

15 Insurance Policies You Don't Need

Fear of the future sells insurance. Because we can't predict the future, we want to be ready to cover our financial needs if, or when, something bad happens. Insurance companies understand this fear and offer a variety of insurance policies designed to protect us from a host of calamities that range from disability to disease and everything in between. While none of us wants anything bad to happen, many of the potential catastrophes that happen in our lives are not worth insuring against. In this article, we'll take you through 15 policies that you're probably better off without.

1. Private Mortgage Insurance

The infamous private mortgage insurance (PMI) is well known to homeowners because it increases the amount of their monthly mortgage payments. PMI is an insurance policy that protects the lender against loss when lending to a higher-risk borrower. The borrower pays for this insurance but derives no benefit. Fortunately, there are several ways to avoid paying for this unnecessary policy. PMI is required if you purchase a home with a down payment of less than 20% of the home's value. The small down payment is viewed as putting you at risk of defaulting on the loan. Put down at least 20% and the PMI requirement goes away. Alternatively, you can put down 10% and take out two loans, one for 80% of the sale price of the property and one for 10%, although interest rates can prevent the economics of this maneuver from working out in the homeowner's favor.

2. Extended Warranties

Extended warranties are available on a host of appliances and electronics. From a consumer's perspective, they are rarely used, particularly on small items such as DVD players and radios. If you purchase a reputable, brand-name product, you can be fairly certain it will work as advertised and that the extended warranty is statistically likely to be unnecessary. If you spend \$5,000 on a giant, flat-screen television, the policy is still unlikely to pay off, but might make you feel better. For everything else, forget it.

3. Automobile Collision

Collision insurance is designed to cover the cost of repairs to your vehicle if you are involved in an accident. If you have a loan out on the car, the loan issuer is likely to require that you have collision insurance. If your car is paid off, collision is optional; therefore, if you have enough money in the bank to cover the cost of a new car, collision insurance may be an unnecessary expense. This is particularly true if you are driving an old car, because cars depreciate so quickly that many vehicles are worth only a fraction of their purchase price by the time the loan is paid in full.

4. Rental Car Insurance

Most auto insurance policies offer additional coverage for the cost of car rentals, touting it as a useful feature if your car is ever involved in an accident and needs to spend some time in the repair shop. This may sound like a good idea, but in reality, most people rarely rent a car, and when they do, the cost is relatively low and hardly worth insuring against. Although rental car insurance is relatively inexpensive, amortized over the course of a lifetime you are still likely to spend far more than you will benefit.

5. Car Rental Damage Insurance

Many auto insurance policies already cover rentals, so there's no need to pay for this twice. Check your policy before you pay. Depending on where you rent the vehicle, you may also be able to pay a small fee for insurance on your rental when you pick it up at the rental center. If this fee is less than what you'd pay for a year in your old policy, choose the fee over the policy.

6. Flight Insurance

Flight insurance coverage is completely unnecessary. Despite media portrayal, airline accidents are relatively rare, and your life insurance policy should already provide coverage in the event of a catastrophe.

7. Water Line Coverage

Water companies have made an aggressive push to sell policies that cover the repair of the water line that runs from the street to your house. The odds are in your favor that you will never use this coverage, particularly if you live in a newer home. If you live an average suburban

neighborhood and you do need to repair the water line, the distance to the street is short, the likelihood of a problem is low and repair costs are a few thousand dollars or less. The same goes for policies offered by other utility companies.

8. Life Insurance for Children

Life insurance is designed to provide a safety net for your heirs/dependents. Because children don't have heirs to worry about and, statistically speaking, most kids will grow up safe and healthy, most parents should not purchase life insurance for their kids. Instead, use the money that you would have spent on life insurance to fund an education plan or an individual retirement account (IRA).

9. Flood Insurance

Unless you live in a flood plain or an area with a history of water problems, don't even bother buying flood insurance. If none of the homes in the area has ever been flooded, yours is unlikely to be the first.

10. Credit Card Insurance

Purchasing coverage to pay your credit card bill in the event you cannot pay it is a waste of money. A far better idea is to avoid running up your credit cards in the first place, so you won't need to worry about the bills. Not only do you not save on the insurance premiums, you'll also save the interest on your debt.

11. Credit Card Loss Insurance

Federal law limits your liability if your credit card is stolen. Your out-of-pocket costs are limited to \$50 per card and not a penny more. In fact, many credit card companies don't even try to collect the \$50.

12. Mortgage Life Insurance

Mortgage life insurance pays off your house in the event of your death. Rather than add another policy - and another bill - to your list of insurance plans, it makes more sense to get a term-life policy instead. A good life insurance policy will provide enough money to pay off the mortgage and to cover other expenses as well. After all, the mortgage isn't the only bill your survivors will need to pay.

13. Unemployment Insurance

This coverage makes minimum payments on your bills if you are out of work, which sounds like an attractive proposition. A better plan is to save your money and build up an emergency fund instead. You won't have to cover the cost of the insurance policy and, if you are never out of work, you won't spend any money at all.

14. Disease Insurance

Policies are available to cover cancer, heart disease and other maladies. Instead of trying to identify every possible disease that you may encounter, get a good medical coverage policy instead. This way, your medical bills will be covered regardless of the problem you face.

15. Accidental-Death Insurance

Unless you are extraordinarily accident prone, an accident is unlikely. Major catastrophes such as car wrecks and fires are covered under other policies, as is any harm that comes to you while at work. Accidental-death policies are often fraught with stipulations that make them difficult to collect on, so skip the hassles and get life insurance instead.

When Choosing Insurance

There are so many policies to choose from, and they all cost money. While a certain amount of insurance coverage is necessary and prudent, you need to choose carefully. In general, broad policies that offer coverage for a multitude of potential events are a better choice than limited-scope policies that focus on specific diseases or potential incidents. Before you buy any policy, read it carefully to make sure that you understand the terms, coverage and costs. Don't sign on the dotted line until you are comfortable with the coverage and are sure that you need it.