

A few risks now may pay off later

I'll take my chances.

Recently, I got rid of the collision coverage on my car. That means that, if I wrap the thing around a tree, I won't collect a penny in insurance to pay for the resulting damage.

Seem like a risky move? It doesn't seem especially risky to me, which is why I dropped the coverage. Here's my thinking.

■ **Taking cover:** The odds are, you will lose money on the insurance policies you buy. But that doesn't mean insurance is a waste of money. Unfortunately, the world is full of financial threats, and some of them are potentially so devastating that you have to protect yourself.

For instance, if your house burned down, it would be a huge financial loss, which is why you need homeowner's insurance.

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**GETTING
GOING**

Similarly, if you are the principal breadwinner and you have young children, you likely need a heap of life insurance, in case you get hit by the proverbial bus.

But not every financial risk looms so large. Consider extended warranties, possibly the dumbest form of insurance. When you buy that \$400 television set, the salesman will likely try to sell you an extended warranty. And, yes, there is a chance the television will go into premature meltdown.

But even if that happened, you could probably afford to buy another set. There really isn't much financial peril involved.

Which brings me to the collision coverage on my 11-year-old car.

Until recently, I was paying more than \$300 a year for collision insurance. With the deductible already set at \$1,000, I wasn't going to collect much from the insurance company, unless I really banged up the car.

To get a rough idea of your car's worth, call your insurance agent or go to the Web sites offered by Kelley Blue Book (www.kbb.com) and the National Automobile Dealers Association (www.nada.com), suggests Jeanne Salvatore, vice president for consumer affairs at New York's Insurance Information Institute.

After checking those two Web sites, I figure I would pay \$8,000 if I bought my car today.

■ **The bottom line:** After figuring in the deductible, my \$300 a year was buying me a maximum \$7,000 in protection. To be sure, in the unlikely event that I did total the car, I wouldn't be happy about missing out on the \$7,000. But I can afford to bear that financial risk, which is why I dropped the coverage.

Even with the collision coverage gone, my insurer will still pay for any damage I do to somebody else's car. And if another driver dings my car, I should be able to collect from the other driver's insurer.

To further reduce your auto-insurance costs, you might also ditch your comprehensive coverage, which protects against things like theft, vandalism, fire and floods. As a rule, consider removing collision and comprehensive coverage once your car is eight or 10 years old. The key question: How much is your car now worth — and could you afford the potential loss involved?

■ **Think about it:** Once you have built up a financial cushion, you can raise the deductibles on your homeowner's insurance and scale back your car coverage, thus slashing your insurance costs.

You can put down 20 percent next time you buy a house, thereby avoiding the cost of private mortgage insurance. You can buy your cars with cash, rather than taking out auto loans or leasing them. You can pay off your credit-card balance every month, so you don't incur hefty finance charges.

And that is just the beginning. Because you are spending less than you earn, you may be able to max out on your employer's 401(k) plan.

Thanks to your growing sense of financial security, you might also be more willing to take investment risk. Forget money-market funds and savings accounts. Now, you might be comfortable with potentially higher-returning investments, like stocks and bonds.