Types of Insurance

Grade Level 9-12

"Take Charge of Your Finances"

Time to complete: 60 minutes

National Content Standards

Family and Consumer Science Standards: 1.1.6, 2.1.6, 2.5.4, 2.6.1, 2.6.3, 3.3.6
National Council on Economic Education Teaching Standards:
National Standards for Business Education

- Career Development:
- Economics: IV.1, IV.2
- Personal Finance: III.2, V.2, VIII.1, VIII.3, VIII.4

Objectives

Upon completion of this lesson, students will be able to:

- Understand the relationship between risk and insurance.
- Describe the different types of insurance.

Introduction

Life is full of risks and accidents. People are at risk for getting injured when playing sports, riding in a car, or living in a house. **Risk** is uncertainty about a situation's outcome. Risk can be unpredictable events which lead to loss or damage. **Insurance** is an arrangement between an individual (consumer) and an insurer (insurance company) to protect the individual against risk. Insurance plays a large role in most individual's financial management plans. Almost one in twelve dollars in the United States economy is spent on insurance (Goldsmith, 2001). The purpose of insurance is to help individuals limit their financial losses when an accident occurs. It helps the individual to be prepared for the unexpected.

To purchase insurance, consumers purchase a policy. A **policy** is a contract between the individual and the insurer specifying the terms of the insurance arrangements. A **policyholder** is the consumer who purchased the policy. The policy will state the premium and deductible amounts. A **premium** is the fee paid to the insurer to be covered under the specified terms. A **deductible** is the amount paid out of pocket by the policy holder for the initial portion of a loss before the insurance coverage begins. The amount of a premium or a deductible will vary depending on the type of insurance and the terms of the policy.

Types of insurance include:

1. Automobile
2. Health
3. Life
4. Disability
5. Homeowner's / Renter's

Automobile Insurance:

According to the Insurance Education Foundation, there is a 70% chance a person will be involved in an automobile accident within the first three years of driving. **Auto insurance** is an arrangement between an individual (consumer) and an insurer (insurance company) to protect the individual against risk from automobile accidents. The purpose of auto insurance is to help individuals limit their financial losses when an automobile accident occurs. When people buy auto insurance, they transfer part of the financial risk of accidents to the insurance company.

There are four types of coverages available for automobile insurance.

1. **Liability insurance** covers the insured if injuries or damages are caused to other people or their property. It is the minimum amount of insurance required by law for automobiles.
2. **Medical payment insurance** covers injuries sustained by the driver of the insured vehicle or any passenger regardless of fault. It also covers insured family members injured as passengers in any car or if they are injured while on foot as a pedestrian or while riding a bicycle.
3. **Uninsured or underinsured motorists insurance** covers injury or damage to the driver, passengers, or the vehicle caused by a driver with insufficient insurance.
4. **Physical damage insurance** covers damages caused to the vehicle. Two optional forms of coverage are available:
    a. **Collision** - covers a collision with another object, car, or from a rollover.
    b. **Comprehensive** - covers all physical damage losses except collision and other specified losses.

Health Insurance:

Health care costs are extremely high and it can be hard for the average person to afford health care. Large medical expenses could wipe out an individual's savings. To protect individuals from this risk, health insurance can be purchased. **Health insurance** provides protection against financial losses resulting from injury, illness, and disability. The purpose is to provide coverage for emergency or routine medical expenses. Health insurance may cover hospital, surgical, dental, vision, long-term care, prescription, and other major expenditures. Coverage depends upon the policy because the terms vary among different health care policies. Health insurance may be purchased by an individual, or through their employer. Some children may be covered under their parent's health insurance until they are 19 or while they are in college. According to *Personal Finance* (Goldsmith, 2001), most (61%) Americans have employer-based health insurance.

Life Insurance:

Seventy percent of American adults have life insurance (Goldsmith, 2001). **Life insurance** is a contract between an insurer and policyholder specifying a sum to be paid to a beneficiary upon the insured's death. The **contract** is a policy which states the amount to be paid to the beneficiary upon the insured person's death. A **beneficiary** is the recipient of any policy proceeds if the insured person dies. The purpose is to provide money for family members or dependents when a wage earner dies. A **dependent** is a person who relies on someone else financially. Life insurance is not necessary if a person is single with no dependents. Life insurance is necessary for people who have a dependent spouse, dependent children, an aging or disabled dependent relative, or are business owners.

Disability Insurance:

One out of ten people will become disabled before age 65 (Insurance Education Foundation). Insurance is available to prevent the risk of losing income due to a disability. **Disability insurance** replaces a portion of one's income if they become unable to work due to illness or injury. The insurance typically pays between 60% – 70% of one's full time wage. It never pays 100% of the wages because there is no incentive to go back to work. Factors such as the length or severity of a disability influence the percentage of income a person will receive. Many employers offer disability insurance as part of the benefits package.

Homeowner's/Renter's Insurance:

According to the Insurance Education Foundation, a fire occurs in someone's home in the US every 74 seconds. Homeowner's and renter's insurance can protect against this risk. **Homeowner's insurance** combines property and liability insurance into one policy to protect a home from damage costs due to perils. A **peril** is an event which can cause a financial loss like fire, falling trees, lightning, and others. **Property insurance** protects the insured from financial losses due to destruction or damage to property or possessions. **Liability insurance** protects the insured party from being held liable for other's financial losses. The homeowner's insurance should cover the replacement cost which will pay to rebuild the home if it is completely destroyed.

Renter's insurance protects the insured from loss to the contents of the dwelling rather than the dwelling itself. It covers major perils, provides liability protection, and provides for additional living expenses if the dwelling is rendered uninhabitable by one of the covered perils. Renter's insurance is necessary because the landlord's insurance policy on the dwelling does not cover the renter's personal possessions.

In this lesson, students learn the basics about five types of insurance (automobile, health, life, disability, homeowners/renters) by identifying what type of insurance covers different types of risks.

Body

1. Students will play a true/false game to assess how much they already know about insurance. Directions are as follows:
    a. Handout scratch paper and a marker to each student.
    b. The teacher will read a statement to the class from the *Insurance Quiz* sheet 1.10.1.B1. Each student must decide whether it is true or false, write the answer down on a piece of scratch paper, and hold up the paper so the teacher can see it.
    c. After every student has an answer, the teacher can reveal the answer and give an explanation for why the statement is true or false.
    d. Keeping score is optional.
2. After the game, handout the *Types of Insurance* information sheet 1.10.1.F1. Give students time to read the information sheet in class.
3. Play *What Covers This Risk?* 1.10.1.H1 Directions are as follows:
    a. Prior to class, cut a set of *What Covers This Risk?* game cards 1.10.1.H1 and put them into a hat or bowl.
    b. Divide the students into groups of three. Give each group a set of *What Covers This Risk?* game cards 1.10.1.H1. Keep score for each group on the board.
    c. Draw a card from the hat and read the risk card to the class. Each group must then decide what type of insurance may cover the risk which was read. They should hold up the flash card they feel is the right answer.
    d. After every group has had a chance to guess, reveal the answer to the students. Discuss each risk and answer with the class before drawing another risk card out of the hat.
    e. For every correct answer, the team receives one point. No points are received for an incorrect answer.

Conclusion

List the five types of insurance discussed on the board. Ask students to name when a person should have each type of insurance.

Assessment

Students complete the *Types of Insurance* worksheet 1.10.1.A1 based upon the *Types of Insurance* information sheet 1.10.1.F1.

Optional: Students complete the *Insurance Terminology Scramble* worksheet 1.10.1.A2 as a quiz or a worksheet. Below is a word bank to accompany it. The teacher can decide whether or not to give the word bank to the students to complete the worksheet.

Risk	Policyholder	Beneficiary
Insurance	Automobile	Disability
Policy	Health	Homeowners
Premium	Life	Renters
Deductible	Contract	Peril

MATERIALS

Types of Insurance worksheet – 1.10.1.A1
Insurance Terminology Scramble worksheet – 1.10.1.A2
Insurance Quiz sheet – 1.10.1.B1
Types of Insurance information sheet – 1.10.1.F1
What Covers This Risk? game cards – 1.10.1.H1

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TYPES OF INSURANCE

Name________________

Date________________

	Total Points Earned
16	Total Points Possible
	Percentage

Directions: Complete the questions below based on the information in the *Types of Insurance* information sheet 1.10.1.F1.

1. Define insurance. (1 point)

2. Identify two of the different types of dollar amounts specified in an insurance policy.(2 points)

3. What is the minimum type of coverage for automobile insurance required by law? (1 point)

4. Safe Susie carries liability and uninsured/underinsured motorists insurance on her car. She gets into an accident with Risky Rick, an uninsured driver. Will Susie have to pay for her car repairs because Rick is uninsured? Why or why not? (2 points)

5. Identify six different types of health care costs which may be covered under health insurance depending upon the policy. (6 points)

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6. Name one situation where a person should carry life insurance. (1 point)

7. Explain why a person would choose to carry disability insurance. (1 point)

8. How much insurance coverage should a homeowner carry to be protected from the risk of a home being completely destroyed? (1 point)

9. Identify why a renter would choose to purchase renter's insurance. (1 point)

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Insurance Terminology Scramble

Name________________

Date________________

	Total Points Earned
12	Total Points Possible
	Percentage

Directions: Write the word which is described by the following statements in the spaces provided. The number of blanks corresponds to the number of letters each word contains.

1. Amount paid out of pocket by policyholder for the initial portion of a loss before the insurance company pays.
   _ _ _ _ _ _ _ _ _ _
2. Protection for a dwelling against perils like fire and lightning.
   _ _ _ _ _ _ _ _ _ _
3. Accident, theft, damage, destroyed, unexpected.
   _ _ _ _
4. Fee paid to the insurer to be covered under the specified terms.
   _ _ _ _ _ _ _
5. Many high school students are covered under their parents for this type of insurance.
   _ _ _ _ _ _
6. Consumer who purchased the policy.
   _ _ _ _ _ _ _ _ _ _ _ _
7. People must have this type of insurance to drive their vehicle.
   _ _ _ _ _ _ _ _ _ _
8. Contract between the individual and an insurer specifying the terms of the insurance.
   _ _ _ _ _ _
9. Title of people receiving money from a life insurance policy after the insured person dies.
   _ _ _ _ _ _ _ _ _ _ _
10. Arrangement between an individual and an insurer for protection against risk.
    _ _ _ _ _ _ _ _ _
11. Insurance which helps to provide income during an illness or injury.
    _ _ _ _ _ _ _ _ _ _
12. Unnecessary insurance for high school students with no financial dependents.
    _ _ _ _

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INSURANCE QUIZ

1. *True or False* – Within a persons first three years of driving, there is a 50% chance a person will be involved in an automobile accident.
   a. False – There is a 70% chance a person will be involved in an automobile accident within the first three years of driving.

2. *True or False* – Auto insurance is required by law to drive an automobile.
   a. *True* – Liability is the minimum amount of insurance required by law to be driving an automobile.

3. *True or False* – Insurance plays a small role in most individual's financial plan.
   a. *False* – Insurance plays a large role in most individual's financial management plan. Almost 1 in 12 dollars in the U.S. economy is spent on insurance.

4. *True or False* – Most individuals or families can afford health care and medical expenses.
   a. *False* – Health care costs are extremely high and it can be hard for the average person to afford health care. Large medical expenses could wipe out an individual's savings.

5. *True or False* – Most Americans have employer-based health insurance.
   a. *True* – 61% of Americans have employer-based health insurance.

6. *True of False* – Life insurance is necessary for everyone.
   a. *False* – Life insurance is necessary for anyone who has someone depending on them financially.

7. *True or False* – Disability insurance is necessary only for people with disabilities.
   a. *False* – Disability insurance is necessary for anyone with a job. 1 out of 10 people will become disabled before age 65.

8. *True of False* – When renting an apartment, the renter should purchase renter's insurance because the owner's insurance will not cover the renter's possessions.
   a. *True* – The owner's insurance will cover the building's structure, but not the contents in all of the rented apartments.

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