



What do other high school students know about insurance?

We asked teens to tell us why they think insurance is necessary.

"Insurance is something that will pay for medical help. It's money for any medical problems you will have now or in the future."

Junior, Mississippi

"There are different types of insurance to insure different things like your house or car. Then there is life insurance, which will help your family if you die."

Sophomore, Florida

"Everyone needs life insurance, which some people also call 'death insurance.'"

Senior, Missouri

"Insurance covers liability and protects you. It provides cash for accidental occurrences."

Senior, Florida

Before You Begin

Learning Outcomes

Once you've completed this chapter's videos, you will be asked to return to this list of learning outcomes and place a checkmark next to the items you've mastered.

Section 1: Protecting Your Wealth

- Explain why insurance is an essential part of a healthy financial plan.
- Identify ways to lower the cost of insurance premiums.
- Identify insurance for the types of risks that young adults might face.

Section 2: Basic Types of Coverage

- Identify common types of risks.
- Distinguish between necessary and unnecessary types of coverage.
- Understand the importance of identity theft protection.
- Understand the importance of property and liability protection.

Section 3: The Importance of Life Insurance

- Differentiate between term and cash value life insurance.
- Explain how one becomes self-insured.
- Examine the purpose and importance of a will.

Section 4: Insurance to Avoid

- Know what types of insurance to avoid and why.

Key Terms

Get to know the language of money.

- » **Beneficiary:** The recipient of assets passed on from the death of a friend or relative
- » **Claim:** Paperwork filed with an insurance company in order to get them to cover a loss for someone they insure
- » **Coverage:** Applies to the amount of protection you have through an insurance company in the event of a loss
- » **Deductible:** Amount you must pay before you begin receiving any benefits from your insurance company
- » **Liability:** The state or quality of being obligated according to law or equity
- » **Out-of-pocket expense:** Specific amount of money that you pay when insurance only covers a portion of costs
- » **Policy:** Describes the type of coverage in an insurance agreement
- » **Premium:** Amount you pay monthly, quarterly, semiannually or annually to purchase different types of insurance
- » **Will:** A legally enforceable declaration of how a person wishes his or her property to be distributed after death

Measure Your Progress

Before watching the video, read each statement below and mark whether you agree or disagree in the "Before" column. Then, after watching the video, do it again using the "After" column to see if you changed your mind on any statement.

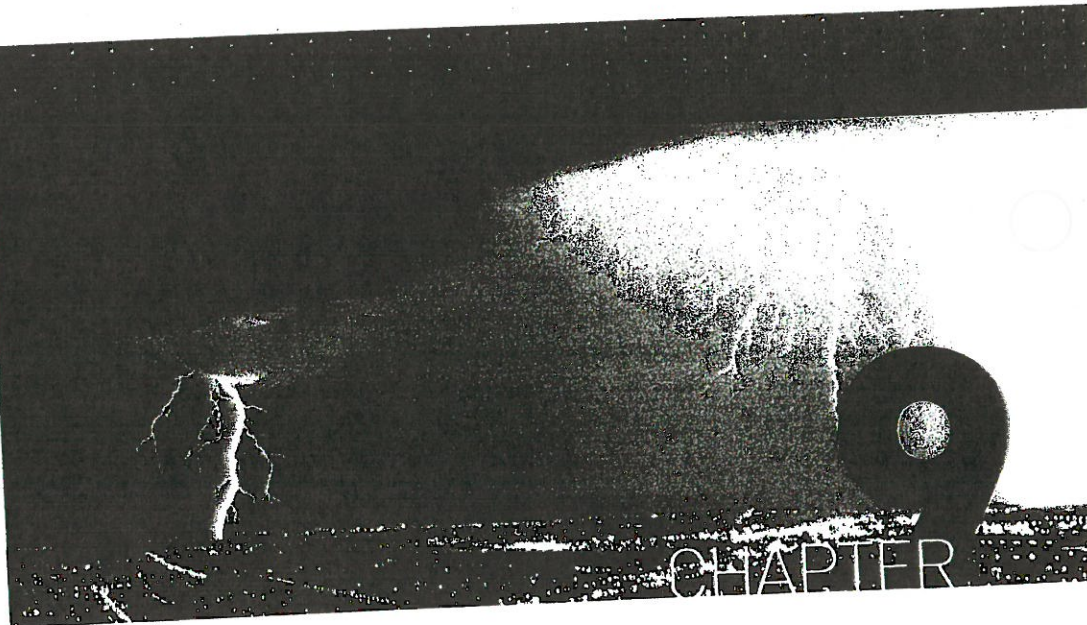
BEFORE			AFTER	
Agree	Disagree		Agree	Disagree
<input type="checkbox"/>	<input type="checkbox"/>	1. Insurance rates can vary depending on the company, and I can save money if I shop around.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	2. I must always have collision insurance on my automobile, even if it's an old car that's not worth much.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	3. If an employer offers me health insurance but requires me to pay part of the premium, it is not a good deal, and I shouldn't get it.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	4. I only need to have renter's insurance if I have a lot of valuable items.	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	5. Everyone should have life insurance.	<input type="checkbox"/>	<input type="checkbox"/>



What do you think is the purpose of insurance?

*"It is unwise to hope
for the best without
preparing for the
worst."*

ANONYMOUS



Section 1: Protecting Your Wealth

The Role of Insurance in Your Financial Plan

WE GET IT. Insurance may be one topic where you begin to yawn a little bit. Let's face it: No one really likes spending money on insurance. There are many other things that are more fun to spend money on. But, while we hope we never have to use it, insurance is a necessary part of a healthy financial plan. Why? Because insurance transfers the financial risk of life's major catastrophes. Chances are that something major and unexpected is going to happen at some point during your lifetime. Insurance will protect your wealth during those events.

- » While paying insurance premiums may feel like you're losing money, in the end it really helps you keep more of it.
- » It's important to remember that insurance is a financial product, which means that the buyer should beware. When the consumer is armed with information, the consumer makes different decisions.

» Insurance is an essential financial planning tool. You'll want to make sure you get only the coverage you need at the best possible price.

» The purpose of insurance is to transfer risk.

» Without proper insurance, certain losses can bankrupt you. Conventional wisdom says that you should transfer risk.

» Insurance puts an umbrella over your life, the hard work that you've done, the money you've saved, and the money that you have to invest.

Property and Casualty (P&C) insurance is a \$442 billion industry (2011 net premiums written).

Insurance Information Institute

Thirty-five insurance companies are listed on the 2012 Fortune 500 annual ranking of America's largest corporations. Eighteen of these top companies are in the P&C insurance sector.

Fortune Magazine

The 7 Basic Types of Coverage Needed

1. Homeowner's or Renter's Insurance
2. Auto Insurance
3. Health Insurance
4. Disability Insurance (when you are established in your career)
5. Long-Term Care Insurance (when you are 60 or older)
6. Identity Theft Protection
7. Life Insurance (when you have dependants who rely on your income)

Ways to Save Money on Your Premium

» If you have a full emergency fund, the best way to keep your premiums down is to raise your deductible.

*** NOTE:** An emergency fund for high school and college students is typically \$500 or more; for adults, it should be a full three to six months of living expenses.

RAISE YOUR DEDUCTIBLE TO KEEP THE PREMIUMS DOWN.

Calculate how much you're saving and compare that with the extra expense you will have if you suffer a loss. It has to be worth the cost to transfer risk.

Any time you're shopping for insurance, go to an independent insurance agent and let them shop among many different plans and companies.

Health, disability, auto, homeowner's, identity theft, long-term care and life insurance catch the big stuff. You handle the little stuff with an emergency fund and solid financial planning.

» A deductible is what you have to pay out of pocket before the insurance company kicks in any money.

» Make sure you carry adequate liability. Liability covers property damage and medical bills if you're at fault in a car wreck or if someone gets hurt on your property.

» Consider dropping your collision on older cars. That's the insurance that pays to fix your own car.



Explain why insurance is an important part of your financial plan.

Section 2:

Basic Types of Coverage

Basic Parts of Auto Insurance

Auto insurance protects you against financial loss if you are in a car accident or if something else causes damage to your car. Here are the basic components of an auto insurance policy:

» **Liability** covers medical costs and property damage of the other driver if you get in a wreck and it's your fault. It is the least expensive part of your car insurance. You should always get really good coverage limits.

WHAT KINDS OF INSURANCE DO I NEED AFTER HIGH SCHOOL?

After high school, you'll probably need to have four types of insurance:

1. Car
2. Health
3. Identity Theft
4. Renter's

Need Another Reason to Pay Cash for Your Car?

"My car was recently totaled, but I had full-coverage insurance. The problem is the bank is asking for \$3,000 in 30 days because I did not have gap insurance. What is gap insurance? I thought I would finally be done with these car payments because the insurance would take care of everything, but now I have this bill. What can I do?"

DAVE'S ANSWER: Gap insurance covers the difference between what you owe on a car and what the insurance company says it is worth. That is what happened to you. Your full-coverage policy paid for the current value of the car, but that is less than what you owe the bank. Since you no longer have the car as collateral, the bank is calling their note.

Gap insurance can be pretty expensive, which is another reason not to buy a new car on credit. The minute you drive off the car lot with a new car, it loses value and if you get into an accident, there will be a gap that you are responsible for unless you have this gap insurance. All you can do right now is pay the bank what you owe and move on, lesson learned.



BREAK-EVEN ANALYSIS:

Method used to evaluate the wisdom of a financial decision by determining the length of time it will take for the cost of the decision to be recouped

BEFORE DROPPING COLLISION ON YOUR CAR, CONSIDER THIS:

Since collision insurance rates have dropped over the years, you'll want to do a break-even analysis to see how many years you'd need to go without a wreck for it to make sense. For example, if you have a \$4,000 car and dropping collision would save you \$800 a year on premiums, you'd need to go five years without a wreck to break even.

Basic Parts of Auto Insurance *(Continued)*

- » **Medical payment coverage** pays for all accident-related medical costs incurred by you or your family members within three years of an accident.
- » **Collision insurance** covers damage to your car if it is hit by another car or object. If you owe money on your car, the lien holder will require collision coverage. It's still not a bad idea even if you own your car or if it's old. The insurance coverage will replace your car if totaled in a wreck—and you won't be stuck walking.
- » **Comprehensive** coverage takes care of damage to your car not caused by a collision. If your car is stolen, damaged by fire, flood or hail for example, your policy will pay to repair or replace it.
- » **Uninsured/underinsured motorist protection** covers your costs if you are injured by an uninsured motorist or if you are injured in a hit-and-run accident.

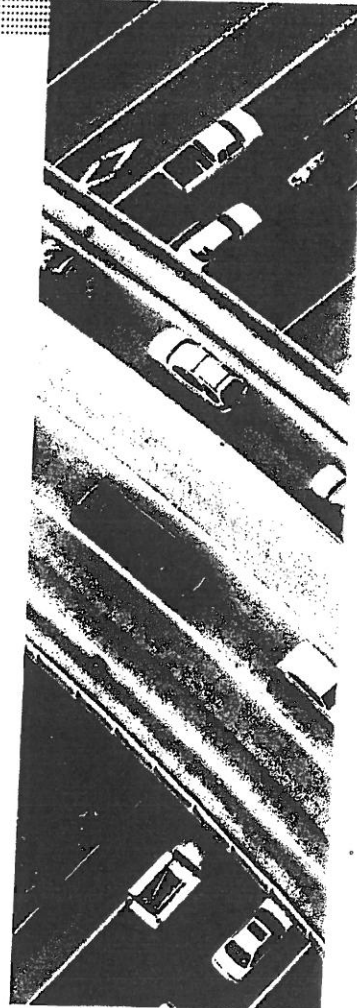
How Can I Get a Good Deal on Car Insurance as a Teen Driver?

- » Get good grades. Insurance companies assume that if you're a responsible student you are more likely to be a responsible driver.
- » Take a driver education class.
- » Shop around. Insurance is a product! Make sure you are getting the best deal for your money.
- » Stay on your parents' policy through college if possible in order to benefit from multi-car discounts.

According to the federal Centers for Disease Control and Prevention (CDC), crash rates per mile driven for 16- to 19-year-olds are four times higher than those of older drivers. This makes teen drivers the most expensive to insure.

Top Things to Know About Auto Insurance

- 1. You're a statistic.** To an insurer, you're not a person—you're a set of risks. An insurer bases its decisions on your "risk factors," including some things that may seem unrelated to driving a car.
- 2. Insurers differ.** Prices can vary from company to company. You can save money by comparison shopping.
- 3. Don't just look at price.** A low price is no bargain if an insurer takes forever to service your claim. Research the insurer's record for claims service, as well as its financial stability.
- 4. Go beyond the basics.** Although most states require only a minimum of liability coverage, you should look for a minimum coverage of \$500,000.
- 5. Demand discounts.** Insurers provide discounts to reward behavior that reduces risk. However, Americans waste \$300 billion a year because they forget to ask for discounts!
- 6. At claims time, your insurer isn't necessarily your friend.** Your idea of fair compensation may not match that of your insurer. Their job is to restore you financially. Your job is to prove your losses so that you get what you need.
- 7. Prepare before you have to file a claim.** Keep your policy updated and reread it before you file a claim so there are no surprises.



Homeowner's and Renter's Insurance

The average renter's policy costs about \$16 per month.

National Association of Insurance Commissioners

Most people don't realize how affordable renter's insurance is. An InsuranceQuotes.com survey found that 60% of renters believed renter's insurance must cost \$250 a year or more; 21% guessed it would cost \$1,000 or more.

When you're ready, the purchase of a home is likely one of the largest single purchases you will ever make. It will need to be protected through a homeowner's insurance policy. This

policy will cover the costs of repairing or replacing your home in the event that it is damaged or destroyed by fire, storms, theft and a variety of other possible causes.

- » Homeowner's insurance should be "guaranteed replacement cost" instead of extended replacement cost.
- » When you are ready to move out of your parents' house, you need to have renter's insurance, which covers the contents of the renter's apartment in the event of fire, storm or theft.
- » Umbrella liability policies are a good buy once you have some assets. An umbrella policy gives you additional liability protection above your other policies.



What are some ways you can save on car insurance?

Health Insurance

You may think that because you are young and healthy that health insurance is not necessary, but you'd be wrong. *Everyone* needs to have health insurance. Medical emergencies due to injury or illness can occur to anyone at any time. And with the ever-rising cost of health care, you need to be prepared.

Save on Your Health Insurance Premiums

- » Just like with auto insurance, staying on your parents' health insurance policy until you're out of school and on your own will lower your costs.
- » Increase your deductible and/or coinsurance amount.
- » Increase your stop-loss, but never decrease your maximum pay. Stop-loss is your maximum out-of-pocket expense.
- » See if an HSA, a Health Savings Account, would make sense for your situation.
- » The HSA is a tax-sheltered savings account for medical expenses that works with a high-deductible insurance policy.

GROUP VS. INDIVIDUAL HEALTH PLANS

A group health plan is an employee benefit plan maintained by an employer or by an organization (such as a union) that provides medical care for participants and/or their dependents through insurance, reimbursement or otherwise. The two main advantages of group plans are that they spread the risk over the entire group to keep premiums stable and they cannot deny you coverage based on health issues.

A smaller percentage of Americans are covered through individual health insurance plans that are purchased in the open market—meaning that they are not provided by a group or an employer. People generally choose this option because they are self-employed, retired early, or do not have a spouse with group coverage. These plans are sometimes more expensive than group plans and can deny coverage if you have a history of poor health.

On average, the cost of a trip to the hospital via ambulance is anywhere from \$350 to as much as \$2,000.

howmuchisit.org

In a recent study, researchers found that the average charge for an emergency room visit came out to \$1,233, which is 40% higher than the average American rent right now, \$871 per month.

The Washington Post

The Basic Components of Health Insurance

- » **Basic health insurance** policies cover hospital, surgical and physician expenses.
- » **Major medical expense insurance** covers medical costs that are in excess of those covered by basic health insurance.
- » **Dental and eye insurance** plans cover only expenses for dental work and expenses related to eye care.
- » A **copayment** is an amount of money you pay to help cover a portion of your medical costs. Copayments may be a set amount or a percentage of the total cost, depending on your insurance policy.
- » A **deductible** is the amount you must pay before you begin receiving any benefits from your insurance company.

*** NOTE:** There are currently many changes going on in our health care system. It's important for you to stay educated on these changes and how they relate to your health insurance needs.



Explain why having health insurance is important even if you are young and healthy.

Long-Term Care Insurance


Long-term care is care that you need if you can no longer perform everyday tasks by yourself. Causes may be chronic illness, injury, disability or advanced age. Your odds of needing this level of care increase as you get older.

- » Long-term care insurance is for nursing homes, assisted living facilities or in-home care.
 - » A good long-term care policy will include in-home care.
 - » You should not buy long-term care insurance until age 60. The probability of a nursing home stay before age 60 is almost zero.
- At least 69 % of people over the age of 65 will require long-term care at some point.
- » Long-term care insurance is *not* the same as disability or short-term medical care.

REAL LIFE

Some companies will do anything to make a buck—including insurance companies. Here are a few bizarre examples of actual insurance plans available:

- Alien abduction insurance
- Pet insurance
- Wedding insurance



At what stage of life will the cost of your healthcare needs be most expensive?

Disability Insurance

THINGS TO REMEMBER ABOUT DISABILITY INSURANCE

Disability insurance is a long-term solution. Your short-term needs should be covered by a full emergency fund of three to six months of expenses.

Buy disability with after-tax dollars. If you become disabled and you bought disability insurance with pre-tax dollars, your disability income will be taxable.

OCCUPATIONAL

DISABILITY: Type of insurance that provides an income in case the insured becomes unable to perform the job he/she was educated or trained to do

Disability insurance is designed to replace income lost due to a short-term or permanent disability. It basically provides an income for you if you have an accident or health condition that prevents you from working. Once you are working full time to support yourself, you will need to have disability coverage.

- » Try to buy disability insurance that pays if you cannot perform the job that you were trained or educated to do.
- » That is called occupational or "own occ" disability. Many times, this is only available for two years.
- » Beware of short-term policies covering less than five years. Short-term disability should be covered by your emergency fund, staying out of debt, and having a money plan.
- » Disability insurance is most affordable if it is offered through your employer.
- » Your coverage should be for 65% of your current income.
- » The elimination period is the time between the disabling event and when the payments actually begin. A longer elimination period will lower your premium cost.

Identity Theft Protection

The fastest growing white-collar crime in North America today is identity theft. Identity theft happens when someone gains unauthorized access to your personal information.

According to identityhawk.com, young adults ages 18 to 24 are at the highest risk. It takes people in this age range 132 days on average to notice fraudulent activity on their accounts.

- » Don't buy identity theft protection that only provides credit report monitoring. Credit report monitoring is something you can, and should, do yourself.
- » Good protection includes restoration services that assign a counselor to clean up the mess. This means someone else will spend the time it takes to clean up the mess so you won't have to.

Remember, insurance is all about transferring risk. In this case, you're paying someone to take on the risk of cleaning up the aftermath of your stolen identity. This is someone who is ready, willing and able to go to battle with banks and creditors that will come after you to collect the debts that the thief created in your name.

Explain why identity theft protection is so important.

DO I HAVE TO PROVIDE MY SOCIAL SECURITY NUMBER TO ANY BUSINESS OR GOVERNMENT AGENCY THAT ASKS?

Go to foundationsU.com/sshelp to find out when it's necessary and when it's not!

- 38% of ID theft victims had a debit or credit card number stolen.
- 43% of all ID theft is a result of stolen wallets and paperwork.
- About 11% of all identity theft occurs through the internet.
- 40% of victims report profound stress in their personal lives as a result of identity theft.

identityhawk.com

WHITE-COLLAR CRIME:
Financially motivated,
nonviolent crime

Section 3:

The Importance of Life Insurance

WHAT DOES IT MEAN TO BE SELF-INSURED?

If you follow the Five Foundations, you will begin investing when you finish school and begin working in your career. Then, when you are 57 years old and the kids are grown and gone, the house is paid for, you have no debt, and you have \$700,000 in mutual funds, you'll become self-insured. That means when your 20-year term is up, you shouldn't need life insurance at all—because with no kids to feed, no house payment, and \$700,000 in the bank, your spouse will be financially secure in the event of your death.

Life insurance provides a monetary payout to **beneficiaries** (the person or people you elect to receive money or other assets) in the event of your death. The **financial risk** associated with death is the loss of income necessary to support your family.

» Life insurance is to replace lost income due to death.

» Two Types of Life Insurance:

1. Term insurance is for a specified period, is substantially cheaper, is easy to understand, and has no savings plan built into it. It has one job and one job only: It replaces your income when you die.
2. Cash value insurance is normally for life and is more expensive because it funds a savings plan.

» The most common insurance myth is that the need for life insurance is a permanent situation.

» If you save, invest, stay out of debt, and have a solid financial plan, you will eventually become self-insured.

» When purchasing life insurance, you should buy only low-cost level term. **Level term** means you pay the same amount for the entire term of the policy.



Which type of life insurance is the better option, term or cash value? Explain your answer.

The Purpose and Importance of Estate Planning

"I'm a teenager. Why should I care about a will now?"

DAVE'S ANSWER: Once you turn 18, you will need to create a will. The truth is you have no idea when you'll pass away. It's not pleasant to think about, but it's important to be ready. You'll have valuable items that will be left behind, and you do not want the state deciding where your money or belongings should go.

A will includes your final wishes for your family and friends, so take your responsibility seriously. You should identify people in your life who will receive these valuables, or assets. Do not rely on your state government to distribute your wealth.

* **NOTE:** Get more information on creating a will by completing the Chapter 9 activity "What's With the Will?"

Signature



**Budget
Builder**

Insurance is the thing
Budgets are made of
and appreciated
when you need it. Go
to
Building your premium
into your budget.

Section 4: Insurance to Avoid

Bad Ideas in the Insurance World

- » Credit life/disability: pays off a borrower's debt if that borrower dies or becomes disabled (your term life insurance already covers this)
- » Credit card protection: insures your credit card debt (you should avoid owning a credit card, period)
- » Cancer and hospital indemnity insurance: insures you against cancer or other medical issues (your health insurance already covers this)
- » Accidental death: insures you against unexpected accidents that cause your death (your term life insurance already covers this)
- » Any insurance with cash value, investments or refunds: anything that combines insurance with investments is a bad idea
- » Prepaid burial policies: if invested instead, this money would pay for the burial policy many times over
- » Mortgage life insurance: pays off your home mortgage if you die unexpectedly or become disabled (your term life insurance, which is 10 to 15 times cheaper, already covers this)



Build On What You've Learned

Complete the graphic organizer below.

TYPE OF INSURANCE NEEDED	FINANCIAL RISK COVERED	STAGE OF LIFE NEEDED
1. Homeowner's or Renter's		
2.	Cost of damage to your vehicle, liability and medical in the event of an accident or other event that may damage your vehicle	
3. Health		You should always have health insurance.
4.	Your income in the case of illness or injury that prevents you from working	
5.		At age 60 and above
6. Identity Theft Protection	The cost of hiring someone who has the time and knowledge to clean up the mess	
7.		When you have dependants who rely on your income until you become self-insured