Top 5ive Insurance Policies You Don't Need

By Aleksandra Todorova
January 26, 2007

FOR MOST FOLKS, insurance is an essential component of financial security.

But for every type of insurance that you need, there's an insurance agent out there pushing a policy that does little more than line his own pockets. Here are five types of insurance you shouldn't buy.

1. Life Insurance for Babies

If you recently had a baby, chances are you'll soon be pitched life insurance for your newborn.

The pitch: Baby life insurance is touted as a way to protect your child's financial future. It guarantees that your child is insurable, even if a horrible illness strikes in the future that would otherwise prevent him or her from getting regular life insurance. And then, should the unthinkable happen, the insurance policy helps you pay for burial costs. Best of all, if your child goes on to live a long and happy life, he or she can tap the policy's cash value. For more details on life insurance for newborns, read our story[1].

Why you don't need it: The purpose of life insurance is to replace lost income if the breadwinner dies unexpectedly, says Peter Katt, a fee-only life insurance advisor in Mattawan, Mich. "The way to protect the children's financial future is to pick up where an income earner left off," he says. Instead of spending your hard-earned money on baby life insurance, consider increasing the payout of your own policy. An extra $180 in annual premiums on a 20-year term life policy, for example, would give a 40-year-old male in good health an additional $225,000 benefit.

Exceptions: None. Purchasing life insurance for your newborn is a bad financial move.

2. Mortgage Life Insurance

Keep an eye on your mailbox when you move into a new home: Chances are you'll be pitched a mortgage life insurance policy.

The pitch: Mortgage life insurance will pay off the balance of your mortgage should anything happen to one of the borrowers. Sounds enticing, right? In today's two-income families, who could afford the mortgage payments alone?

Why you don't need it: As great as it sounds, mortgage life insurance is a bad deal. It's expensive, and most consumers will do much better simply purchasing enough term life insurance to cover their housing costs and other expenses, says Katt. What's more, the way mortgage life insurance works is it pays off the remainder of the loan in one lump sum. Many homeowners would be better off using the proceeds from a traditional life insurance policy to make monthly mortgage payments and claim the interest tax deduction.

Exceptions: If one of the spouses is having difficulty getting cheaper life insurance because of an illness, mortgage life insurance may be the only way to get protection, says Pat Rudolph, a fee-only certified financial planner in Columbia, Md. That's because mortgage life insurance doesn't take into account an individual's health. For more on mortgage life insurance, read our story[2].

3. Identity Theft Insurance

Identity theft is one of the fastest-growing crimes today. It's no wonder consumers are bombarded with identity-theft insurance products. You can buy it from your bank, your credit-card company, the credit bureaus, even from Fair Isaac, the company that calculates your credit score.

The pitch: Identity-theft policies typically offer credit monitoring. You get alerts when a new account is opened in your name, or when your account balances change substantially. They also throw in coverage up to a specific amount for the expenses and lost wages you incur if you do become a victim and have to take off work to make calls to creditors or file police reports. (Fair Isaac's policy, for example, offers up to $500 a week for up to four weeks.) You also get a special customer service line that can help you figure out the maze of identity theft recovery: how to call the bureaus, what paperwork to file with your creditors, and so on.

Why you don't need it: You already have "built-in" identity-theft protection through your credit cards, says John Deyeso, a fee-only certified financial planner in New York. You are not liable for any fraudulent charges and these days most credit-card companies have sophisticated algorithms that detect and alert you to pending fraudulent charges to begin with. You can monitor your bank and credit-card accounts online, free of charge. And you can monitor your credit reports yourself by pulling one free credit report every four months. (By law, you are entitled to one free credit report a year from each of the three credit bureaus, so spacing them out will give you full-year coverage.)

Exception: Look into it if the peace of mind of constant credit monitoring is important to you. But consider saving by purchasing a credit monitoring service alone. And if you've already been a victim of identity theft, you may instead want to put a freeze on your credit report. This will basically lock it up so that lenders cannot access it if anyone applies for credit, even you. (When applying for credit yourself, you will need to "unlock" it temporarily.) For more about this, read our story "Freezing Your Credit File[3]".)

4. Cancer Insurance

The statistics are startling: One in two American men and one in three American women will be diagnosed with cancer over the course of their lifetime. This is where cancer insurance comes in.

The pitch: If you're diagnosed with cancer, cancer insurance will supplement your existing health insurance to cover the cost of your treatments, including chemotherapy, radiation and tests.

Why you don't need it: A lot of policies don't cover all types of cancer, says Megan Mahan, a spokeswoman for InsureMe.com[4], an online insurance quote provider. Skin cancer — one of the most common types of cancer — is commonly excluded, she says. In addition to that, many policies have stipulations that payments don't kick in until a year into treatment. And many policies are likely to deny coverage if you currently have cancer or have had cancer within the past 10 years. "It's better to concentrate on finding the right health-insurance policy," Mahan says.

Exception: Look into it if you can't get regular health insurance at competitive rates and cancer runs in your family. But be warned: "If you have a problem getting regular health insurance, you'll probably have a problem getting cancer insurance, as well," Mahan says.

5. Wedding Insurance

Planning the big day? With wedding expenses topping an average $25,000 across the country — and twice or more in big cities — it's no wonder brides-to-be worry constantly about bad weather or no-show vendors ruining their day.

The pitch: Wedding insurance will cover any unplanned expenses you are forced to pay because of wedding mishaps. Imagine you have to reschedule the day: You'll get your deposits back. Your film is lost or damaged, or your photographer doesn't show up? Wedding insurance will cover the cost of reconvening your wedding party to take replacement photographs. You're even covered if your gown is damaged before your wedding day.

Why you don't need it: As horrible as all these incidents sound, the likelihood of them happening is pretty small, says InsureMe.com's Mahan. Many policies also have long lists of exclusions, like weather conditions, unless those are severe enough to prevent anyone from the wedding party or more than half the guests from actually attending. "It's much better to do your homework as you're planning your wedding and work with reputable vendors," she says. Granted, policies aren't that expensive: The one-time premiums range from $200 to $500 depending on the amount of coverage you get, Mahan says. But that $500 might be better spent on centerpieces.

Exception: If you or your future spouse is in the military and may be called in for active duty, some policies will cover you.

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