

Insurance



Me,
Myself,
My Money



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Myself,
My Money



INTRODUCTION

Insurance

Learning Objectives

Lesson 1

Health Insurance: My Broken Leg Costs How Much?!

- Explain the costs of health insurance.
- Describe the provisions of a health care plan and the coverage provided.
- Calculate the cost of covered services under a health care plan.

Lesson 2

Automobile Insurance: Keeping Your Wheels – and You – Rolling!

- Explain the coverage provided by an automobile insurance policy.
- Determine the amount of coverage provided in an automobile insurance policy and the financial benefits provided by an insurance company.

Lesson 3

Homeowner's Insurance: Home Sweet Home

- Explain the coverage provided by a homeowner's insurance policy and a renter's insurance policy.
- Distinguish between replacement cost coverage and actual cash value coverage.



Learning Standards (grades 9-12)

Business

Connecticut Department of Education

Business and Finance Technology – Business Management

- Identify choices available to consumers for protection against risk and financial loss.

Cooperative Work Education

- Compare and contrast strategies for personal finance and risk management.

National Business Education Association

Economic & Personal Finance – Protecting Against Risk

- Identify risks in life and how to gain protection against the consequences of risk.
- Identify the type of insurance associated with different types of risk.

Economics & Personal Finance – Personal Decision Making

- Differentiate between types of decisions and identify those for which a formal decision-making process should be used.
- Apply the decision-making process to various types of decisions at different stages of the life cycle.

Computation – Insurance

- Calculate benefits, claims, and premiums on real estate, health, disability, life, fire, and auto insurance.

Computation – Number Relationships and Operations

- Solve problems that involve whole numbers, decimals, and fractions, and use appropriate conversions.
- Solve problems that involve percents, ratios, averages, and proportions and use appropriate conversions.



Health Insurance: *My Broken Leg Costs How Much?!*

The purpose of health insurance is to assist individuals with the financial cost incurred from injury or illness.

Employers often offer health insurance to employees as part of a “compensation package” and pay a portion of the **premium**. The premium is the cost of insurance, or the amount an insurance company charges to provide insurance coverage.

Individuals can also purchase health insurance on their own; however, the cost is usually more expensive than that offered to a group of individuals, such as the employees of a company. **Group insurance**, such as that offered by an employer, is almost always less expensive and provides better coverage than insurance purchased on your own. In addition, by purchasing insurance through an employer, you might have the advantage of the employer paying part of the premium.

Not having health insurance is not an option – medical bills can wipe out your entire savings, and doctors and hospitals can garnish your wages for any unpaid bills.

Health insurance is available through national private insurance companies, statewide organizations such as Blue Cross and Blue Shield, and HMOs – Health Maintenance Organizations. (An HMO is an insurance plan in which the plan selects physicians and doctors available to subscribers.)

A federal law, **COBRA (Consolidated Omnibus Budget Reconciliation Act)**, allows you to keep your employer-provided health insurance if you lose your job, but the premiums are very expensive and the coverage is limited.

When selecting a health care plan, you should compare premiums, deductibles, co-payments, co-insurance provision, out-of-pocket limits, services covered, and the amount of coverage provided. In addition, you should determine whether the insurance plan will allow you to select a doctor of your choice and whether the doctor is associated with the insurance plan, called the “network.”

Covered services are those services for which the insurance company will provide coverage, and can include doctor visits, prescription drugs, dental care, eye care, and hospital visits. Insurance companies will not pay for services that are not covered under the insurance plan.



A **deductible** is the amount the insured must pay before the insurance company will begin to pay for the cost of covered services.

A **co-payment** is the amount an insured must pay each time a service is provided or a product, such as prescription drugs, is purchased.

Co-insurance provisions state the manner in which the insurance company and the insured will share the cost of covered services. A co-insurance provision will state the percent the insured and the insurance company will pay for covered services, usually after the co-payment and after the deductible has been met. For example, an “80%/20%” co-insurance provision indicates that the insurance company will pay 80% of the medical costs—after the co-payment and after the deductible are met—and the insured will pay 20% of the cost.

The **out-of-pocket limit** states the maximum amount an insured will be required to pay under an insurance plan in any one year.

The cost of medical insurance—the premium—can be very expensive. However, you can reduce your premium if you select an insurance plan with a high deductible, a high co-payment, a high limit on out-of-pocket costs, and a co-insurance provision in which you share a greater portion of the cost of covered expenses relative to other plans. The disadvantage of doing so, however, is that if you incur large medical expenses, you will pay a large portion of those expenses.

Activity 1: Insurance Planning 101

Molly is reviewing the following two insurance plans.

	Insurance Plan A	Insurance Plan B
Deductible	\$50	\$500
Co-payment	\$5	\$20
Out-of-pocket cost limit	\$500	\$1,000
Co-insurance provision	80% by the plan/ 20% by the insured	70% by the plan/ 30% by the insured

1. Which plan is most likely to have the lower premium and which plan is likely to have the higher premium? Explain your answer.
2. Which plan should Molly select if she expects to incur a large amount of medical expenses? Explain your answer.



LESSON 1

Activity 2: Harry's Health Care Plan

Harry is paid twice a month by his employer and pays \$75 each pay period for health care coverage. The plan that Harry selected requires him to pay all medical bills until his \$250 deductible is met. The details of the plan are as follows:

- \$20 co-payment for doctor visits and prescription drugs (The co-payments do not apply toward the deductible.)
- 100% coverage for prescription drugs after the co-payment is met
- 80% coverage for doctor visits after the co-payment and deductible are met
- 50% coverage for dental care after the co-payment and deductible are met
- 90% coverage for hospital tests after the deductible is met (There is no co-payment required for hospital visits.)
- No provision for eye care, glasses or contact lenses
- \$1,000 individual limit for out-of-pocket costs for covered services and hospital tests

1. How much does Harry pay each year for the health care plan provided by his employer?
2. Harry takes a prescription drug for allergies that requires a refill every month. The cost of the prescription drug is \$100 per refill. What amount will Harry have to pay and what amount will the insurance company pay?
3. On March 10th, Harry went to the doctor for his annual physical. The doctor bill amounted to \$350. What amount will Harry have to pay and what amount will the insurance company pay?
4. Harry went to the dentist for his annual check-up on April 20th. The cost of the visit was \$300. What amount will Harry have to pay and what amount will the insurance company pay?

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LESSON 1

5. On September 23rd, Harry went to the eye doctor and learned he needed glasses. The cost of the doctor visit was \$250 and the glasses cost \$400. What amount will Harry have to pay and what amount will the insurance company pay?

6. What is the total out-of-pocket cost to Harry for covered services to date?

7. On October 16th, Harry had to undergo x-rays at the local hospital for what seemed to be a broken leg. The cost of the x-rays was \$4,000. What amount will Harry have to pay and what amount will the insurance company pay?

8. What is the cost to Harry for covered services and all services thus far, including the cost of premiums?

9. What amount has the insurance company paid thus far to provide medical coverage?

10. If Harry did not have health insurance, what amount of medical expenses would he be responsible for during the year?

11. By participating in his employer-sponsored health care plan, how much money did Harry save during the year?



Automobile Insurance: Keeping Your Wheels – and You – Rolling!

Automobile insurance provides protection to an insured (and others covered under an automobile insurance policy) against the risk of financial loss. Automobile insurance is provided by an automobile insurance policy, which is a contract between an insurance company and the policyholder.

Automobile insurance covers two primary areas: (1) bodily injury and property damage liability, and (2) physical damage.

Bodily injury insurance provides financial protection to the insured for: lawsuits and legal expenses (bodily injury liability); medical expenses (medical payments coverage); and, other related costs that result from injuries sustained in an automobile accident caused by the insured.

Bodily injury liability insurance covers the cost of injuries to people involved in an accident and protects the insured against financial loss from lawsuits and other legal expenses incurred as a result of an accident. There are two limits provided by the coverage: the maximum that will be paid to any one person, and the maximum for each accident.

Medical payments insurance covers the cost of medical expenses and the cost of health care of those in the insured’s automobile that were injured, including the insured.

Property damage liability insurance protects the insured against financial loss, within limits, when the insured damages the property of others. This primarily applies to vehicles but could also include street signs, lampposts and buildings.

Physical damage insurance includes collision insurance and comprehensive insurance, which have deductibles.

Collision insurance covers the cost of damage to the insured’s automobile as a result of colliding with another object, regardless of whether the insured caused the accident or damage.

Comprehensive physical damage insurance protects the insured against financial loss caused by something other than collision, such as fire, theft, and vandalism.

Automobile insurance policies state the amount of coverage that will be provided, or the limit the insurance company will pay, in this format: 100/300/50. Each number represents thousands (000s) of dollars, where the first number and second number state limits on bodily injury and the third number states the limit on property damage. Regarding the first two numbers, the first number represents the limit that will be paid to any one person in an accident and the second number is the limit that will be paid in any one accident.

- Insured**
The person or people covered by an insurance policy.
- Policyholder**
The person who owns the insurance policy.
- Deductible**
The amount an insured must pay before financial benefits are paid by the insurance company.



LESSON 2

In this example, the maximum amount an insurance company will pay to any one person in an accident is \$100,000 and the maximum amount it will pay in any one accident is \$300,000. In addition, the maximum amount the insurance company will pay for property damage is \$50,000.

Uninsured motorist's protection is insurance that covers the cost of injuries to the insured and his or her family if the insured is in a "hit-and-run" accident or an accident with someone that does not have insurance, or when the other driver does not have adequate coverage for injuries sustained by the insured. Uninsured motorist's protection, however, usually does not cover damage to the car.

"No-fault" insurance, also called Personal Injury Protection (PIP), is a program in which an insured can collect medical expenses, lost wages and injury costs from their insurance company as a means to expedite paying for damages until the process of determining fault is completed.

The premium for automobile insurance varies according to: (1) the amount and types of insurance purchased; (2) the year, make and model of the automobile; (3) the age, gender, marital status, and driving record of the insured; (4) the intended use of the automobile and the number of miles driven; and, (5) the territory – the insured's place (city or town) of residence.

Carrying automobile insurance is not an option or a luxury – it's the law. To register an automobile with the Connecticut Department of Motor Vehicles, proof of insurance is required.

Financial institutions that provide automobile loans require the insured to purchase collision and comprehensive insurance; however, collision insurance and comprehensive insurance is not required or suggested when the cost of the premiums exceed the value of the automobile. For example, this may be the case with an older car.

Individuals unable to obtain insurance due to a poor driving record or accident, can obtain insurance, albeit at high rates, through a state program called the "assigned risk pool" whereby insurance companies must accept some such drivers.

DID YOU KNOW?

An automobile insurance **premium** is the cost of the insurance policy.

Hartford, CT is called "The Insurance City" or "The Insurance Capital" because it has a large concentration of insurance companies.



LESSON 2

Activity 1: Cover Me!

1. Insurance that covers the cost of medical expenses and the cost of health care of those in the insured's automobile that were injured, including the insured is:
 - a. Bodily injury liability insurance
 - b. Collision insurance
 - c. Comprehensive physical damage insurance
 - d. Medical payments insurance
 - e. No-fault insurance
 - f. Property damage liability insurance
 - g. Uninsured motorist's insurance
2. Insurance that covers the cost of injuries to the insured and his or her passengers if the insured is in a "hit-and-run" accident or in an accident with some one that does not have insurance, or when the other driver does not have adequate coverage for the damages caused to the insured is called:
 - a. Bodily injury liability insurance
 - b. Collision insurance
 - c. Comprehensive physical damage insurance
 - d. Medical payments insurance
 - e. No-fault insurance
 - f. Property damage liability insurance
 - g. Uninsured motorist's insurance
3. Insurance that protects the insured against financial loss caused by fire, theft, and vandalism is called:
 - a. Bodily injury liability insurance
 - b. Collision insurance
 - c. Comprehensive physical damage insurance
 - d. Medical payments insurance
 - e. No-fault insurance
 - f. Property damage liability insurance
 - g. Uninsured motorist's insurance
4. Insurance that covers the cost of injuries to people involved in an accident and protects the insured against financial loss from lawsuits and other legal expenses incurred as a result of an accident is called:
 - a. Bodily injury liability insurance
 - b. Collision insurance
 - c. Comprehensive physical damage insurance
 - d. Medical payments insurance
 - e. No-fault insurance
 - f. Property damage liability insurance
 - g. Uninsured motorist's insurance
5. Insurance that covers the cost of damage to the insured's automobile, regardless of whether the insured caused the accident is called:
 - a. Bodily injury liability insurance
 - b. Collision insurance
 - c. Comprehensive physical damage insurance
 - d. Medical payments insurance
 - e. No-fault insurance
 - f. Property damage liability insurance
 - g. Uninsured motorist's insurance
6. Insurance that allows the insured to collect medical expenses, lost wages and injury costs from their insurance company as a means to expedite paying for damages until the process of determining fault is completed is called:
 - a. Bodily injury liability insurance
 - b. Collision insurance
 - c. Comprehensive physical damage insurance
 - d. Medical payments insurance
 - e. No-fault insurance
 - f. Property damage liability insurance
 - g. Uninsured motorist's insurance
7. Insurance that protects the insured against financial loss when the insured damages the property of others is called:
 - a. Bodily injury liability insurance
 - b. Collision insurance
 - c. Comprehensive physical damage insurance
 - d. Medical payments insurance
 - e. No-fault insurance
 - f. Property damage liability insurance
 - g. Uninsured motorist's insurance



LESSON 2

Activity 2: Hot Wheels!

Maria Andretti purchased an automobile insurance policy through an insurance agent at the Wilson Insurance Agency. Her policy includes the following:

- Bodily injury liability and property damage liability, stated as “100/300/50”
- Collision insurance with a deductible of \$500
- Comprehensive insurance with a deductible of \$250

Assume Maria is driving her car with a friend and is involved in an accident with another driver, who also has a passenger in the car. Everyone – drivers and passengers – sustains injuries and require medical care.

1. What insurance, if any, will cover the cost of injuries caused to the driver and passenger in the other car?
2. What insurance, if any, will cover the cost of Maria’s injuries and those of her friend who was also in the car?
3. What insurance, if any, will protect Maria against any lawsuits brought by the people in the other car or her friend?
4. What is the maximum amount the insurance company will pay on Maria’s behalf for any one person injured in the accident?
5. What is the maximum amount the insurance company will pay on Maria’s behalf if each person – drivers and passengers – sustain injuries that total \$80,000 per person?

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LESSON 2

6. What insurance, if any, will cover the cost of damages made to the other car?

7. What insurance, if any, will cover the cost of damage to Maria's car?

8. What amount will Maria's insurance company pay her and the driver of the other car if the damage to each car is estimated at \$1,250?

9. What is the maximum amount Maria's insurance company will pay for damage caused to the other car?

10. What insurance, if any, does Maria have that will cover the cost of damage to her automobile from events other than an accident, such as theft?

11. Assume Maria's car is damaged due to theft, and personal items are stolen from Maria's car. If damage to Maria's car is estimated at \$400 and her personal property is estimated or valued at \$300, what amount will the insurance company pay, if any? [Provide two answers: (1) assume Maria has met the deductible, and (2) assume Maria has not met the deductible.]



Home Insurance: Home Sweet Home

A homeowner's insurance policy covers both property and liability. Specifically, homeowners insurance covers structural damage to the home, loss of personal property, liability, and additional living expenses.

Homeowner's insurance will pay to repair or replace the home if it is damaged by a covered incident, such as fire, lightning, windstorm, or smoke. However, homeowner's insurance policies do not cover damage caused by floods and earthquakes. To obtain coverage for these events, you need to purchase supplemental coverage.

Homeowner's insurance covers the loss of personal items, such as clothes, furniture, and other personal property, up to a certain percentage of the insurance on the home. For example, if the contents of a home are insured up to 40% of the insurance on the home and the home is insured for \$300,000, the contents are insured for \$120,000 ($\$300,000 \times 40\%$). You can increase the coverage on the contents by paying a higher premium.

Homeowner's insurance also provides liability coverage, or financial protection, if someone is injured on the property.

In addition, homeowner's insurance covers the cost of hotel bills, restaurant tabs, and other living expenses if the insured is forced to live elsewhere while the home is being repaired or replaced.

When shopping for home insurance, you should consider the type of policy that is most appropriate. For example, the basic types of home insurance policies include a basic insurance policy, an insurance policy that covers the house and the contents, and insurance policies for renters, owners of condominiums, and older homes.

In addition to determining the type of insurance policy that is most appropriate, another consideration is the premium, or cost of insurance. The factors that determine the cost of an insurance policy are the amount of insurance and coverage, the amount of the deductible, the age of the home, the materials used to build the home, the location of the home, and the size—square footage and number of rooms – of the home.

Most homeowner's policies provide "replacement cost" coverage – versus "actual cash value" coverage – on the home and on personal property. It is important to note that replacement cost coverage provides more protection than actual cash value coverage. Replacement cost provides coverage to repair or replace the home or personal property at today's costs, whereas actual cash value provides coverage equal to the current replacement cost, less any depreciation or wear and tear.



Homeowner's insurance policies automatically cover the contents of the home — furniture, clothes, appliances, etc. — up to a percentage of the amount for which the house is insured. However, if you rent an apartment or a condominium, you need insurance to protect your belongings. The landlord or condominium association might have insurance, but that only protects the building — it does not cover the renter's personal property.

When you purchase renter's insurance, be sure to determine whether the insurance provides actual cash value or replacement cost on the contents or personal property. Actual cash value will only pay for what the property was worth as the time it was damaged or stolen, while replacement cost coverage will pay for the cost to replace the items.

Activity 1 – Am I Covered?!

1. State the four items that a standard homeowner's insurance policy covers.
2. Most homeowner's policies provide _____ coverage on the home and _____ coverage on personal property.
 - a. actual cash value; replacement cost
 - b. actual cash value; actual cash value
 - c. replacement cost; actual cash value
 - d. replacement cost; replacement cost
 - e. None of the above
3. Replacement cost coverage provides _____ protection than actual cash value coverage.
 - a. the same
 - b. more
 - c. less
 - d. None of the above
4. Replacement cost is:
 - a. the cost to repair or replace the home or personal property at today's costs
 - b. the cost to repair or replace the home or personal property, less any depreciation
 - c. Both a and b
 - d. None of the above

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Instructor's Solutions

Lesson 1, Activity 1: Insurance Planning 101

Molly is reviewing the following two insurance plans.

	Insurance Plan A	Insurance Plan B
Deductible	\$50	\$500
Co-payment	\$5	\$20
Out-of-pocket cost limit	\$500	\$1,000
Co-insurance provision	80% by the plan/ 20% by the insured	70% by the plan/ 30% by the insured

1. Which plan is most likely to have the lower premium and which plan is likely to have the higher premium? Explain your answer.

Plan A will have the higher premium compared to Plan B. Premiums are higher when the deductible, co-payment, and out-of-pocket limits are lower, and when the co-insurance provision gives the insurance company a greater portion of the cost of covered expenses relative to other plans. Premiums are lower when the deductible, co-payment, and out-of-pocket limits are higher, and when the co-insurance provision gives the insurance company a smaller portion of the cost of covered expenses relative to other plans.

2. Which plan should Molly select if she expects to incur a large amount of medical expenses? Explain your answer.

Molly should select Plan A if she expects to incur a large amount of medical expenses because the deductible, co-payment, and out-of-pocket limits are lower and the co-insurance provision gives the insurance company a greater portion of the cost of covered expenses.



Lesson 1, Activity 2: Harry's Health Care Plan

Harry is paid twice a month by his employer and pays \$75 each pay period for health care coverage. The plan that Harry selected requires him to pay all medical bills until his \$250 deductible is met. The details of the plan are as follows:

- \$20 co-payment for doctor visits and prescription drugs (The co-payments do not apply toward the deductible.)
- 100% coverage for prescription drugs after the co-payment is met
- 80% coverage for doctor visits after the co-payment and deductible are met
- 50% coverage for dental care after the co-payment and deductible are met
- 90% coverage for hospital tests after the deductible is met (There is no co-payment required for hospital visits.)
- No provision for eye care, glasses or contact lenses
- \$1,000 individual limit for out-of-pocket costs for covered services and hospital tests

1. How much does Harry pay each year for the health care plan provided by his employer?

\$1,800 = 24 pay-periods x \$75 per pay period

2. Harry takes a prescription drug for allergies that requires a refill every month. The cost of the prescription drug is \$100 per refill. What amount will Harry have to pay and what amount will the insurance company pay?

The insurance company will pay 100% of the cost for prescription drugs after the co-payment.

Yearly Cost:	\$1,200 (\$100 x 12 months)
Co-payment:	\$ 240 (\$20 x 12 months)
Insurance (100% after co-payment):	\$ 960 (\$80 x 12 months)

3. On March 10th, Harry went to the doctor for his annual physical. The doctor bill amounted to \$350. What amount will Harry have to pay and what amount will the insurance company pay?

The insurance company will pay 80% of the cost for doctor visits after the co-payment and deductible are met.

Harry will pay the \$20 co-payment and, since the deductible has not been met, any amount up to the deductible. In addition, Harry will also pay for 20% of the cost after the deductible is met.

Therefore, Harry pays \$286 (\$20 co-payment, plus \$250 deductible, plus \$16 co-insurance) and the insurance company pays \$64:

Cost	\$350
Less:	
Co-payment:	\$ 20
Deductible:	\$250
	\$270
Amount subject to co-insurance	\$ 80 = (\$350 - \$270)
20% co-insurance	\$ 16
80% co-insurance	\$ 64

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4. Harry went to the dentist for his annual check-up on April 20th. The cost of the visit was \$300. What amount will Harry have to pay and what amount will the insurance company pay?

Harry has met his deductible, so the insurance company will pay 50% of the cost – after Harry pays the \$20 co-payment – and Harry will pay 50% of the cost.

Therefore, Harry pays \$160 (\$20 co-payment, plus \$140 co-insurance) and the insurance company pays \$140:

Cost	<u>\$300</u>
Less:	
Co-payment:	<u>\$ 20</u>
Amount subject to co-insurance	<u>\$280</u>
50% co-insurance	<u>\$140</u>
50% co-insurance	<u>\$140</u>

5. On September 23rd, Harry went to the eye doctor and learned he needed glasses. The cost of the doctor visit was \$250 and the glasses cost \$400. What amount will Harry have to pay and what amount will the insurance company pay?

Harry's insurance plan does not cover eye care or glasses, so he is responsible for the entire cost: \$650.

6. What is the total out-of-pocket cost to Harry for covered services to date?

Prescription drugs (#2):	<u>\$240</u>
Annual physical (#3):	<u>\$286</u>
Dentist (#4):	<u>\$160</u>
	<u>\$686</u>

7. On October 16th, Harry had to undergo x-rays at the local hospital for what seemed to be a broken leg. The cost of the x-rays was \$4,000. What amount will Harry have to pay and what amount will the insurance company pay?

The insurance company will pay 90% of the cost for hospital tests after the deductible is met, and Harry is responsible for 10% of the cost. The deductible has been met, however, if Harry pays 10% of the cost, or \$400 (\$4,000 x 10%), he will exceed the \$1,000 individual limit for out-of-pocket costs for covered services and hospital tests. (To date, his out-of-pocket costs are \$686).

Therefore, Harry will pay \$314 (\$1,000 out-of-pocket limit, less \$686 out-of-pocket costs incurred to date), and the insurance company will pay the difference, \$3,686 (\$4,000, less \$314).

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8. What is the cost to Harry for covered services and all services thus far, including the cost of premiums?

Covered services:	
Prescription drugs (#2):	\$ 240
Annual physical (#3):	\$ 286
Dentist (#4):	\$ 160
Hospital tests (#7)	<u>\$ 314</u>
	\$1,000
Non-covered services*:	\$ 650
Insurance premiums (#1)	<u>\$1,800</u>
	<u>\$3,450</u>

*Eye care and glasses (#5)

9. What amount has the insurance company paid thus far to provide medical coverage?

Prescription drugs (#2):	\$ 960
Annual physical (#3):	\$ 64
Dentist (#4):	\$ 140
Hospital tests (#7)	<u>\$3,686</u>
	<u>\$4,850</u>

10. If Harry did not have health insurance, what amount of medical expenses would he be responsible for during the year?

Covered services:	
Prescription drugs (#2):	\$1,200
Annual physical (#3):	\$ 350
Dentist (#4):	\$ 300
Hospital tests (#7)	<u>\$4,000</u>
	\$5,850
Non-covered services*:	<u>\$ 650</u>
	<u>\$6,500</u>

*Eye care and glasses (#5)

11. By participating in his employer-sponsored health care plan, how much money did Harry save during the year?

		Or*	
Cost without insurance (#10):	\$6,500		\$5,850
Cost with insurance (#8):	<u>\$3,450</u>		<u>\$2,800</u>
Savings provided by insurance	<u>\$3,050</u>		<u>\$3,050</u>

*Excludes cost eye care and glasses, \$650 (#5)



Lesson 2, Activity 1: Cover Me!

1. Insurance that covers the cost of medical expenses and the cost of health care of those in the insured's automobile that were injured, including the insured is:
d. Medical payments insurance
2. Insurance that covers the cost of injuries to the insured and his or her passengers if the insured is in a "hit-and-run" accident or in an accident with some one that does not have insurance, or when the other driver does not have adequate coverage for the damages caused to the insured is called:
g. Uninsured motorist's insurance
3. Insurance that protects the insured against financial loss caused by fire, theft, and vandalism is called:
c. Comprehensive physical damage insurance
4. Insurance that covers the cost of injuries to people involved in an accident and protects the insured against financial loss from lawsuits and other legal expenses incurred as a result of an accident is called:
a. Bodily injury liability insurance
5. Insurance that covers the cost of damage to the insured's automobile, regardless of whether the insured caused the accident is called:
b. Collision insurance
6. Insurance that allows the insured to collect medical expenses, lost wages and injury costs from their insurance company as a means to expedite paying for damages until the process of determining fault is completed is called:
e. No-fault insurance
7. Insurance that protects the insured against financial loss when the insured damages the property of others is called:
f. Property damage liability insurance



Lesson 2, Activity 2: Hot Wheels!

Maria Andretti purchased an automobile insurance policy through an insurance agent at the Wilson Insurance Agency. Her policy includes the following:

- Bodily injury liability and property damage liability, stated as “100/300/50”
- Collision insurance with a deductible of \$500
- Comprehensive insurance with a deductible of \$250

Assume Maria is driving her car with a friend and is involved in an accident with another driver, who also has a passenger in the car. Everyone – drivers and passengers – sustains injuries and require medical care.

1. What insurance, if any, will cover the cost of injuries caused to the driver and passenger in the other car?

Bodily injury liability insurance covers the cost of injuries sustained by people in the other auto.

2. What insurance, if any, will cover the cost of Maria’s injuries and those of her friend who was also in the car?

The medical payments section of the bodily injury insurance covers the cost of injuries sustained by the insured and other people in the insured’s auto.

3. What insurance, if any, will protect Maria against any lawsuits brought by the people in the other car or her friend?

Bodily injury liability insurance protects the insured from financial loss from lawsuits and other legal expenses incurred as a result of an accident.

4. What is the maximum amount the insurance company will pay on Maria’s behalf for any one person injured in the accident?

The insurance policy provides coverage for bodily injury liability and property damage liability, and is stated as “100/300/50,” which means Maria has insurance against: (1) bodily injury liability, which will pay a maximum of \$100,000 to any one person and \$300,000 for any one accident; and, (2) property damage liability, which will pay a maximum of \$50,000 for damage caused to another’s auto.

Therefore, the maximum amount the insurance company will pay on Maria’s behalf for any one person injured in the accident is \$100,000. Although the policy (100/300) states that it will pay a maximum of \$300,000 for any one accident, it also states that it will only pay a maximum of \$100,000 per person per accident.

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5. What is the maximum amount the insurance company will pay on Maria's behalf if each person – drivers and passengers – sustain injuries that total \$80,000 per person?

The maximum amount the insurance company will pay is \$300,000.

The insurance policy provides coverage for bodily injury liability and property damage liability, and is stated as "100/300/50," which means Maria has insurance against: (1) bodily injury liability, which will pay a maximum of \$100,000 to any one person and \$300,000 for any one accident; and, (2) property damage liability, which will pay a maximum of \$50,000 for damage caused to another's auto.

There are four people involved in the accident: Maria and her passenger, and the other driver and passenger. If each sustains injuries of \$80,000, the total cost of the injuries is \$320,000. However, the maximum amount the insurance company will pay on Maria's behalf for any one accident is \$300,000. The policy (100/300) states that it will pay a maximum of \$100,000 per person per accident, however it also states that it will only pay a maximum of \$300,000 for any one accident.

6. What insurance, if any, will cover the cost of damages made to the other car?

Property damage liability insurance covers the cost of damage caused to others' property.

7. What insurance, if any, will cover the cost of damage to Maria's car?

Collision insurance covers the cost of damage caused to the insured's auto, regardless of who caused the accident.

8. What amount will Maria's insurance company pay her and the driver of the other car if the damage to each car is estimated at \$1,250?

Maria has collision insurance, which covers the cost of damage to her car. However, the policy has a \$500 deductible. Therefore, Maria must pay the first \$500 and the insurance will pay the remaining amount, \$750.

Maria has property damage liability insurance, which covers the cost of damage caused to others' property. There is no deductible, so Maria's insurance company will pay the other driver \$1,250.

9. What is the maximum amount Maria's insurance company will pay for damage caused to the other car?

The insurance company will pay a maximum of \$50,000 for damage caused to the other car and other peoples' property.

The insurance policy provides coverage for bodily injury liability and property damage liability, and is stated as "100/300/50," which means Maria has insurance against: (1) bodily injury liability, which will pay a maximum of \$100,000 to any one person and \$300,000 for any one accident; and, (2) property damage liability, which will pay a maximum of \$50,000 for damage caused to another's auto.

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10. What insurance, if any, does Maria have that will cover the cost of damage to her automobile from events other than an accident, such as theft?

Comprehensive (physical damage) insurance.

11. Assume Maria's car is damaged due to theft, and personal items are stolen from Maria's car. If damage to Maria's car is estimated at \$400 and her personal property is estimated or valued at \$300, what amount will the insurance company pay, if any? [Provide two answers: (1) assume Maria has met the deductible, and (2) assume Maria has not met the deductible.]

Maria is covered by comprehensive insurance, which covers damage to an auto caused by theft. Maria's deductible is \$250. If Maria has met the deductible, the insurance company will pay \$400. If Maria has not met the deductible the insurance company will pay \$150 (\$400 - \$250).

Comprehensive insurance, however, does not the contents in the car, i.e., her personal property. Therefore, the insurance company will not pay for the loss of her personal property.

Lesson 3, Activity 1 – Am I Covered?!

1. State the four items that a standard homeowner's insurance policy covers.

- **Structural damage to the home**
- **Loss of personal property**
- **Liability**
- **Additional living expenses**

2. Most homeowner's policies provide _____ coverage on the home and _____ coverage on personal property.

d. replacement cost; replacement cost

3. Replacement cost coverage provides _____ protection than actual cash value coverage.

b. more

4. Replacement cost is:

a. the cost to repair or replace the home or personal property at today's costs

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5. Actual cash value is:
b. the cost to repair or replace the home or personal property, less any depreciation
6. If you rent an apartment or a condominium, you need insurance to protect:
c. Your belongings
7. A TV was stolen from an insured's home while she was on vacation. The TV was three years old, and cost the insured \$700. The value of the TV when it was stolen was \$300. What amount, if any, will the insurance company pay under a standard policy?

\$700. A standard homeowner's insurance policy pays "replacement cost" on personal property.

8. An insured purchased a standard homeowner's insurance policy that provides \$400,000 of coverage on the home and 70% coverage on the contents. If the home and the contents were destroyed in a fire, what amount will the insurance company pay?

\$680,000. The insurance company will pay \$400,000 to replace the home and \$280,000 ($\$400,000 \times 70\%$) to replace the contents, or personal property.

9. An insured purchased a standard homeowner's insurance policy that provides \$500,000 of coverage on the home and 60% coverage on the contents. If the home and the contents were destroyed in a flood, what amount will the insurance company pay?

Nothing, \$0. A standard homeowner's insurance policy does not provide coverage or protection against loss from floods or earthquakes. The insured would be covered only if he or she had a flood insurance policy.