

# Texas Insurance Guide

Comprehensive Guide to Shopping for  
Texas Insurance

Provided by:

[www.TexasInsuranceZone.com](http://www.TexasInsuranceZone.com)

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# Chapter One>Texas Auto Insurance Basics

## Beginners Guide to Shopping for Texas Auto Insurance

### **Texas Auto Insurance Basics**

There are four main considerations you need to take into account when picking your auto insurance or car insurance company in Texas.

All are important: Price, Longevity of Insurance Company, Service, and Comfort Level.

At Texas Insurance Zone we strive to help auto insurance quote and car insurance quote shoppers make better decisions involving these four principles. Our instant auto insurance rate calculator will help you review auto insurance prices, car insurance rates, and coverage levels.

Auto Insurance and Car Insurance programs protect consumers from experiencing personal financial setbacks if you they involved in an automobile accident. The auto insurance policy or car insurance contract between a consumer and an insurance company establishes that in the event of an accident involving an insured vehicle or owner the auto insurance company will cover the financial aspects of the event if timely premium payments have been received from the policy holder.

The financial aspects of an accident become substantial if the event results in personal property, bodily injury, medical coverage, or death. That's why car insurance consumers must research insurance companies before they buy an auto insurance policy or car insurance coverage.

Texas Insurance Zone has made the process much easier by offering extensive auto insurance information like: rates, prices, quotes, plans, programs, coverage, and car insurance comparisons all in one single online location. When you buy auto insurance or car insurance protection it is an important decision and we hope our site will make the process much easier. We offer discount prices and affordable rates from the leading auto insurance companies in Texas.

At Texas Insurance Zone our expert agents will design comprehensive auto insurance coverage from the leading insurance companies in the state. Our network of respected industry leading auto and car insurance companies like: Allstate, Farmers, Prudential, and more, offer some of the most affordable rate plans in . We work with the most reputable companies in the industry. It is important to make yourself aware of the specific auto insurance policy procedures, car insurance rates, prices, and policy terms that are unique by state.

Educate yourself on the levels of auto insurance coverage mandated by your state legislators. We help match up your requirements with available auto

insurance policies and car insurance professionals to help better determine the ideal coverage terms for you. Seven primary types of coverage determine most auto Insurance quote and car insurance prices:

- Bodily Injury Liability
- Medical Payments
- Personal Injury Protection - PIP
- Property Damage Liability
- Collision
- Comprehensive Uninsured or Under Insured Driver Coverage

Many states require vehicle-owners to purchase most, if not all, of these coverage plans. Most auto insurance quotes reflect one year of coverage. Major insurance companies usually send renewal notice information by mail alerting policy holders to renew or make additional premium payments.

Texas Insurance Zone can help you quickly determine the auto insurance rates, car insurance prices, vehicle coverage and insurance policy programs that are right for you. For more information and rates, contact us at

[www.TexasInsuranceZone.com](http://www.TexasInsuranceZone.com)

# Chapter 2> Texas Automobile Insurance Coverage Guide

## What Texas Drivers Should Know

### Introduction

Texas law requires you to have auto liability insurance, and if you still owe money on your car, your lender requires that you also carry collision and comprehensive coverage. Auto insurance pays for damages, injuries, and other losses specifically covered by your policy. Read your policy carefully to know exactly what it covers. Pay special attention to the exclusions section, which lists the things your policy doesn't cover. The front page of your policy is called the declarations page. It contains useful information such as the exact name of your insurance company, your policy number, and the amount of each of your coverages and deductibles.

Texas has an automobile insurance Consumer Bill of Rights. Your company must send you a copy with your policy or policy renewal. Take time to read it to fully understand your rights under Texas law.

### **Texas Requires Proof of Financial Responsibility!**

If you drive in Texas, you must show that you can pay for accidents you cause. Most Texas drivers do this by buying auto liability insurance. ***Texas law requires minimum coverage of \$20,000 per injured person, up to a total of \$40,000 for everyone hurt in an accident, and \$15,000 for property damage.*** This basic coverage is called 20/40/15 coverage. However, basic coverage might not be enough if you are held liable for an accident. You should consider buying more than the basic limits. When you buy an auto policy, your insurance company will send you a proof-of-insurance card. You will have to show proof of insurance when you

- are asked for it by a law enforcement officer
- have an accident
- register your car or renew its registration
- obtain or renew your driver's license
- get your car inspected.

Texas law provides severe penalties for violating the state's financial responsibility laws. A first conviction will result in a fine between \$175 and \$350. Subsequent convictions could result in fines of \$350 to \$1,000, suspension of your driver's license, and impoundment of your automobile.

## **Texas Auto Insurance Coverages**

The Texas Personal Automobile Policy offers eight types of coverage. Texas law requires you to have basic liability coverage. The other coverages are optional, but if you still owe money on your car, your lender will require you to have collision and comprehensive coverage. The following describes the eight types of coverage available in the Texas Personal Automobile Policy. Auto insurers may offer alternative policies if approved in advance by TDI.

### **Texas Liability Coverage**

**Pays:** Other people's expenses for accidents caused by drivers covered under your policy, up to your policy's dollar limits. These may include the other person's medical and funeral costs, lost wages, and compensation for pain and suffering car repair or replacement costs auto rental while their car is being repaired

punitive damages awarded by a court. Liability insurance also pays attorney fees if you are sued and bail up to \$250 if you are arrested.

**Covers:** You, your family members, and other people driving your car with your permission, even if they don't have their own liability insurance and are not named on your policy. You and your family members also are covered when driving someone else's automobile - including a rental car - but not a car that you don't own but have regular access to, such as a company car.

#### ***Who qualifies as a family member?***

Your auto policy covers your spouse, blood relatives, in-laws, adopted children, wards, and foster children living in your home, even if not named on the policy. Family members attending school away from home and a spouse living elsewhere during a marital separation also are covered.

### **Texas Medical Payments Coverage**

**Pays:** Medical and funeral bills arising from accidents, including those in which the victim was a pedestrian or a bicyclist.

**Covers:** You, your family members, and passengers in your car, regardless of who caused the accident.

### **Texas Personal Injury Protection (PIP) Coverage**

**Pays:** Same as medical payments coverage, plus 80 percent of lost income and the cost of hiring a caregiver for an injured person.

**Covers:** You, your family members, and passengers in your car, regardless of who caused the accident.

An insurance company **must** offer you \$2,500 in PIP, but you can buy more. If you don't want PIP, you must reject it in writing.

### **Texas Uninsured/Underinsured Motorist (UM/UIM) Coverage**

**Pays:** Your expenses from an accident caused by an uninsured motorist or if the other driver did not have enough insurance to cover your bills, up to your policy's

dollar limits. Also pays for accidents caused by a hit-and-run driver if you reported the accident promptly to the police.

Bodily injury UM/UIM pays without deductibles for medical bills, lost wages, pain and suffering, disfigurement, and permanent or partial disability.

Property damage UM/UIM pays for auto repairs, a rental car, and damage to items carried in your car. There is an automatic \$250 deductible. This means you must pay up to \$250 of the repairs yourself.

**Covers:** You, your family members, passengers in your car, and others driving your car with your permission. Insurers **must** offer UM/UIM coverage, but you *can reject it in writing*.

### **Texas Collision (Damage to Your Car) Coverage**

**Pays:** The cost of repairing or replacing your car after an accident, regardless of who was driving or who was at fault. Payment is limited to your car's actual cash value, minus your deductible. Actual cash value is the market value of a car like yours before it was damaged.

### **Texas Comprehensive (Physical Damage Other than Collision) Coverage**

**Pays:** The cost of replacing or repairing your car if it is stolen or damaged by fire, vandalism, hail, or another cause other than collision. Comprehensive coverage also pays for a rental car or other temporary transportation if your car is stolen. Your policy won't pay for an auto theft unless you report it to the police. Payment is limited to your car's actual cash value, minus your deductible.

### **Towing and Labor Coverage**

**Pays:** Towing charges when your car can't be driven. Also pays labor charges, such as changing a tire, at the place where your car broke down.

### **Rental Reimbursement Coverage**

**Pays:** A set daily amount for a rental car if your car is stolen or is being repaired because of damage covered by your policy.

### **Coverage for Stereo Equipment**

Your policy won't pay for tapes, compact discs, cellular phones, citizen band radios, or stereo equipment not permanently installed in your car. However, you can buy endorsements to your policy that provide separate coverage for these items for an additional premium.

### **Insurance Coverage When Renting a Car**

Auto rental agencies offer collision damage waivers as well as liability policies. The collision damage waiver is not insurance. It is an agreement that the rental company will waive its right to recover the costs of the damage to the auto from the renter with certain exceptions, regardless of who is at fault. If you have an auto liability policy, your policy already covers damage to a rental car. Your coverage limit, however, might be less than the value of a rental car. If you rent cars often, it might cost less to raise the liability limit on your auto policy rather than buying collision damage waivers each time you rent. The Texas Automobile Rental Liability Policy provides liability insurance for renters who do not have a personal auto policy.

If you don't own a car, but borrow or rent cars often, you can buy a non-owner liability policy. A non-owner policy pays for damages and injuries you cause when driving a borrowed or rented car but not for damage to the auto you are driving.

### **Coverage When Driving in Other States, Canada, and Mexico**

Your Texas policy *automatically* meets the financial responsibility requirements of other U.S. states and Canada. Mexico, however, does not recognize U.S. auto liability policies.

Mexico does not require drivers to have automobile liability insurance. However, drivers can be held criminally and financially responsible for any auto accidents they cause. If you're in an accident that results in an injury, police in Mexico may detain you until they determine who is at fault. You will have to show that you either have insurance recognized by the Mexican government or the financial ability to pay any judgment against you.

You can buy Mexican liability insurance from Texas agents who specialize in it. Some U.S. companies provide a free endorsement extending your policy's coverage to infrequent trips of up to 10 days and as far as 25 miles into Mexico. You can buy coverage for longer stays, but it is valid only within 25 miles of the border. Telephone books in border towns list insurance agents that specialize in car insurance for travel in Mexico. Your local agent also might be able to help you find coverage with a Texas-licensed Mexican company.

You also may be able to buy a limited Mexico "tourist" endorsement that extends your Texas liability coverage to pay expenses exceeding those covered by a Mexican liability policy. This endorsement covers trips of any distance and any length of time. Ask your agent which endorsements your insurance company offers.

### **Coverage of New or Additional Automobiles**

If you buy a new or additional car, your policy will automatically cover it, but there are certain limitations you should be aware of.

An additional car automatically has the same coverage as the car with the broadest coverage provided by your policy. For example, if you have two cars - one with liability coverage only and one with liability, collision, and comprehensive - and you buy a third car, the third car will automatically have liability, collision, and comprehensive coverage.

A replacement car automatically has the same coverage as the car it replaced. For example, if you trade in an older car that only had liability coverage, the new car will automatically have only liability coverage.

Be sure to notify your insurance company as soon as possible that you have added or replaced a car and which coverages you want. You could lose coverage on the new car if you wait longer than 30 days.

TDI's Consumer Help Line or by visiting the TDI website  
1-800-252-3439  
463-6515 in Austin  
[www.tdi.state.tx.us](http://www.tdi.state.tx.us)

## Chapter 3>

# Texas Automobile Insurance Rate Guide

## Texas Auto Insurance Rates

### Understanding Texas Auto Insurance Rates:

Texas law requires proof of financial responsibility for anyone who drives an automobile in the state. Most Texans choose to purchase liability insurance to meet this requirement.

Liability insurance pays for bodily injuries, property damage, and rental car expenses for which a driver covered by your policy is legally responsible. The **minimum** liability insurance required by law is **\$20,000 bodily injury per person, \$40,000 bodily injury per accident, and \$15,000 for property damage per accident. This is commonly called "20/40/15" coverage.**

### Understanding Rates

Auto insurers evaluate your risk for a claim using your driving record and other factors, including the type of car you drive, the area where you live, your claims history, your credit score, your age, and how you use your car (business, pleasure, or to drive to work). Your rates are based on your risk for a claim.

**Accidents, tickets, or claims** can increase your rates. If you have accidents, tickets, or claims on your record during the past three years, your rates may be higher.

### How to Use the Rate Guide

This rate guide can help you compare rates among companies that sell 80 percent or more of the auto liability insurance in your area. It also includes the Texas Automobile Insurance Plan Association (TAIPA) and companies that have asked to be in the rate guide. The table lists companies and the annual rates they charge for four "typical" drivers. The rates shown are for a one-year basic minimum liability policy. Collision and comprehensive coverages, which pay for damage to your vehicle, are not included.

### Typical Drivers

The driver profiles may not match your situation exactly, but they provide a way to compare prices. The rates shown are estimates given to Texas Department of Insurance by the companies and are not the exact amount you will be quoted. Your premium will vary according to your individual circumstances and could be significantly higher than the rates listed.

Driver A: Adult male age 25-64 or female age 21-64 with no at-fault accidents or major traffic convictions who drives to and from work.

Driver B: Single male under age 21 with no at-fault accidents or major traffic

convictions.

Driver C: Single female under age 21 with no at-fault accidents or major traffic convictions.

Driver D: Male or female over age 64 with no at-fault accidents or major traffic convictions who drives for pleasure and errands only.

## **Financial Rating**

**A.M. Best Co.**'s rating of the **financial strength** and operating performance of each company. Reprinted by permission. Best's ratings are subject to change and are current only as of the publication date. For current rating information, call A.M. Best or visit its Web site

1-908-439-2200

[www.ambest.com](http://www.ambest.com)

## **A.M. Best Co's. Ratings Classifications**

A++ and A+ mean Superior

A and A- mean Excellent

B++ and B+ mean Very Good

B and B- mean Fair

C++ and C+ mean Marginal

C and C- mean Weak

NR means the company was not rated by A.M. Best.

A.M. Best Co. is not responsible for errors in presentation or content and does not endorse this publication in any way.

## **Complaint Index**

How consumer complaints received by Texas Department of Insurance against each company compare to the average, with an index of 1.00 as average. Below 1.00 means fewer complaints than average. Above 1.00 means more complaints than average.

**TAIPA** is an assigned-risk plan for people who cannot obtain auto insurance from a standard company. Complaints regarding policies issued through TAIPA are counted against the company writing the coverage. TAIPA does not have a complaint index.

## **Benchmark Rates**

The rates set by the Commissioner of Insurance each year for rate-regulated auto policies. Rate-regulated companies can set their rates within 30 percent above or below the benchmark rate without prior approval.

## **How to Find the Best Rate**

- If you have a clean driving record, avoid companies and agents that advertise to high-risk drivers. Their premiums are often higher.

- Get quotes from several companies before you buy. Include independent agents in your search. Some agents only represent a single company or company group. Independent agents may represent several companies.
- Consider higher deductibles. You can save money on your premiums by increasing your policy deductibles. Remember that a higher deductible means you'll have to pay more out of pocket if you have a claim.
- Ask your agent about discounts. You may be eligible for discounts for having two or more cars on the same policy; completing a defensive driving, driver education, or drug and alcohol driving awareness course; and having an automobile with airbags, automatic seatbelts, or certain anti-theft devices.

### **Before You Buy a Policy, Remember**

- In addition to cost, consider other factors, such as the company's financial strength and complaint history.
- Make sure you understand what coverages are included with the policy. Choose a policy with the coverages you need and limits that will adequately protect your assets.
- Don't cancel a policy until you have a new policy in effect. A company can cancel your policy within 60 days from the issue date for any reason, except illegal discrimination.
- Answer all questions on the application truthfully. Wrong information could cause an incorrect price quote or a denial or cancellation of coverage.
- Don't give up if a company turns you down. Companies have different standards for accepting new customers.
- Some companies may accept drivers that other companies won't.

### **Unfair Discrimination**

Under Texas law, an insurance company cannot deny, refuse to renew, limit or charge more for coverage, or unfairly discriminate in any manner because of your race, color, religion, or national origin. Nor can a company discriminate because of your age, gender, marital status, geographic location, or disability or partial disability-unless the refusal, limitation, or higher rate is "based on sound underwriting or actuarial principles." This means the company must have valid evidence that you present a greater risk for a loss than drivers it is willing to insure.

### **Having Trouble Finding Insurance?**

If you live in an area designated by the Texas Department of Insurance as "underserved," the state's Market Assistance Program (MAP) may be able to help you lower your insurance costs. For more information, call MAP

1-888-799-MAPP (6277)

TDI's Consumer Help Line or by visiting the TDI website

1-800-252-3439

463-6515 in Austin

[www.tdi.state.tx.us](http://www.tdi.state.tx.us)

## Chapter 4> Texas Home Owner Insurance Basics

### ***Things Every Texas Home Owner Should Know About Texas Home Insurance***

#### **Texas Home Owner Insurance Basics (Texas Homeowner Insurance)**

Our Texas Home and Homeowner Insurance Consumer Rate Quote Guide provides basic Texas home insurance policy information for the state of Texas. Details on the exact type of home insurance and specific kind of homeowner insurance coverage should be obtained from your insurance agent and Primary insurance company. The purpose of our Texas home insurance and homeowner insurance resources quote guide is to encourage consumers to compare and shop for their Texas homeowner insurance coverage.

A Consumer Guide to Homeowner insurance combines more than one type of home insurance coverage into one singular policy. **Usually, four types of insurance coverage are contained in each homeowner policy: (1) Homeowner Dwelling and Personal Property; (2) Liability; (3) Medical Payments; and, (4) Additional Home Living Expenses.**

#### **(1) Home Dwelling and Personal Property Coverage**

Home Dwelling coverage helps pay for any structural damage to the home or dwelling. Other physical structures such as a detached garage, a Home storage shed or any other building on your home property are usually covered for 10% of the coverage on your house. Personal property coverage pays for your contents including home and household furniture, clothing and other personal homeowner possessions. The amount of home or homeowner insurance is usually 50% of the insurance policy limit on your home or dwelling. Your Texas home insurance policy also provides more limited homeowner insurance coverage for personal property, commonly 10%, if the home is stolen or damaged while you are away from home, including when you are on vacation.

#### **(2) Personal Liability Coverage**

Homeowners insurance provides personal liability coverage that applies to non-automobile accidents on and off your home property if the injury or damage is caused by you, a family member, or your household pet. The liability coverage in your homeowner insurance policy pays both for the cost of defending you and paying for any damages a court rules you must pay. Unlike other coverage in a homeowners insurance policy, the liability coverage does not have a deductible that must be met before the home insurance company reimburses. The basic home insurance policy limit is typically set at \$100,000, you may request higher home insurance policy limits, which are normally available at additional costs.

### **(3) Medical Payments Home Insurance Policy Coverage**

Medical payments coverage pays if someone outside your home or household is injured at your home regardless of fault and pays for reasonable medical expenses. In limited circumstances, Medical Payments may pay if you are involved in the injury of another person away from your home.

### **(4) Additional Living Expenses**

If you must temporarily move into a motel or apartment due to a loss covered by your policy, the insurance company will pay reasonable and necessary additional living expenses, generally for up to 12 months. The typical Texas home insurance policy pays up to 20% of the insurance policy limit on your home or dwelling for expenses that exceed your normal daily household living expenses.

**Homeowner insurance programs generally provides the following additional coverage:**

### **BASIC TEXAS HOMEOWNER'S INSURANCE POLICY - ADDITIONAL COVERAGES**

- **Debris Removal.** The homeowner insurance policy usually covers a fixed amount toward the cost of having debris that is left as a result of the property loss removed from the home or premises.

- **Trees, Plants and Shrubs** Trees, plants and shrubs around the house are usually covered for 5% of the insurance on the home, up to \$500 per item against theft, fire, lightning, explosion, vandalism, riot, and even falling aircraft. Windstorm damage to trees, plants and shrubs is normally not covered.

Ask your insurance agent about the following additional Texas homeowner insurance policy benefits offered by some insurance companies for extra premiums:

- **Credit Card Coverage** Many home insurance policies pay up to \$500 to cover unauthorized credit card use.

- **Identity Theft** Some home insurers offer coverage for household expenses arising from the misuse of your identity.

- **Mold** Some home insurers offer limited coverage of property losses related to mold.

**Basic Perils Insured Against in Texas home owner insurance or Texas homeowner insurance policy covers:**

## **Typical Texas Homeowners Form A**

- Fire and lightning
- Aircraft & vehicles Earthquakes
- Vandalism and malicious mischief
- Theft
- Explosion
- Riot and civil commotion
- Smoke
- Windstorm, hurricane, and hail
- Sudden and accidental water damage (with proper endorsement if offered)

## **Typical Texas Homeowners Form B (Broad Form)**

The broad Texas home insurance and Texas homeowner insurance policy covers all the perils covered by the basic plus: building or home collapse; freezing or accidental discharge of water in the house, or steam from within home plumbing, heating, etc.

## **COMMON EXCLUSIONS AND LIMITATIONS TO MOST TEXAS HOMEOWNER INSURANCE POLICIES ARE:**

- Flooding
- Earthquakes
- Termites
- Insects, rats or mice (vermin)
- Freezing pipes while your house is unoccupied (unless you turned off the water or heated the building)
- Wind or hail damage to trees and shrubs
- Losses if your house is vacant for 60 days or more
- Wear and tear or maintenance
- Water damage resulting from continuous and repeated seepage

### **Choosing Your Home Insurance Policy Limits**

To decide how much homeowner insurance coverage you need, consider:

The value of your home and contents. Prepare a list of your personal possessions, including product values and serial numbers. This will help you decide how much personal property coverage you need.

- Whether you want full home insurance coverage or are willing to bear part of the cost of a home loss.

- Asking that unusual or high-valued articles, including antiques, art objects, and jewelry, be specifically listed in the home insurance policy. You may be able to increase coverage for this property by paying an additional premium. To determine if you already have homeowner insurance coverage, check the theft provisions of your home insurance policy.

- The value of the assets you wish to protect in determining how much homeowner liability coverage you need.

### **Buying Enough Home Insurance Policy Coverage**

Before buying homeowner's insurance, consider the difference between "actual cash value" and "replacement cost coverage." These terms apply to the Texas home insurance coverage on your dwelling and your personal property. Most homeowner's policies contain replacement cost on the home and actual cash value coverage on personal property. Some companies do sell replacement cost coverage for personal property. Actual cash value is the value of the home or property when it is damaged or destroyed. This usually is determined by taking the replacement cost and subtracting depreciation.

For example, a house chair that initially cost \$500 may have a reasonable "life" of 20 years. If it is destroyed after 10 years, its actual cash value probably will be about \$250. Replacement cost is what it would cost to completely replace your house or any home from market value and actual cash value. A home that was built five years ago for \$50,000 may have a current market value of \$75,000, but have a replacement cost that is higher or lower than the market value. In order to qualify for full home replacement cost, the dwelling normally must be insured at 80% to 90% of the replacement cost.

For example, if the home replacement cost of your house is \$50,000, you should have the house insured for at least \$40,000 (80%) of its value. Then if part of the home is damaged, you can get that part of the home fully replaced. If you purchase an amount less than 80% of the home replacement cost of your home, your home insurance company will not be obligated to pay the total cost of loss to your home even if it is a small loss. Be sure to consider increasing your Texas home insurance if you add to your home or personal property.

- **Inflation Guard.** Many Texas home insurance policies include an inflation guard provision that automatically increases the amount of the home or dwelling insurance to reduce the possibility of the house being underinsured due to inflation.
- The above home insurance policy event descriptions are generalized. It is important that you check your homeowner's insurance policy to determine the precise terms of your actual home insurance policy. Read through the home insurance policy to know your rights and the insurance company's obligations. If you do not understand your home insurance policy, ask your insurance agent or insurance company to explain it to you. Read

insurance renewal policies! Home Insurers can change the terms of your homeowners policy at renewal.

- **Check-up.** Request an insurance "check-up" from your insurance agent periodically. The following are some of the home insurance factors that insurance company's consider when determining whether to accept or reject an insurance policy application and the cost of the home insurance coverage:

- **Age of the home.** Some Texas home insurance companies charge less to insure a new home than an older one because they have found newer homes are less likely to sustain damage in storms and fires.

- **Crime and vandalism** in an area will affect the cost of home insurance.

- The building or home's location affects the price of home insurance because some communities have **better fire protection** than others. Insurance companies divide the state into property rating territories. Each city and locality in Arizona is given a numerical fire protection rating classification based on the amount of fire protection in the area. These rating classes depend on such factors as water pressure, access to fire departments, and the training and skills of home firefighters. Most larger cities in Texas are in the lowest rated classes. Small towns and rural areas have higher fire protection classes and generally higher prices. Areas without any home fire protection receive the highest rating, a 10.

**A Texas home insurance agent who sells homeowner's insurance policies can tell you the community's fire protection class.**

- **Construction of the home impacts cost.** Whether it is block or frame, for instance.

- **Your credit history** is also evaluated by many home insurance company. For more detail, read the Department of Insurance Guide to Understanding How Insurers value your credit history.

### **Home Insurance Discounts**

Claims history of the property and the applicant are also considered in determining price and insurability. Adjusting your home insurance coverage or deductibles and shopping for homeowner insurance discounts can save you money:

- **Increase your deductible.** Many home insurers will lower your insurance premium if you choose a higher deductible. Since you are actually "self-insuring" or paying for that portion of the loss yourself, you should evaluate whether the premium cost savings is worth the additional home insurance deductible you will have to pay prior to your insurance benefits being applied to a loss.

- **Multiple-policy discounts.** Some home insurers may reduce your home insurance premium if you keep two or more homeowner insurance policies with them. If you already have an auto or car insurance policy with an insurer that also writes homeowner's insurance, ask if the home insurer will discount your homeowner's coverage.

- **Security/Safety discounts.** Some insurance companies offer to reduce your home insurance premium if you install a fire sprinkler system and a burglar alarm that rings into a central station. These home security systems can be expensive and not every alarm system may qualify for the homeowner insurance discount.

- **Nonsmoker discounts.** Some insurance company's reduce insurance premiums for non-smoking households.

- **Long-time policyholders.** If you have had home insurance coverage with the same insurance company for several years and have not incurred losses, some insurers will reduce your home insurance premiums. Taking steps to prevent home insurance losses is just as important as buying homeowner insurance to cover them.

### **SOME TIPS ON HOME LOSS PREVENTION HOW YOU CAN REDUCE THE COST OF YOUR TEXAS HOMEOWNER'S INSURANCE COVERAGE**

- Install smoke and heat detectors near sleeping areas.
- Clear accumulated trash, oily rags and combustible materials.
- Check lamps, lamp cords and light switches for faulty wiring.
- Practice home fire drills, keep matches away from children and make sure smokers do not smoke in bed.
- Install good locks, secure windows, consider a home security system and take other precautions to deter home and property burglars.

### **WHEN CAN A HOME INSURER CANCEL YOUR TEXAS HOMEOWNER INSURANCE POLICY?**

After a home insurance policy has been in effect for 60 days, insurers may cancel your homeowner insurance policy in the middle of the term if:

- You stop paying insurance premiums,
- Have been convicted of a crime increasing the insurance hazard,
- Have breached the insurance contract,
- Have acted fraudulently or committed material misrepresentation in getting the home insurance policy,
- Have failed to take reasonable steps to eliminate conditions that may increase property losses, or
- If there has been a substantial change in the risk. If a home insurer refuses to continue covering you, it must mail to you a written notice of cancellation and state the reason the home insurance policy is being canceled.

### **WHEN CAN A HOME INSURANCE COMPANY NON-RENEW YOUR TEXAS HOMEOWNER'S POLICY?**

With one exception, insurers may non-renew your home insurance policy at the end of the insurance policy term for any reason. If the policy renewal is based on a condition of the premises, the home insurer must give you 30 days prior notice to remedy the identified condition and another 30 days, upon payment of An insurance premium, to cure the defective condition. Insurers are not permitted to label "condition of premise" losses as "loss/claims history" to circumvent these homeowner insurance policy notice requirements. If a home insurer refuses to continue covering you, it must mail to you, at least 30 days in advance, a written notice of non-renewal and state the reason the insurance policy is not being renewed.

# Chapter 5> Texas Homeowners Insurance Coverage Guide

## Texas Homeowners Insurance

Homeowners insurance protects you from financial losses caused by storms, fire, theft, and other events outlined in your policy. It is important to know what's in your policy. This webpage gives you general information about Texas Homeowners Insurance, but it is not a substitute for the policy itself.

Make sure you read your policy carefully and understand your specific coverages. It's also important to know your rights. Texas has a Consumer Bill of Rights for homeowners and renters insurance. Your company *must* send the Bill of Rights with your policy or renewal.

**Don't wait until you have a claim to review your policy and to know your rights.**

## Texas Homeowners Policies

You can buy a dwelling policy that covers only the structure of your house. Or, like most Texans who own their homes, you can buy a Texas Homeowners Policy, which combines five different types of coverage:

**Dwelling** - Pays for damage to your house and any outbuildings, such as detached garages and storage sheds.

**Personal property** - Pays when household items, including furniture, clothing and appliances, are damaged, stolen, or destroyed.

**Personal Liability** - Protects you against financial loss if you are found legally responsible for someone else's injury or property damage. A homeowners policy **automatically** provides **\$25,000 in coverage**. You can buy up to \$1 million in coverage for an extra premium.

**Medical payments to Others**- Pays medical bills for people hurt while on your property. It also pays for some injuries that happen away from your home, such as your dog biting

someone. A basic homeowners policy pays \$500 in medical bills. You can pay extra and get up to \$5,000 in medical payments coverage.

**Loss of use** - Pays living expenses if your home is too damaged to live in during repairs. The most common policy pays up to 20 percent of the amount for which your house is insured.

## **Types of Texas Homeowners Insurance Coverages**

Texas Insurance companies may sell several types of policies in Texas, each with a different level of coverage. **Three of the policy forms available for sale in Texas - the HO-A, HO-B, and HO-C - are standardized.** This means the policy language and coverages provided by these policies are the same, regardless of the company writing the policy. Keep in mind, however, that although an HO-B policy written by one company will be **exactly the same** as an HO-B policy written by another company, the two companies may charge *different rates*.

Texas Homeowners Insurance Companies may also offer **alternative** policy forms, if approved in advance by the Commissioner of Insurance. These policies are not standardized and usually provide varying coverages. **Read your policy carefully to know exactly what coverages are included.** Some companies may sell more than one policy form. In general, however, a company will offer only one form to its customers. If a company offers you a policy with less coverage than you'd like, ask if other policy forms are available. You also may be able to add additional coverage by buying endorsements to your base policy.

Following is a brief description of the types of policies sold in Texas:

- **HO-A** policies provide extremely limited actual cash value coverage of your home and its contents. Only the types of damage specifically listed in the policy are covered. The **HO-A is a standardized Texas policy.**
- **HO-A amended policies provide more extensive**

**coverage than the base HO-A policy but less coverage than an HO-B.** HO-A amended policies are not standardized. Coverage provided by these policies may differ by company.

- **HO-B policies provide replacement cost coverage for most types of damage, except those specifically excluded in the policy. The HO-B is a standardized Texas policy.**
- **HO-C policies provide the most extensive coverage, but they are more expensive than other types of policies. The HO-C is a standardized Texas policy.**
- Approved alternative policies offer varying levels of coverage. Companies can sell alternative policies only if the policy form is approved in advance by the Commissioner of Insurance. These policies are **not standardized**. Coverage may differ considerably from one company to another and from the coverage provided in the standardized Texas homeowners policies.

**Generally, HO-B policies provide the most coverage for the price, but some companies do not offer the HO-B policy.**

**For a side-by-side comparison of the coverages provided by the policy forms approved for sale in Texas, visit the website of the Office of Public Insurance Counsel**

[www.opic.state.tx.us](http://www.opic.state.tx.us)

## What Homeowners Policies Do and Don't Cover

### Most Policies Cover Losses Caused by:

- Fire and lightning
- Aircraft & vehicles Earthquakes
- Vandalism and malicious mischief
- Theft
- Explosion
- Riot and civil commotion
- Smoke
- Windstorm, hurricane, and hail
- Sudden and accidental water damage

### Most Policies Do Not Cover Losses Caused by:

- Flooding
- Earthquakes
- Termites
- Insects, rats or mice (vermin)
- Freezing pipes while your house is unoccupied (unless you turned off the water or heated the building)
- Wind or hail damage to trees and shrubs
- Losses if your house is vacant for 60 days or more
- Wear and tear or maintenance
- Water damage resulting from continuous and repeated seepage

**Companies may exclude coverage for certain losses.** For example, if you live on the Gulf Coast, you might receive an endorsement that excludes coverage for wind and hail damage. In areas with a history of hail storms, some companies provide only actual cash value coverage for roofs instead of full replacement cost. Actual cash value pays for damage minus depreciation on the roof, depending on its age and condition.

**Most policies will not cover mold remediation beyond that necessary to repair or replace property damaged by a water loss otherwise covered by the policy.**

The HO-A policy offers no coverage for mold remediation or for damage caused by water leaks, although some companies may offer coverage for sudden and accidental water leaks as an endorsement to the base HO-A policy. Some of the other approved policy forms also cover sudden and accidental water leaks, while others may not. Read your

policy or ask your agent whether your policy covers water leaks and mold remediation.

Insurance companies are required to offer you mold remediation coverage. Depending on the company, this coverage will be offered in dollar or percentage increments up to 100 percent of your policy's limits. If you have questions or concerns about how a mold claim is being handled, or if you need information about how to minimize mold losses, ask your insurance company for a set of guidelines regarding mold claims or contact DI for a copy of the publication Effectively Handling Water Damage and Mold Claims. This publication contains suggested practices for both consumers and insurance companies in the event of a water or mold loss.

TDI's Consumer Help Line or by visiting the TDI website  
1-800-252-3439  
463-6515 in Austin

[www.tdi.state.tx.us](http://www.tdi.state.tx.us)

# Chapter 6> Texas Homeowners Insurance Rate Guide

## Introduction

Texas law **does not require you to purchase homeowners insurance**. However, if you are financing your home, your lender may require you to purchase insurance.

## Understanding Rates

Texas Homeowner Insurance companies base your premium on factors such as the **replacement cost** of your home, its **construction** materials, the **area** where you live, your **claims history**, your **credit score**, and local **fire protection**.

Texas Homeowners Insurance Companies that sell homeowners insurance are required to **submit their rates** to the Texas Department of Insurance. State law requires insurance rates to be reasonable, adequate, not excessive to the risks for which they apply, and not unfairly discriminatory.

## How to Use the Rate Guide

The table lists companies and the annual rates they would charge four "typical" homeowners with \$100,000 coverage on the house, \$40,000 on its contents, a 1 percent (\$1,000) deductible, and "good" credit.

## Companies can sell several types of policies, each with a different level of coverage:

- HO-A policies provide extremely limited actual cash value coverage of your home and its contents. Only the types of damage specifically listed in the policy are covered.
- HO-A Amended policies provide more extensive coverage than the base HO-A policy, but less coverage than the HO-B. For instance, HO-A Amended policies may include replacement cost coverage and coverage of damage from "sudden and accidental" water discharges. These are not covered by the base HO-A policy.
- HO-B policies provide replacement cost coverage for most types of damage, except those specifically excluded in the policy. In general, the HO-B policy provides the most coverage for the price.
- HO-C policies provide the most extensive coverage, but are more expensive than other types of policies.
- Other approved policies are policies offered by

companies that the Commissioner of Insurance has approved for sale in Texas. Coverage provided by these policies may differ considerably from one another.

The rates listed in this rate guide are for the type of policy that a particular company says it is most likely to sell to new customers.

### **Typical Homeowners Policies**

The homeowner profiles probably won't match your situation exactly, but they provide a way to compare prices. The rates shown are estimates given to the Texas Department of Insurance by the companies and are based on a limited set of criteria. **They are not the exact amounts you will be quoted.** Your premium will vary according to your individual circumstances and could be significantly higher than the rates listed.

Owner A: Owns a brick veneer home in an urban area with good fire protection.

Owner B: Owns a frame home in an urban area with good fire protection.

Owner C: Owns a brick veneer home in a rural area with limited fire protection.

Owner D: Owns a frame home in a rural area with limited fire protection.

Financial Rating

A.M. Best Co.'s rating of the financial strength and operating performance of each company. Reprinted by permission.

Best's ratings are subject to change and are current only as of the publication date. For current rating information, call

A.M. Best or visit its **Web Site**

1-908-439-2200

[www.ambest.com](http://www.ambest.com)

Ratings Classifications

A++ and A+ mean Superior

A and A- mean Excellent

B++ and B+ mean Very Good

B and B- mean Fair

C++ and C+ mean Marginal

C and C- mean Weak

NR means the company was not rated by A.M. Best.

A.M. Best Co. is not responsible for errors in presentation or

content and does not endorse this publication in any way.

## **Complaint Index**

How each company's consumer complaints compare to the average, with an index of 1.00 as average. Below 1.00 means fewer complaints than average. Above 1.00 means more complaints than average.

- **How to Find the Best Rate**  
Get quotes from several companies before you buy. Include independent agents in your search. Some agents only represent a single company or company group. Independent agents may represent several companies.
- Consider higher deductibles. You can save money on your premiums by increasing your policy deductibles. But remember that you'll have to pay more out of pocket if you have a claim.

Ask your agent about discounts. You may be eligible for discounts for things like having an impact-resistant roof, security system, and fire sprinkler system. Copyright © USIZ Inc.

- Some companies may offer discounts if you have multiple policies, a newer home, or a good claims history.

## **Before You Buy a Policy, Remember:**

In addition to cost, consider other factors, such as the company's financial strength and complaint history. Also make sure you understand what coverages are included with the policy.

***Choose a policy with the highest level of coverage you can afford.***

Don't cancel a policy until you have a new policy in effect. Answer all questions on the application truthfully. Wrong information could cause an incorrect price quote or a denial or cancellation of coverage. **A company can cancel a newly issued policy within the first 60 days if it identifies an undisclosed additional risk for claims.**

**The amount of coverage you buy should be based on your home's replacement (rebuilding) cost, *which may be different from its market value.***

### **Unfair Discrimination**

An insurance company cannot deny, refuse to renew, limit or charge more for coverage, or unfairly discriminate in any manner because of your race, color, religion, or national origin. Nor can a company discriminate because of your age, gender, marital status, geographic location, or disability or partial disability unless the refusal, limitation, or higher rate is "based on sound underwriting or actuarial principles." This means the company must have valid evidence that you present a greater risk for a loss than homeowners it is willing to insure.

The Texas Department of Insurance rules prevent companies from denying coverage based on the age and value of your home. However, **companies may deny coverage because of the condition of the dwelling, including the plumbing, wiring, and heating and air conditioning systems.**

### **Having Trouble Finding Insurance?**

For help finding homeowners insurance, visit or call

**[www.helpinsure.com](http://www.helpinsure.com)**

1-866-695-6873

Helpinsure.com is a free service of the Texas Department of Insurance.

The state's Market Assistance Program (MAP) also may be able to help you lower your insurance costs. For more information, call

1-888-799-MAPP (6277)

TDI's Consumer Help Line or by visiting the TDI website  
1-800-252-3439 463-6515 in Austin **[www.tdi.state.tx.us](http://www.tdi.state.tx.us)**

## Chapter 7> Texas Renters Insurance Guide

### A Guide to Purchasing Renters Insurance in Texas

News reports of apartment fires often include tragic stories of renters who've lost everything because they weren't insured. A landlord's insurance usually covers the building, but not the personal property of residents. If you rent an apartment, duplex, house, or townhouse, you may need renters insurance to protect your belongings.

### How Texas Renters Insurance Works

Renters insurance is a type of residential property coverage specifically designed for people who rent homes or apartments. These policies are often called **"tenant policies."**

Texas Renters Insurance pays to repair or replace personal property that's damaged, destroyed, or stolen.

Limits on this coverage vary by policy, but most provide at least \$4,000 worth of protection. Policies *may limit payments for certain kinds of property, however.*

**Common maximums are \$100 for lost cash; \$2,500 for personal property used for business; \$500 for valuable papers; and \$500 for theft of jewelry, watches, and furs.**

Renters insurance also covers your luggage and other personal items when you travel for up to 10 percent of the amount of your policy or \$1,000, whichever is greater. Renters Insurance pays living expenses, such as motel costs, if you're displaced from your home or apartment. **This "loss of use" coverage is generally limited to 20 percent of a policy's personal property coverage.**

For example, if you have \$25,000 in personal property coverage, your loss-of-use coverage would be \$5,000. You would be paid up to this amount for the reasonable time required to repair or replace your rented property.

provides liability coverage if you are legally responsible for another person's injury or property damage.

If someone is injured in your home and files a lawsuit, a renters policy automatically provides \$25,000 in liability coverage and pays your legal costs.

**Extra liability coverage is available for additional premium.**

Texas Renters Insurance companies can sell several types of renters policies in Texas, each with a different level of coverage. **Two of the policy forms - the HO-BT and the HO-CT - are standardized.** This means the policy language and coverages included will be the same, regardless of the company writing the policy. Companies also may sell alternative policies or modified versions of the HO-BT and HO-CT if approved in advance by the Commissioner of Insurance. These policies are not standardized and usually provide varying coverages.

Read your policy carefully to know exactly what coverages are included. In general, a company will only offer one policy form to customers, but some may sell more than one.

If a company offers you a policy with less coverage than you'd like, ask if other policy forms are available.

You also may be able to purchase "endorsements," or special policy add ons that increase or expand the coverage provided in the base policy. The endorsements available may vary by company.

Following is a basic description of the two standardized policy forms approved for sale in Texas:

### **Renters Policy Forms**

**The Broad Form (HO-BT)** covers your personal belongings only for losses caused by events specified in the policy, such as fire and theft. Losses not specified are not covered. Most renters buy Broad Form policies.

**The Comprehensive Form (HO-CT) is an "all risk"** policy that protects your personal belongings against every type of event, unless specifically excluded by the policy. HO-CT policies are more expensive than HO-BT policies because they cover more risks.

### **Deductible**

Most renters policies in Texas have a deductible equal to 1 percent of the total amount of coverage. A deductible is the amount you must pay out of your own pocket if you have a claim before the insurance company will pay. For example, if you have a \$25,000 policy with a 1 percent deductible, you would pay the first \$250 of the repair or replacement costs, and the insurer would pay the rest, up to your policy's dollar limit. Some companies, however, may require a higher deductible for theft.

### **Replacement Cost Coverage vs. Actual Cash Value**

Renters policies normally only pay the "**actual cash value**" of your property. This means the insurance company will subtract an amount for **depreciation and wear and tear** from the value of your property before paying your claim. As a result, you probably won't receive the full amount needed to buy new replacements for the items you lost.

**Replacement cost coverage pays the full cost** of replacing your property, minus your deductible. You can usually add replacement cost coverage to your policy for additional premium.

If you have replacement cost coverage on your HO-BT or HO-CT, your insurance company will pay the full replacement cost of your property up to \$1,500. For any remaining property damage that exceeds \$1,500, the insurer will pay the actual cash value first. You must then actually replace or repair the property with an item of like kind and quality before the insurer will pay the remaining amount of your claim. Other types of policies may have different procedures for paying replacement cost coverage. Read your policy or ask your agent how your policy pays a claim.

## **Inventory Lists & Filing A Claim**

A complete inventory of your property can be helpful if you ever file a claim.

Include the item, its value, and a serial number if there is one. Keep receipts for expensive items. Photographs or a videotape of your property can be especially helpful to document your loss to the insurance company. Keep a copy of the inventory and any photos or videos of your property in a secure place, such as a safe deposit box.

## **Shopping for Texas Renters Insurance**

***Not everyone needs a renters insurance policy.*** Dependents temporarily living away from home, such as college students, may be covered by their parents' or guardians' homeowners policies. You should check with your agent or company if you have dependents away from home ask if your policy will provide coverage. Covered dependents' personal property is covered up to 10 percent of the personal property limit of the parents' policy. For example, if the parents have an insurance policy with a personal property limit of \$50,000, their dependents automatically have \$5,000 in coverage while living away from home. Dependents are covered up to 100 percent of the liability provided by the parents' or guardians' policy for claims involving personal liability and medical payments to others.

If you decide that you need renters insurance, it pays to shop around. Rates vary widely, so you should get quotes from several different companies.

### **Renters Insurance Shopping Tips:**

- When comparing prices, be sure you understand the amount of coverage different policies provide.
- When getting a price quote or applying for insurance, answer questions truthfully. Wrong information could cause you to get an incorrect price quote or could lead to a denial or cancellation of coverage.
- Also, be sure to consider factors other than cost, such as a company's financial strength and its customer service record. Buy only from licensed companies and agents. You can find out whether agents or companies are licensed and get information about licensed companies' finances and their complaint histories by calling the Texas Department of Insurance Consumer Help Line or by visiting our website

1-800-252-3439  
463-6515 in Austin  
[www.tdi.state.tx.us](http://www.tdi.state.tx.us)

If you're unable to find a company that will sell you a policy, the state's Market Assistance Program (MAP) may be able to help. For more information or to learn whether you're eligible, call MAP or visit the TDI website

1-888-799-MAPP (6277)

## Chapter 8> Texas Life Insurance Shopping Guide

### A Consumer's Guide to Basic Texas Life Insurance Shopping

#### Basic Life Insurance Shopping in Texas

- Get "apples-to-apples" price comparisons from several companies when shopping for life insurance.
- Life insurance agents use charts or illustrations as sales tools to show how a policy's cash value might grow. Confirm that the illustration shows the guaranteed values based on the guaranteed interest rate the company promises to pay. Don't buy a policy based on projected future or current values. These are only estimates and may be higher than what you will actually receive. Understand the pattern of policy values, surrender charges, and other expenses. Ask your agent for this information if the illustration doesn't show it. Get copies of all the illustration pages, including those showing the guaranteed values.
- Be careful if an agent tells you that interest or dividends on your policy will cause your premiums to "vanish" during the life of the policy. If interest rates or dividends drop, you may have to pay additional premiums for a longer time. Also, the amount you pay may be greater than you estimated.
- Be sure the agent illustrates the guaranteed values based on the guaranteed assumptions stated in the policy. Projected values based on current assumptions are not guaranteed, and should never be considered or relied upon as a promise of future policy performance. Since a universal life policy is "interest-sensitive," it is likely to pay more in times of high interest rates and less in times of low interest rates.
- Read your policy carefully within the 10-day free look period after you receive it. If anything is unclear, ask your agent or company to explain. Although insurance companies must offer the free look period for variable life policies, they may opt not to offer it for others. During the free look period, which starts on the date you receive your

policy, you may return the policy for a full refund of the initial premium.

- Insurance companies sometimes market life insurance policies as retirement, savings, or estate plans; education funds; or mortgage protection. Not clearly identifying the products as life insurance is misrepresentation and a violation of the law. If you believe an agent or company misrepresented a life insurance policy to you, call TDI's *Consumer Help Line*.
- Be wary of insurance agents who talk to you about buying a life insurance policy for the sole purpose of selling it. It's possible that you're being targeted to participate in fraud.
- Verify that the viatical/life settlement company or broker is properly registered in Texas. Call TDI's *Consumer Help Line*.

**It's important to shop not only for a good life insurance value but also for a company with a good record of service and financial strength. For a company profile that provides information about a company's financial strength and its complaint history, call TDI's *Consumer Help Line* or visit our Web site.**

- Buy only from licensed insurance companies. If your life insurance company fails, each state has a guaranty association that pays claims for licensed companies that become insolvent. Most licensed life insurance companies in Texas belong to the Life, Accident, Health and Hospital Insurance Service Guaranty Association. The association does not provide coverage for all companies and policies. For example, if you have a variable life policy, the association does not cover the cash value in the separate investment account. The association may pay up to the following amounts for valid claims under a covered policy:
  - \$300,000 for death benefits from one or more life insurance policies on the same individual
  - \$100,000 for net cash surrender or net cash withdrawal for one or more life insurance policies on the same person
  - \$100,000 under one or more individual annuity contracts issued to the same person.

For more information, contact the Texas Department of Insurance at:

[www.tdi.state.tx.us](http://www.tdi.state.tx.us)

## **Chapter 9> Types of Texas Life Insurance**

### **What all Texans Should Know about Life Insurance**

## **Texas Life Insurance**

All life insurance policies are either "term" or "cash value" plans or a combination of the two.

### **Texas Term Life Insurance**

Term life policies cover you only for a specific period of time - usually for one, five, 10, 15, or 20 years - or until a specified age, such as 65.

Most term life policies provide only a one-time payment to your beneficiary for the amount of the policy if you die. This payment is called a death benefit. Because they usually have no savings feature, term life policies generally are less expensive and easier to understand than cash value life policies. Except for people past middle age, term life policies usually offer the best value for your money by giving you the biggest death benefit for your premium dollar. The price of a term life policy increases as you grow older. At the same time, your insurance needs may decrease as children grow up and savings and investments increase in value.

### **Renewable and Convertible Policies**

Since term life policies expire at the end of the term, you should look for a renewable policy. A renewable policy allows you to continue your insurance for additional terms regardless of your health and without having to pass a medical exam. This is an important advantage because it may be harder for you to pass a physical exam as you grow older or if you become ill.

It's important to remember that you will have a new contestable period each time your policy renews. During the contestable period, a company can deny payment of a claim because of suicide or material misrepresentation on the application.

Most term insurance policies are convertible. This means that as your insurance needs change, you can exchange your term life policy for a cash value policy without taking a medical exam or answering health questions. You may choose to convert your term life policy if your health declines and it becomes difficult to qualify for a new term policy at standard rates. You also may convert your term life policy if you decide to use insurance as a way of accumulating funds instead

of providing only death benefits. Insurance companies usually allow conversion until age 65.

### **Common Policy Variations**

Annually renewable term (ART) - You may renew most ART policies up to age 100. However, ART premiums are extremely high for middle aged and older consumers. If you're paying high premiums, you may want to shop around for a better value.

An ART provides a fixed premium and death benefit for one year. When the term ends, you may renew your policy, but the premium will probably increase. To avoid yearly increases, some people look for five-, 10-, or 20-year renewable term policies.

**Decreasing term** - This policy provides death benefits that decrease each year. Mortgage insurance and credit life insurance are examples of decreasing term policies. If you die, the insurance benefits pay off or reduce your balance on these types of loans. The initial death benefit may equal or approximate the amount of your loan, with the benefit decreasing as you pay down the balance.

### **Texas Cash Value Life Insurance-Texas Whole Life Insurance & Texas Universal Life Insurance**

Cash value life policies provide a death benefit and a way to accumulate funds over time. The primary purpose of a cash value policy, however, is to provide permanent life insurance protection, not to be a savings or retirement plan.

Cash value life policies differ from term life policies in several ways. These include:

**Higher initial premiums.** You pay not only for a death benefit but also for the cash value feature of the policy. Overall, cash value policies offer less insurance protection per premium dollar than term life policies.

**Greater flexibility.** You can use the cash value as collateral for a loan. Some people buy cash value policies as a tax-deferred way to build an estate. Dividend-paying policies usually provide an option to apply the dividends to pay all or part of the premiums. Other cash value policies such as universal life provide for payment of the cost of the policy if the policy has accumulated sufficient value.

**Much higher agent commissions.** Keep this in mind if an agent continues to recommend a cash value life policy when you ask about term life.

Surrender charges and other expenses may consume all or most of a policy's cash value if you cash it in early. It usually takes at least three to five years to

build any cash value. If you buy a cash value policy, try to continue your premium payments for at least 15 to 20 years.

About half the people who buy cash value policies drop them within five years. Dropping a cash value policy can be costly, so think carefully before buying one.

## **Texas Whole Life Insurance**

**Whole life policies offer protection throughout a person's lifetime.** They are a type of cash value life insurance. You pay the same scheduled premium from the day you buy the policy. There is no need to renew whole life policies. As long as you pay the premium when due, the policy remains in force throughout your life or until you cash it in. The scheduled premium may be level or increase after a fixed time period, but the premium will not change from the amount shown in the policy schedule. It is important that you look at the policy schedule and understand what your premium payments will be and that you can afford them. An insurance company will base the premium on your age at the time of purchase. Initially, the premium for a whole life policy will be higher than that for a term policy. If you keep the policy for a long time, you likely will pay a lower premium when you are older. Part of each premium payment goes to the cash value growth, part for the death benefit, and part for expenses such as commissions and administrative costs.

### **There are two types of whole life policies:**

**1. Nonparticipating policies** provide a schedule of guaranteed premiums and death benefits and a table of guaranteed values, but they pay no dividends.

**2. Participating policies** guarantee premiums, death benefits, and cash values, and also may pay policy dividends. Because of the dividend feature, premiums tend to be higher. You have several options for using policy dividends, including letting the dividends accumulate with interest taking the dividends in cash, using the dividends to pay toward the premium, buy permanent paid-up additions, or buy a combination of one-year term and permanent paid-up additions.

Some companies fail to pay dividends at the originally projected rate, while others exceed their original projections. When making your purchase decision, remember that dividends are not guaranteed and may differ from those shown in illustrations. Ask for a company's history of projected dividends versus paid dividends.

If you decide to switch policies, make sure your new policy is in effect before dropping your old one. It is generally not a good idea to cancel a cash value policy in favor of a new one, but there are exceptions. Contact an agent of the original company for your options. You also may contact the Consumer

Federation of America (CFA) for an analysis of the return rate on a cash value life policy. For a fee CFA will calculate the actual interest rates on the cash values so that you can compare policies and make a more informed decision. For more information, contact the CFA or visit its Web site

Consumer Federation of America  
1424 16th Street, N.W., Suite 604  
Washington, DC 20036  
[www.consumerfed.org](http://www.consumerfed.org)

### **Flexible Premium Texas Universal Life Insurance**

**The key characteristic of a universal life policy is flexibility.** Within limits, you can choose the amount of insurance and the premium you will pay. Later, depending on the policy value and your financial needs, you can change your premium amount. The policy stays in force as long as its value is enough to pay its costs and expenses. The policy value is "interest-sensitive," which means that it varies with the general financial climate.

Lowering the death benefit and raising the premium will increase the growth rate of your policy. The opposite is also true. Raising the death benefit and lowering the premium will slow the growth of your policy. If insufficient premiums are paid, the policy could lapse without value before it reaches a maturity date. The maturity date is the date your policy ceases and its cash surrender value is payable if the policyholder is still living. Therefore, it is your responsibility to consistently pay a premium that is high enough to ensure that your policy's value is adequate to pay the policy's monthly cost. The company must send you an annual report and notify you if you are in danger of losing your policy because of insufficient value.

For more information about Texas Life Insurance contact the Texas Department of Insurance at:

[www.tdi.state.tx.us](http://www.tdi.state.tx.us)

## Chapter 10> Texas Life Insurance Frequently Asked Questions

### **Q. What determines my life insurance premium?**

**A.** An insurance company bases your premium on the type and amount of insurance you buy and your chance of death while the policy is in effect. Other factors include the company's agent commissions, overhead, and expenses of doing business.

A company determines risk of death primarily by reviewing your age, gender, smoking habits, and medical condition. Companies usually classify individuals as "preferred" (below-average risk of early death), "standard" (average risk of death), or "substandard" (insurable, but with an above-average risk of death). Companies classify a small percentage as "uninsurable" (a high probability of early death). Find out the company's rates and what you must do to qualify for a preferred rate.

If a company determines that you are in a substandard class, it will rate your policy, which means your premiums will be above the standard premium. Shop around before paying a higher rate. Other companies may classify you differently. Some companies will remove a rated premium if you maintain good health for a specified period, give evidence that your health has improved, or change to a less-hazardous occupation. Companies often offer lower rates to nonsmokers. Companies cannot charge different rates, deny, cancel, or non-renew coverage because a person was a victim of family violence.

### **Q. Is a company required to pay interest on a death benefit?**

**A.** For individual life policies, an insurance company must pay interest on the death benefit from the date the company receives proper proof of loss statement to the date the company accepts the claim and offers to pay it.

### **Q. What happens if I miss a premium payment?**

**A.** During the grace period, usually the 30- or 31-day period after the date your premium is due, you can pay your premium with no interest charged. If an insured dies during this period, the beneficiary receives the policy's death benefit minus the premium owed.

To reinstate a lapsed policy, you must pay all overdue premiums with interest, and reinstate or repay any debts (loans) on your policy. An insurer must put a lapsed policy with nonforfeiture benefits back in force if nonpayment of premiums caused the lapse and the policy still has a paid-up insurance benefit. Most companies will reinstate a policy within a five-year period, but may require new evidence of insurability.

If an individual policy without a nonforfeiture benefit lapses because of the mental incapacity of the insured, the company may reinstate the policy without evidence of insurability if the policy meets certain guidelines.

### **Q. How much coverage is enough?**

**A.** There is no precise formula to determine how much coverage you need. Some consumer groups recommend five times your annual income. Under this formula, a family with an income of \$40,000 might need at least \$200,000 worth of life insurance protection. Some insurance industry organizations recommend a policy that would pay 10 times your yearly income.

### **Q. How can I get the most coverage for the least cost?**

**A.** Term life insurance usually gives you the most coverage for the least cost. Also, you may save

money, particularly in the purchase of cash value policies, by buying a policy with low administrative fees. A small number of companies sell these "low load" policies by mail or telephone. Financial planners, licensed as insurance counselors, also may sell low load policies. Generally, these planners charge service fees and do not receive commissions. Since the initial fees are low, they reduce your risk of losing money if you cash out early.

**Q. Can agents offer student loans along with life insurance?**

**A.** Some agents refer to student loans in their presentations. While agents may provide information about student loans, they cannot offer loans as an inducement to buy insurance.

**Q. Is it a good idea to replace a term life policy with a new one?**

**A.** Price competition and new product development make it worthwhile to periodically review the price and coverage of your term life policy. Sometimes your present insurer will offer you a better deal to keep your business. Remember, if you change companies, the two-year contestable period starts again.

**Q. Will I need life insurance when I retire?**

**A.** If you are close to retirement, be sure to review your coverage and needs. With fewer responsibilities, you may want to reduce or even eliminate some of your policies.

Social Security and some retirement plans provide a continuing income for dependents after a retiree's death. For retirement income, many financial advisers suggest investing in IRAs, qualified tax deferred annuities, Keoghs, and deferred-compensation plans, which allow you to reduce taxable income and defer income taxes until you withdraw the money.

**Q. What are the tax consequences of life insurance?**

**A.** Interest and dividends paid on a life insurance policy accumulate tax deferred. Life insurance policy withdrawals (cash surrenders) normally are nontaxable until the total amount withdrawn exceeds the total amount of premiums paid into the policy. Also, proceeds from loans made against the policy are normally not taxable. However, if the policy lapses, amounts borrowed in excess of premiums paid are taxable.

Death benefit proceeds are exempt from federal income tax but may be subject to estate taxes under certain conditions.

You should consult an accountant or tax attorney for more information about the tax consequences of life insurance.

**Q. How does a life insurance policy affect my eligibility for Medicaid benefits?**

**A.** When determining nursing home Medicaid eligibility, Medicaid officials count life insurance cash values in excess of \$1,500 as assets.

**Q. What is an annuity?**

**A.** While life insurance pays the beneficiary when the policyholder dies, an annuity provides income to the policyholder during his or her lifetime. Most annuities marketed today are tax deferred annuities. Before the payout stage, annuities operate like savings accounts, except the IRS does not consider the interest taxable income until it is paid, usually 10 or more years in the future. Deferred-annuity income may be fixed, variable, or a combination of the two. Before buying, be sure you understand any restrictions, penalties, or charges that may apply to withdrawals or partial surrenders of your annuity. Surrender charges may be substantial if you cash in your annuity during the first seven to 10 years.

Most people buy annuities to have an income for retirement purposes. An annuity contract is not a life insurance contract, a savings account, or a savings certificate. You should not buy an annuity for short-term purposes.

Insurance companies issue annuities and licensed life insurance agents-including some banks-sell them. Agents selling variable annuities must hold a variable annuity license and a securities license. Insurance companies also must be specifically licensed to sell variable annuities. Call TDI's *Consumer Help Line* to verify a company's and agent's license before signing any contract.

**Q. Are the values of my life insurance policy or individual annuity exempt from the claims of creditors and bankruptcy proceedings?**

**A.** The cash value and death benefit of a life insurance policy are fully exempt from creditors and from all demands in any bankruptcy and from execution, attachment, garnishment, or other legal process unless a statutory exemption, such as fraud, is applicable.

For more information, contact the Texas Department of Insurance at:

[www.tdi.state.tx.us](http://www.tdi.state.tx.us)

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