

# Oklahoma's Personal Financial Literacy Passport

**Standard 11: The student will describe and explain how various types of insurance can be used to manage risk**

## **Standard 11. Risk Management and Insurance**

Lesson 11.1 Identifying Risk

Lesson 11.2 Different Types of Insurance

Handout 11.2.1 Money Bingo

Lesson 11.3 Using Insurance to Manage Risk

11.3.1 Paycheck Deductions



Teacher Presentation Series 11

- 👤 Identify common risks to life and property (e.g., illness, death, natural catastrophe, and accident).
- 👤 Explain the purpose and importance of insurance protection as a risk management strategy (e.g., life, health, property, liability, disability, and automobile).
- 👤 Examine appropriate amounts of insurance and how insurance deductibles work.



# **Standard II.1**

## **Risk Management and Insurance**

### **Identifying Risk**

# ≡ *Payoff* ≡



- 👛 Identify possible risks.
- 👛 Explain strategies for handling risk.
- 👛 Recognize the role of risk.
- 👛 Explain how insurance transfers risk to a third party.

# Down Payment



- 👉 Suppose you overhear this conversation between Steven and George in the hallway:
- 👉 "George, what is hot for the holidays?"
- 👉 "Skiing. Do you want to go? There are still seats on the bus, Steven."
- 👉 Steven says, "That is too high of a risk for me. I am staying here to ride my new 'cycle.'"
- 👉 What do you think? Are George and Steven both taking a risk?
- 👉 If so, what can they do to lower their risks?

# == Cache ==



 Risk



# ≡ *Building Interest* ≡



- 👛 When are you faced with risk?
- 👛 Is your tolerance for risk high or low?
- 👛 Is it possible to eliminate risk from your life?

# Managing Risk



📌 Because you live with risk every day, learning how to manage it will help you reach your personal and financial goals.

📌 Risk management tools include:

- avoid it
- reduce it
- accept it
- transfer it to someone else



# Managing Risk



👛 Transferring risk to a third party (an insurance company) reduces your “out of pocket” financial responsibility and your potential losses.

# == Earnings ==

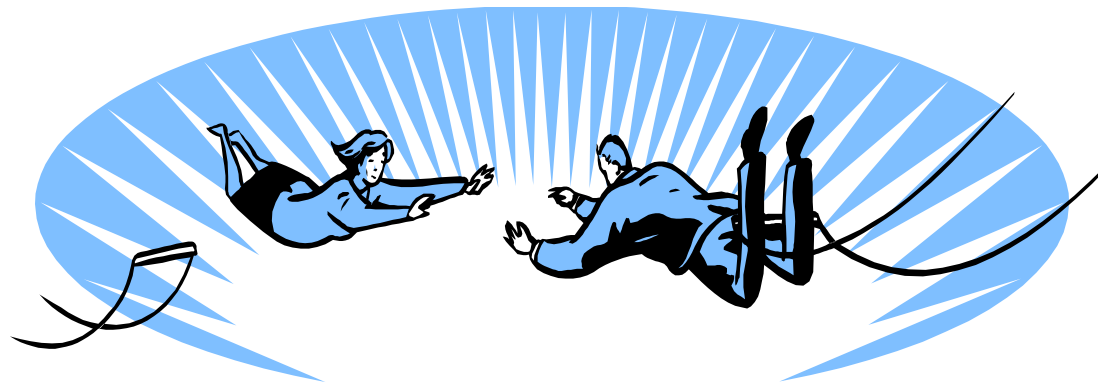


- 🍷 A good risk management plan has two requirements:
- Be aware of what risk problems you are going to face.
  - Gather the information you need to manage the potential risk. After taking these two steps, you are ready to make informed choices about your insurance needs.

# == Earnings ==



- 💰 When it comes to your money and your personal information, trust only those people you know to be trustworthy.
- 💰 If you do become a victim, take immediate steps to contact law enforcement officials.



# **Balance Sheet**



- 👛 Identify three ways you can minimize risks associated with your automobile insurance.
- 👛 What are the two most critical components of a risk management plan?
- 👛 How do you transfer risks to a third party?

## == *Paid in Full* ==



- 👤 Do you think Alfredo might be a victim of consumer fraud?
- 👤 The answer is yes. It appears that he is a victim of false billing fraud.
- 👤 Alfredo and his mother the credit card company to ask about the charges.
- 👤 The charges were being made by a fake company. The charges were removed from his card.



# **Standard 11.2**

## **Risk Management and Insurance**

### **Different Types of Insurance**

# = *Payoff* =



- 👛 Examine the different types of insurance available.
- 👛 Identify key terms associated with insurance and risks: natural disaster, liability, disability, deductibles, and risk management.

# ≡ *Payoff* ≡



- 🏠 Explain the purpose and importance of different types of insurance protection as a risk management strategy (e.g., life, health, property, liability, disability, and automobile).





# Down Payment



- 👛 Jermaine got his car last week, but forgot to get insurance.
- 👛 He could get health insurance at work, but he needed the money to make his payments.
- 👛 Smashed cars. At least no one was badly injured.
- 👛 His arm was broken, and he had no insurance.
- 👛 The ambulance could take him to *City Hospital*, but he would have to pay the bill.

# Down Payment



- How would he work with a broken arm?
- He did not mean to hit the car in front of him.
- He was in a hurry and did not see it was stopped.
- He was talking to Dominique on the phone.
- Can you find anything that Jermaine could have done differently to reduce his risk and his losses?

**= Cache =**



 **Deductible**

 **Premium**

 **Claim**

# ≡ *Building Interest* ≡



- 💧 What does it mean to “manage risks?”
- 💧 How does insurance work?
- 💧 How does an insurance company decide what “premiums” you should pay?
- 💧 What kinds of things should you consider when selecting an insurance policy?

# Types of Insurance



- 💰 Health insurance - also called medical insurance, helps protect you and your family from expensive or unexpected healthcare related expenses.
- 💰 Some employers will pay your premiums as part of your benefit package with the company.

# Types of Insurance



🏠 Insurance through an employer is generally much less expensive than buying it on your own.

- Employers can pool healthy employees who require minimal amounts of health care with those who have numerous health problems and frequently use their health care benefits.
- If purchased individually, premiums are based on your personal risk factors such as age, overall health, and previous health problems.

# Types of Insurance



- Most insurance policies do not cover all health care costs.
  - Co-payment: amount you will pay each time you visit a health care provider.
  - Co-insurance: Percentage of medical costs you will pay after meeting your deductible.
  - Most major medical insurance policies have a limit of coverage.

# Types of Insurance



- 🏠 Co-payments, premiums and out-of-pocket expenses depend upon the type of health insurance you select.
- 🏠 An HMO is a “health maintenance organization.”
- 🏠 A PPO (Preferred Provider Organization) tends to have more out-of-pocket costs than an HMO—but PPOs offer more flexibility when choosing a doctor and other services.



# Types of Insurance




## *CAR CRASH STATISTICS:*

- ❖ About **6,420,000** auto accidents in the United States in 2005.
- ❖ Financial cost of these crashes was over **\$230 billion**.
- ❖ **2.9 million people injured** and **42,636 people killed**.
- ❖ About **115 people die every day** in vehicle crashes in the United States - one death every **13 minutes**.

# Disability Insurance




 Pays part of your income if you become ill or injured and need an extended period of time to recover or if you can no longer work.



# Medicare



 Medicare is a health insurance program provided by the federal government to people over the age of 65 or with certain health conditions.



# Medicaid



💰 Medicaid is also federal health insurance, and it pays health care costs for low-income citizens of all ages.

💰 It is administered by state and local governments, which also provide matching funds to offset the costs.

# Long-term Care Insurance



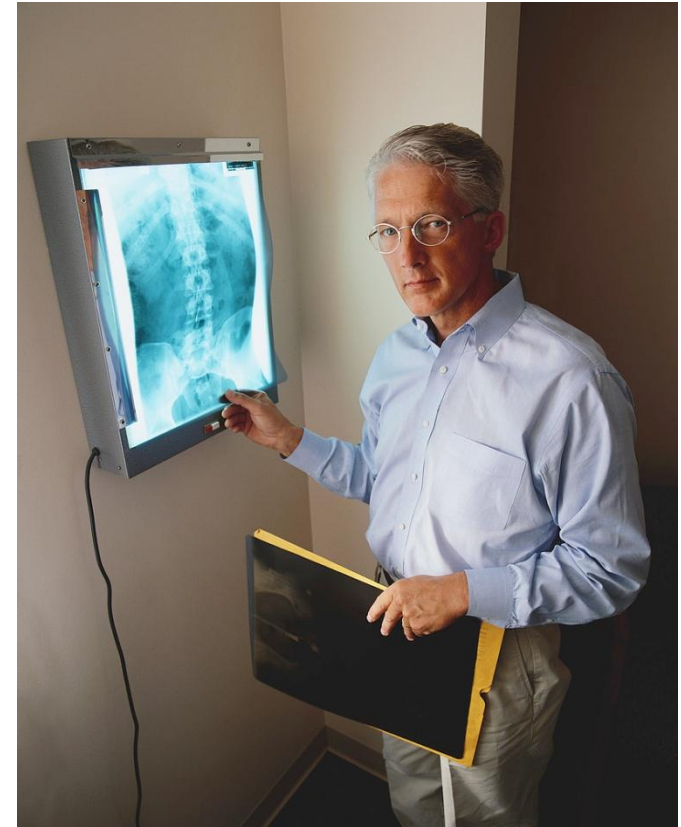
💰 Long-term care insurance helps cover costs associated with care in a nursing home or other similar facilities if you become unable to take care of yourself.

💰 Many people require long-term care as a result of an accident, so age is not a determining factor for purchasing long-term care insurance.

# Long-term Care Insurance



- 💰 About 40% of those receiving long-term care are between 18 and 64.
- 💰 Most people do not want to think about being severely injured and postpone the decision to buy long-term care insurance.



# Life Insurance



- 🏠 Insurance is to insure against loss of income due to death and can also be used for retirement planning and investing.
- 🏠 Life insurance companies offer a wide array of policies to meet your needs as your personal circumstances change and evolve.



# Life Insurance



🏠 Three basic kinds of life insurance:

1. *Term life* or ‘temporary’ insurance –

- coverage for a defined time period, generally 5, 10 or 20 years
- pays cash benefits to a named beneficiary *if* the insured dies during the term of the policy

2. *Whole life* insurance –

- covers the insured for their whole life
- benefits are paid to the beneficiaries when the policyholder dies



# Life Insurance



💰 Three basic kinds of life insurance -continued:

## 3. *Universal life* insurance –

- whole life insurance with more flexibility
- allows the policyholder to maintain their policy and still make changes, such as decreasing the death benefit or changing the premiums

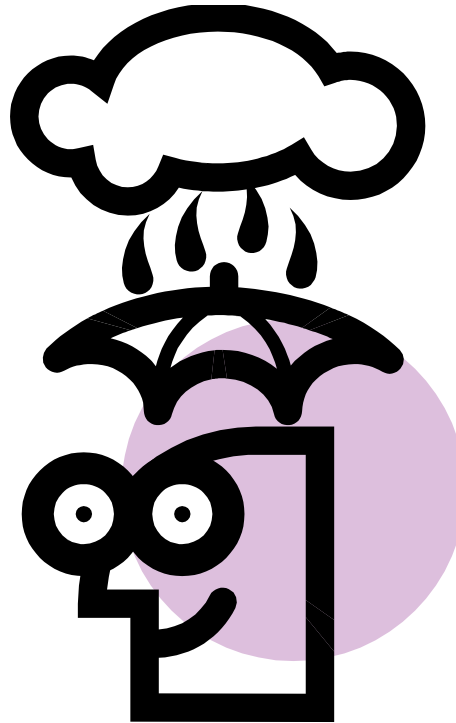
💰 Life insurance is often provided by your employer as part of a benefit package

# Life Insurance



## Life insurance - continued:

- is generally less expensive to purchase while you are young



# Liability Insurance



- 🚗 Protects you when others claim to be hurt or injured as a result of something you did or did not do.
- 🚗 Generally, pays medical bills or provides compensation to anyone who can prove you were negligent or acted improperly.
- 🚗 Most states, including Oklahoma, require you to have liability insurance on your automobile in case of accident.

# Homeowner's Insurance



- 💰 For most people, their home is their largest single investment.
- 💰 Having homeowner's insurance protects your house and contents against disasters.
- 💰 In addition, most policies provide liability coverage in case someone visiting your home is injured.

# Homeowner's Insurance

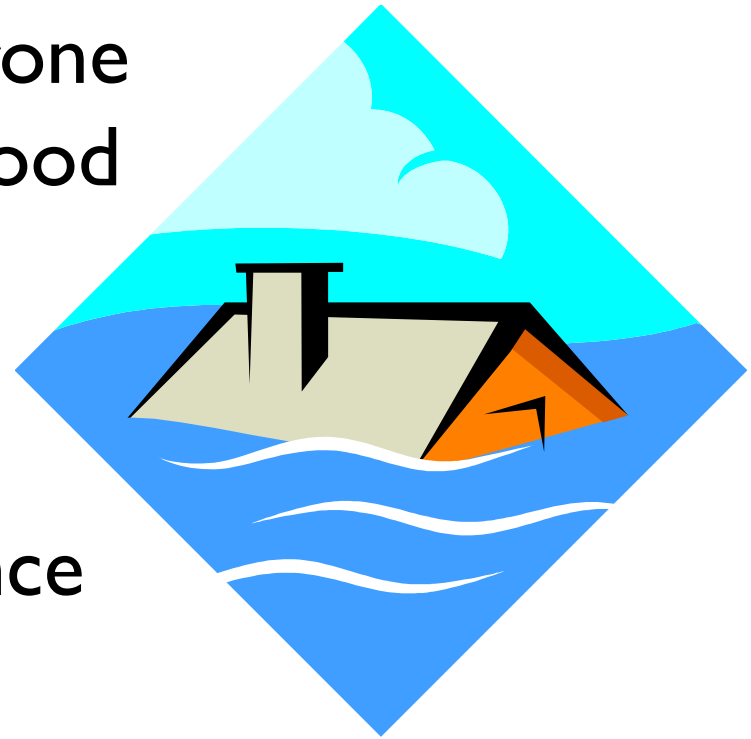


- 🏠 You can purchase homeowner's insurance that covers either actual cash value or replacement costs.
- Actual cash value - amount it would take to repair or replace damage to your home after normal wear and tear, commonly called depreciation.
  - Replacement cost - amount needed to replace your home or repair damages with materials of similar kind and quality, *without deducting for depreciation.*

# Homeowner's Insurance



- 💰 Few homeowner's insurance policies cover flood damage.
- 💰 If you live in an area prone to flooding, consider flood insurance, which is available through the federal government's National Flood Insurance Program (NFIP).



# Renter's Insurance



- 👉 Protects renters from theft or damage of their personal property.
- 👉 A good renter's insurance policy will also include liability insurance.
- 👉 Generally, renter's insurance can be transferred from one location to another when you decide to move.

# Renter's Insurance



- Prices on renter's insurance will vary from company to company, so get more than one estimate before making a final decision.





# Automobile Insurance

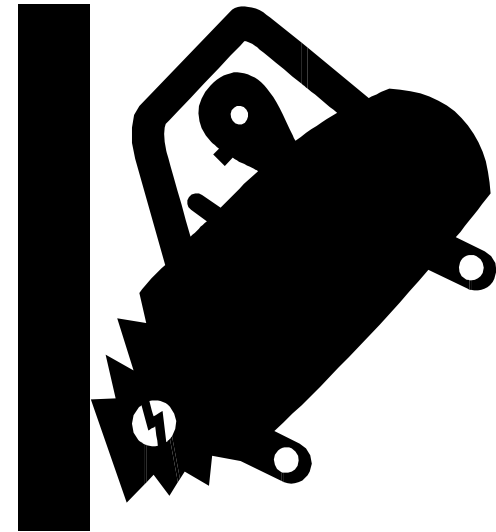


- 👛 Almost every state in the country requires you to have automobile insurance if you own a car.
- 👛 Automobile insurance limits financial loss due to damage or a car accident.
- 👛 Auto liability insurance pays for someone else's property or injuries if you are at fault in an accident.

# Automobile Insurance



- 🚗 Comprehensive insurance covers your vehicle if it is damaged by an act of nature or if it is stolen.
- 🚗 Collision insurance pays for your car repairs if the person at fault in an accident does not have insurance.



# Automobile Insurance



- 🚗 Young drivers, ages 15- to 20-years old, are especially at risk and vulnerable to death and injury on our roadways.
- 🚗 Auto accidents are the leading cause of death for teenagers in America.
- 🚗 Mile for mile, teenagers are involved in three times as many fatal crashes as all other drivers.

# Automobile Insurance



Because young drivers are more likely to be involved in accidents, insurance for young drivers is more expensive than insurance for drivers in other age groups.




# == *Earnings* ==



- 💰 Insurance is generally considered a valuable risk management tool because it allows a third party—the insurance company—to assume part of your risk and your costs.
- 💰 Insurance can be expensive if you buy coverage you really do not need or pay more than you should for the premium.

# == *Earnings* ==



 You will want enough insurance to cover any losses to your home, your personal property, your vehicle and your health in case you become ill and need attention.



# == Balance Sheet ==

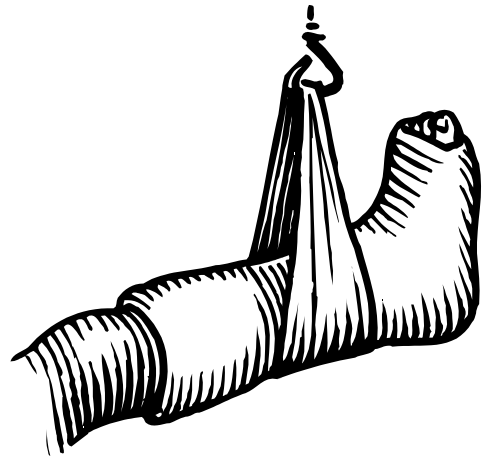


💰 What is an insurance premium?

💰 Your friend tripped on the stairs in your apartment and broke his arm. Who is going to pay his medical bill?

💰 Why is automobile insurance more expensive for younger drivers?

💰 What does it mean to “spread risk?”



## == ***Paid in Full*** ==



- 🚗 Jermaine may be charged a big fine or lose his driver's license for failing to have insurance on his vehicle.
- 🚗 He will need to repair his car as well as the one he hit.
- 🚗 Jermaine will need to make arrangements with *City Hospital* to pay for his care. He may not be able to work, meaning he may not have any income until his arm heals.



## == Paid in Full ==



- 👤 Driving and talking on the phone is not illegal, but it can be distracting.
- 👤 When sitting behind the wheel of a vehicle, driving that vehicle should always be your first priority.





## **Standard 11.3**

# **Risk Management and Insurance**

# **Using Insurance to Manage Risk**

# **Payoff**



- 👉 Examine how deductibles affect insurance premiums.
- 👉 Determine how out of pocket expenses impact the cost of using insurance.
- 👉 Identify ways to save money on insurance premiums.
- 👉 Demonstrate the ability to select appropriate amounts of insurance in selected situations.

# Down Payment



- 💰 A tree had fallen on Maggie's car and busted the windshield.
- 💰 Maggie has a \$500 deductible, and it will cost \$700 to put in a new windshield and repair the paint scratches.
- 💰 Lily injured her knee running track
- 💰 She needs surgery to repair the ligament and the estimated cost is \$5,000 for outpatient surgery.

# Down Payment



💰 Lily has a \$500 deductible and 80/20 co-insurance with a \$5,000 cap, but her policy pays 100% of all hospital costs.

💰 Should Maggie and Lily use their insurance to cover their costs?



# == *Cache* ==



💰 Co-insurance

💰 Co-payment

💰 Deductible

# ≡ *Building Interest* ≡



- 💰 What is the difference between a “deductable” and a “co-pay?”
- 💰 What does the term “reasonable and customary” mean?
- 💰 Who pays for charges that are not considered to be “reasonable and customary?”

# Insurance Fundamentals



- 👉 The more likely an insurance company believes you are to make a claim (higher risk), the more they charge you for the insurance (higher premiums).
- 👉 Insurance is based on the principle of probability.
- 👉 You decide what you are going to need, using probability to weigh the costs and benefits of specific types of insurance.



# Insurance Fundamentals



- 💰 Insurance companies will consider the following risk factors when setting your insurance premium:
- Your driving record - a clean record can save you a substantial amount on your premium.
  - Type of car you drive - sticker price, repair costs, and safety records.
  - Theft—some models are frequently stolen, creating a greater risk.

# Insurance Fundamentals



💰 Insurance companies will consider the following risk factors when setting your insurance premium. - continued:

- Your age - Younger drivers generally pay higher rates because of accident statistics.
- Where you live, if your car is kept in a garage, and how many miles you drive in a year.
- Credit report score - An excellent credit rating makes you an attractive and low risk client.

# Saving Money on Insurance



💰 Suggestions to help you maximize the money you spend on insurance.

- Consider paying for small amounts of damage out of your pocket instead of filing a claim.
- Examine the possibility of increasing your deductible because a higher deductible will decrease your premiums.
- Non-smokers pay less for most types of insurance than smokers because smokers are considered higher risk.

# Saving Money on Insurance



- 💡 Suggestions to help you maximize the money you spend on insurance. - continued
- Consider cancelling your collision insurance if your car is very old or worth less than \$1,000. Do NOT, however, cancel your auto liability insurance. It is required by law and is your protection if someone is injured in an accident that is your fault.

# Saving Money on Insurance



- 💡 Suggestions to help you maximize the money you spend on insurance. — continued
- Take a driver's safety course approved by your insurance company to qualify for an auto insurance discount.
  - Maintain a good credit history.
  - Avoid insurance that covers only one type of risk (cancer, credit life, flight).

# Saving Money on Insurance



💡 Suggestions to help you maximize the money you spend on insurance. – continued:

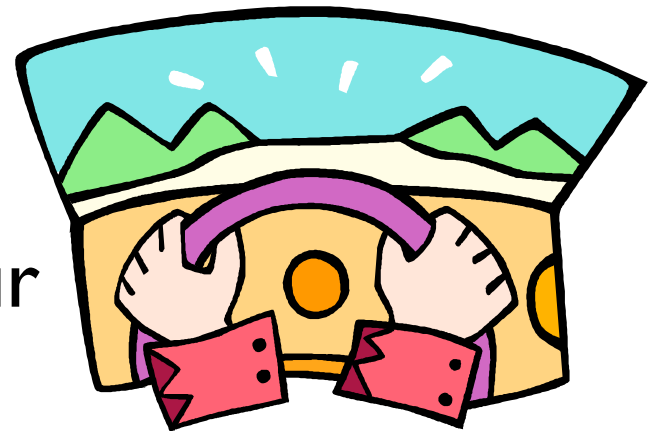
- Shop around



# == Earnings ==



🚗 A clean driving record, excellent credit rating, comparison shopping, discounts and high deductibles can lower your insurance premium.



🚗 **Remember, not purchasing insurance could be a very expensive mistake!**

# == *Balance Sheet* ==



💰 How does the number of claims you make on your insurance policy affect your rates?

💰 Why is purchasing flight insurance before you travel often an unnecessary expense?

💰 True or false? All insurance companies charge about the same premiums for similar policies.



## == Paid in Full ==



- 💡 Maggie would be better off to pay for the damage without filing a claim with her insurance company. By the time she pays her deductible, insurance would only pay \$200. ( $\$700 - \$500 = \$200$ ).
- 💡 Chances are the insurance company will raise her premiums, especially if she has filed other claims recently.

## == *Paid in Full* ==



💡 Lily, however, should contact her insurance company to get approved for surgery. With her deductible and co-insurance responsibility, her total cost for the surgery is \$780. That leaves \$4,220 for her insurance company to pay. ( $\$5,000 - \$780 = \$4,220$ ).