

How to Read an Insurance Policy

Do I Really Need to Read my Insurance Policy?

Okay, I know this is not a fun topic, but believe it or not, it's an important one. You need to know how to read an insurance policy. Anytime you buy an insurance product, you should review (notice I did not say study or read closely line by line) a copy of your policy, so that you have an idea of what coverage and benefits you are receiving, and the items or situations that will not be covered.

Getting Down to Brass Tacks

I think we can all agree that shopping for and buying insurance is not fun. This is mainly because an insurance product is an item that you buy but hope to never use. It's not like a new pair of shoes or computer. You buy those, and you can't wait to use them. When you buy an insurance product, you hope you never have to think about it again.

Because of that, most consumers don't take time to review what they bought and that means that when they do have to file a claim against their policy, they are often confused about what's covered and disappointed if it's not. Also, there are often certain actions you have to take, such as filing a claim within a certain time period. This type of detail is stated in the policy, and you need to be aware of it. The only way to truly understand the coverage you purchased is to actually read your insurance policy.

Familiarizing Yourself with a Legal Document

Your insurance policy is a legal document, and a contract between you and your insurance company. It is the standard by which the insurance company uses to determine if a claim is payable. The website or the policy brochure provides a basic summary of coverage, and does not cover all details. In the end, it all comes down to the language in the policy. So, if you really want to know what you are getting for the money you paid, you need to read the policy.

If you are not used to reading contracts or other types of legal documents, it may be a little tough, but there is a way to approach reading a policy that will make it easier. Also, remember, you can always call your insurance company and ask them questions. Believe it or not, they want to make sure you understand what you bought, so there is no confusion later. One of the most frequent frustrations for consumers is when they buy a policy and think something is covered only to find out later it never was. This is a great time to mention insurance agents. If you buy a policy through an agent, he or she will also be happy to answer your questions before and after your purchase.

Free Look

Let's talk about post purchase for a second. Most policies (not all, and this can vary with state regulations) have a free look period during which you can take time to review the policy and if you decide it's not right for you, return it for a refund. Ask about this before buying if you don't see it posted on the company's website.

Two Key Components

When I am reading a policy, there are two main things I want to know – *what's covered and what's not covered*. There are two sections of the contract that explain this.

1. **The Insuring Clause:** This details the intent of policy, in other words, what the policy is meant to cover. Oftentimes, there will be a listing of items here to summarize what services and benefits are included. Read through this so you understand the purpose of the policy.
2. **Exclusions and Limitations:** Clearly, this is a list (with details) of anything that is not covered. Exclusions are firm, and if an item is stated as excluded, it is not going to be covered.

Definitions

This may not sound like a big topic, but it's very important because coverage for a specific item can hinge on the definition. You will see capitalized words throughout the policy, and all of these words will be included in the definitions section. You cannot apply a standard dictionary definition to a defined term in the policy. The interpretation of the policy will be based on how it is defined within the policy. For example, the definition for a physician may state that it cannot include a relative of yours. This means that if you go see Uncle Billy for your pneumonia, and he gives you a prescription for an antibiotic and charges you \$150 for an office visit, it will not be covered.

Eligibility

This is the section of policy that describes who can purchase it. Make sure you take a look at this, especially if you are buying a policy online. If the policy does not allow you to buy coverage for Aunt Martha, don't list her as an insured on the application. If she has a claim later, it will not be covered. Policies will normally specify that you can add a traveling companion or "other," or they will state that you can only buy coverage for dependents, and the term "dependent" will likely be defined in the definitions section.

Clear as Mud?

Hopefully, this quick study on insurance policies has shed some light on how to review one so you will have an understanding on what you bought or are planning to buy. No one will argue that policies are not confusing, but if you read a little and ask a few questions, you can be well-informed and know what to expect from the product you purchased.