAYS WITH THE TREASURER

A Financial Literacy Newsletter

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NC Cash | NC ABLE

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Finance Fridays
is a publication of the N.C. Department of State Treasurer. Treasurer Brad Briner is focused on preserving, protecting and sustaining the state's pension and healthcare plans. Briner was most recently the Co-Chief Investment Officer for Willett Advisors and has held positions at Morgan Creek Capital, the UNC Management Company, ArcLight Capital and Goldman Sachs.

I have a confession to make. Last month, I took a financial literacy quiz that is used for high school competitions in North Carolina. And I did not get a perfect score… probably not a good thing to admit if you are State Treasurer!

In my defense though, the competitors don't get perfect scores either, and the question I missed was about insurance. In my view, insurance is easily the most complicated financial literacy topic out there. In many cases, it's like learning a foreign language… deductibles, co-insurance, co-payments, actuarial values and on and on. It can feel like the complexity is designed to confuse…

“In my view, insurance is easily the most complicated financial literacy topic out there.”

So, we thought we would take a stab at insurance this month. While there are literally thousands of types of insurance out there (a personal favorite: Oklahoma requires commercial turtle catchers to buy insurance… I didn’t know there was such a profession), the basic building blocks of insurance are what are important for you and me.

There are really two things that are meant by insurance today, and it’s important to distinguish between them. The first definition is the historic definition – a way to share catastrophic risk so that it doesn’t ruin your life if it occurs. Think about how terrible it would be for your house to burn down. That’s a risk that few people can handle on their own, and one that is fortunately unlikely to occur.

But the modern definition of insurance – primarily in health insurance – is often just a way to pre-pay relatively routine expenditures. There are, of course, elements of catastrophic coverage in health care, but most of the expenditures are predictable and consistent (think prescription drugs). It’s important to distinguish these concepts as you think about insurance. In my view, protecting yourself from a catastrophe is a must, and pre-paying for routine expenses requires some study each time.

Part of that study is understanding the basics of how the insurance company works. The basic recipe for insurance companies is to collect premiums, hold them for some time to make investment returns off the premiums, and pay claims later. Insurance companies make money in two ways – underwriting profits and investment profits. Underwriting profits are what’s left over after the company pays expenses and claims out of the premiums received. And investment profits are what they make while they hold the money in the period between receiving the premiums and paying out claims and expenses.

Many insurance companies don’t make much, if any, underwriting profits. Between their claims and their costs to administer, they spend as much as they take in from premiums. In many lines of insurance, particularly in healthcare, there are strict limitations on underwriting profits, so it is most often the case that insurance companies are encouraged to pay claims appropriately. But you should know that investment profits are largely a function of how long it takes to pay your claim. The longer they take, the more they can make off your money that they are holding. So in considering what insurer to use for any of your needs, be sure to examine their history of paying claims, not only fairly, but on a timely basis as well.

There are many other topics in insurance, and as mentioned up front, even professionals like me don’t know all the detail in this complicated landscape. But by knowing the basics of the two fundamental uses for insurance, and the two ways that insurance companies make money, you’ll be prepared to make almost all the important insurance decisions you’ll face in life!

Demystifying The Language of Insurance

By Beth Horner
Chief of Staff, N.C. State Health Plan

Navigating insurance can feel overwhelming, especially when you're faced with unfamiliar terms that you don't understand. Understanding these common insurance terms can help you make informed decisions about your insurance coverage and avoid unexpected out-of- pocket costs.

Here are a few common terms:

- The **deductible** is the amount you must pay out-of-pocket for covered health care services before your insurance or plan begins to pay. For example in health insurance, if your deductible is $1,500, you'll pay the first $1,500 of your medical bills before your insurance kicks in.
- The **coinsurance** is the percentage of costs you share with your insurance or plan after you've met your deductible. For instance, if your coinsurance is 20%, you'll pay 20% of the cost of services, and your insurance will cover the remaining 80%.
- The **copayment, or copay**, is a fixed amount you pay for a specific service—like $30 for a doctor's visit—regardless of the overall cost of the service.
- The **out-of-pocket maximum** is the most you'll pay during a benefit year for covered services. Once you reach this limit, your insurance or plan pays 100% of your remaining health care costs for the year.

Understanding these basic terms can help reduce confusion, manage your expenses more effectively, and give you more confidence in using your insurance.

HURRICANE SEASON

IS A GOOD TIME TO REVIEW INSURANCE COVERAGE

By Aubie Knight
Chief Executive Officer of the Independent
Insurance Agents of North Carolina

Hurricane season is a natural reminder that it's time to do more than check your emergency supplies. It's also the right time to revisit your insurance coverage. Many people assume they are protected, only to find out after a storm that some of the most important risks were never included in their policy. As we all learned last year, hurricane season isn't just about the coast, anywhere in our state can feel the effects of these fierce storms.

One of the biggest gaps involves wind and flood. Most standard homeowners policies do not cover flood damage, and many consumers know that. What surprises people in North Carolina and other coastal states is that their homeowners policy might not cover wind damage either. In fact, many properties along the coast require three separate policies. One for the structure and liability, another from the North Carolina Joint Underwriting Association for wind, and a third from the National Flood Insurance Program for flood. If you only have one or two of these in place, you are likely exposed to serious financial risk.

Even if you have all three, you still need to ask whether the coverage limits reflect today's reality. Over the past five years inflation has driven up the cost of construction materials and trade labor by more than 35%. Lumber, sheetrock, roofing materials, electrical and plumbing work have all gone up significantly. And that matters because, at its core, your homeowners policy is a promise to rebuild your home after a catastrophe. If your coverage limits are based on old numbers, you may find out too late that your protection falls short.

Here is one way I like to explain it. Imagine if your insurance policy was not insurance, but a chocolate bar. Now imagine that the costs of milk, sugar, and cocoa have all increased. What would happen to the price of that chocolate bar? It would go up. Insurance works the same way. When the cost of the raw materials to rebuild a home goes up — lumber, shingles, concrete, labor — the cost of the product that pays for those things also goes up. Your insurance premium is not just about market trends. It is tied directly to what the policy is promising to replace.

> **"Imagine if your insurance policy was not insurance, but a chocolate bar"**

Beyond reviewing your policies, this is also the right time to take a few preparedness steps that can make recovery much easier. Start with a basic inventory of your belongings. Do you have a record of your furnishings and personal items, especially anything hard to replace or difficult to prove? Think about collectibles, custom furniture, or anything that may not show up on a receipt. Taking photos or videos and storing them in a secure cloud-based account can make a huge difference if you need to file a claim.

You should also have all your key insurance information saved somewhere safe and accessible online. That includes policy numbers, coverage limits, the name and contact information for your agent or insurance company and clear instructions on how to file a claim. If a storm is approaching and you need to evacuate, you do not want to be digging through file drawers or making calls to track that down.

Finally, make sure your evacuation plan is up to date and realistic. Know where you are going, how you are getting there and what essentials you will bring. This includes basic supplies, medications, identification documents and anything you might need to quickly start the recovery process.

Hurricane season is not just about the weather. It's about readiness. Make sure the protection you think you have is actually in place. Review your coverage, double check your limits, document your belongings, and talk to your agent now — while the skies are still clear.

Picking the right insurance plan can be complicated, whether you're an employer trying to find the right plan for you and your workforce or a family looking for coverage through the Affordable Care Act Marketplace. Being able to "speak the language" of insurance is a key element of financial literacy.

I've spent nearly 30 years in insurance - which has given me plenty of time to know where folks have the most questions. Here are some key considerations when buying health insurance, either for yourself and your family or as an employer for your employees and covered dependents.

Coverage and Benefits. Review plan summaries to be sure that your regular medical services and medications are covered. This can take some time, but it's worth it. Most offerings will be in line with Affordable Care Act benefit mandates, but you should always make sure you see coverage for office visits, hospitalization and prescription drugs, and other coverage details such as emergency care, preventive care, maternity services and mental health coverage. <u>Don't be discouraged if you need to read things more than once – it takes time to get used to the language of health insurance.</u>

Costs and Affordability. Be clear about the cost of coverage for health benefits (what you would pay in monthly premiums) as well as the cost of using those benefits (deductibles, copayments, and out-of-pocket maximums). This is where it's important to weigh whether lower monthly premiums or lower out-of-pocket costs better suit your budget and health care usage patterns. <u>Ask yourself: How often are we likely to use these benefits, and how much can we afford to spend on deductibles and other out-of-pocket costs in order to get a lower premium?</u>

Provider Networks. Confirm that your preferred doctors, hospitals and specialists are within the plan's network. You should always remember the extra cost of visiting out-of-network providers and whether you are willing to accept limited provider options.

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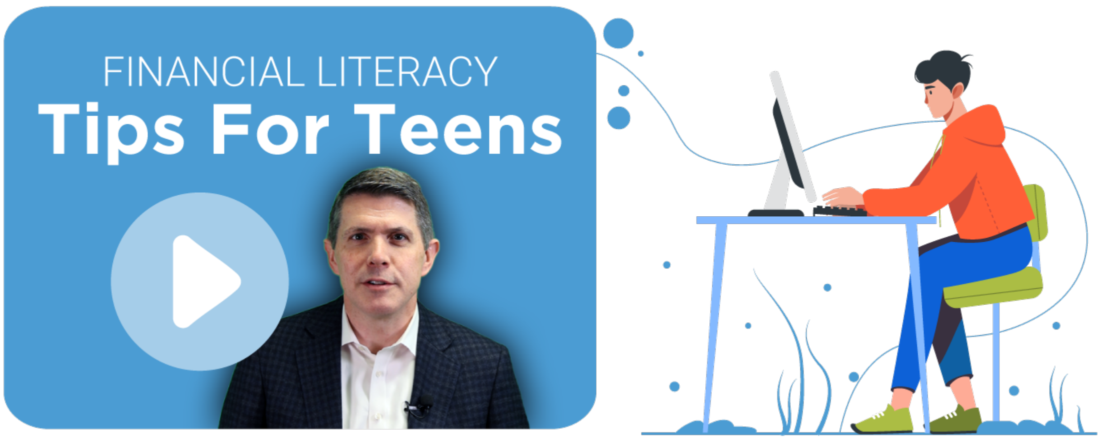
Prescription Drug Coverage. Check whether the medications you take are included in the plan's formulary (some drugs may not be) and review any tiered pricing. Consider how prescriptions affect overall health care spending – especially if you take a lot of medications.

Plan Type and Flexibility. Understand the differences between broad networks and more narrow networks, high-performance PPOs and whether or not there is coverage for out-of-network services. Some EPOs or HMOs may not pay when you visit a doctor or hospital that isn't in their network. You should also know whether you need a referral from a primary care physician to see a specialist.

For employers, it is vital that you understand **how the plan is funded**, because there are a range of options – from fully-insured to level-funded or partially self-funded – where you may be assuming risk for more than just premiums. When a plan is self-funded or level-funded, there are many considerations that employers should think about before entering into a new contract. Each of these funding options can bring advantages as well as areas of caution.



Often the first chance parents take to talk to their kids about insurance is during the teen years when it’s time to sign up for driver’s ed. New drivers need to be added to the parents' car insurance which can be a starting point for learning about auto insurance.

Yet, even before kids make it into the driver’s seat, parents can introduce them to the basics of insurance. Understanding insurance basics and what kinds of insurance can be bought are important topics in financial literacy.

Here’s an outline of basic concepts you can use to talk to your kids about home and car insurance:

What it is: Insurance is something we buy to help protect our finances if our most expensive possessions like our home and cars are damaged. It’s protection against the unexpected. It can be compared to an umbrella; you won’t always need it but when you do you are very glad you have it. Repairs to homes and cars tend to be very expensive and insurance helps you pay for those repairs, and sometimes, even for a full replacement. And if your family rents a home, renter’s insurance helps you pay for replacing any of your personal belongings if there is an event such as damage to the home or even theft.

How it works: You pay the insurance company a fee (called a premium) every month, twice a year or once a year. You pay that premium as a safeguard in case something unexpected happens – say you have a car accident or a bad storm causes damage to your home's roof. The insurance company will help you pay for the repairs or even for a replacement.

There are many nuances to insurance. One that some folks forget to factor in is that you still often pay part of the total cost first (called a deductible) before the insurance company will make any payments.

Next time your child has a doctor or dentist appointment, that might be a great time to have a talk about the importance of health insurance. Here's some guidelines:

What it is: Health insurance helps you cover some of the costs of staying healthy: routine doctor visits, prescriptions, flu shots, immunizations, even if something happens that you must go (or stay) in the hospital for, like a broken arm. You can buy dental insurance to help you pay for those visits to the dentist, and procedures like getting a cavity filled and even braces if you need them.

How it works: With health and dental insurance, you will pay a fee to the insurance provider (called a premium) usually every month and you likely also pay for part of the cost of going to the doctor and dentist. That first part that you pay is a discounted set fee called a co-pay for office visits. And health insurance also has a deductible that you must pay for before the insurance company will pay its share. Like home/car insurance, how much the deductible will be is explained in the insurance policy.

Bottom line, teaching your kids about the importance of insurance helps them down the path toward understanding personal finance and to understand:

"Insurance, in its broadest sense, is all about protecting what we have, what we build, and what we love." - Anonymous

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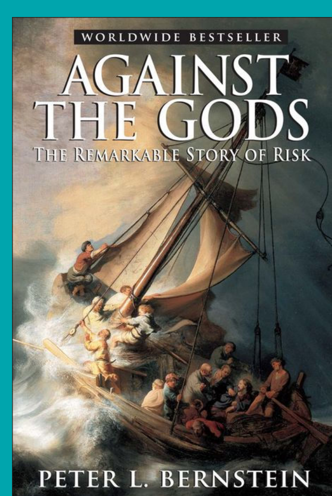
Financial Literacy in Action

Financial literacy comes in all shapes and sizes. (A) This month, Brad was able to spend some time with hundreds of retired state employees to talk about financial literacy for seniors. This is especially important when you look at the growth of fraud and scams aimed at this population. This webinar, put on by NCRGEA was an excellent opportunity to talk about what to watch out for. Sometimes, learning isn't in a classroom type setting. (B) This month we also saw a major initiative of this office get signed into law - the 2025 Investment Modernization Act. While many folks don't understand the ins and outs of investment - especially on a massive scale like our office does - Brad and his team worked with state lawmakers to make sure they had the knowledge needed to vote on this law.

Book of the Month: "Against the Gods"



This month, Brad's suggested reading is Against the Gods by Peter Berstein. This book helps you understand risk and probability - in many aspects of human life. The book is readily available for sale in places like here. Or you could borrow it at a local library.

For Teens:

What is insurance?

- A. Some type of paper you need to show a cop when you get pulled over.
- B. Financial contract between an individual, business, or insurer that offers protection against potential losses, damages, injuries, health, etc. in exchange for a fee.
- C. Multitude of financial contracts individuals sign so they won't get in trouble with the IRS.

Why would I need renters' insurance?

- A. Before renting an apartment, house, or condo: Most landlords and rental companies require tenants to have a policy that protects their personal belongings against damages or loss while living on rented property.
- B. Before renting an apartment, it's required by law in North Carolina to have renters' insurance. If not, you aren't allowed to rent anywhere.
- C. Before renting a car, you need proof of renters' insurance. Car rental companies require drivers to have a policy that proves they're responsible to rent a vehicle and protect them in case of an accident.

Which of these is NOT a type of insurance?

- A. Travel insurance
- B. Umbrella insurance
- C. Fart insurance

For Adults/Seniors:

If an individual loses a job and health insurance, which of the following allows the

person to keep their current coverage temporarily?

- A. COBRA (Consolidated Omnibus Budget Reconciliation Act)
- B. Medicaid expansion
- C. Unemployment Insurance

If you live in a flood–prone area, where do you get flood insurance?

- A. Through your regular homeowner's policy.
- B. Through the National Flood Insurance Program (NFIP).
- C. Through your insurance company.

Under a personal auto policy, if an insured already has physical damage coverage for at least one vehicle, how many days does the insured have to notify the insurer and request coverage for a new vehicle from the date it is acquired to ensure automatic coverage?

- A. 30 days
- B. 14days
- C. 7 days

Click here for the answers.

Sources
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