OKLAHOMA STATE DEPARTMENT OF
EDUCATION
CHAMPION EXCELLENCE

Different Types of Insurance

Standard 11

The student will describe and explain how various types of insurance can be used to manage risk.

Lesson Objectives

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

Personal Financial Literacy Vocabulary

Claim: A written request submitted to your insurance carrier to cover a loss.

Deductible: The dollar amount or percentage of a loss that is not insured, as specified in an insurance policy.

Premium: The fee paid for insurance protection.

Introduction

The ambulance pulled up while people were looking at the smashed cars. At least no one was badly injured. Jermaine had gotten his car last week. At least he had car insurance to get it repaired. But, he had failed to sign up for health insurance at work, even though his mom kept reminding him. After all, he was busy keeping up with work and school, and he needed the money to make his car payments. Besides, he was a healthy young man and never thought he would really need health insurance anyway.

Now the paramedics say his arm is broken, and he is in great pain. The ambulance could take him to City Hospital, but he will have to pay the bill at the emergency room in addition to the ambulance. How is he going to pay for everything, and how is he going to work with a broken arm?

What do you think his mom will say now?

Lesson

Insurance is one of the most important tools in your of your risk management plan. By purchasing insurance, you transfer your risk to a third party – an insurance company. While it can be an inconvenience to pay the premiums, it can be a great investment when trouble arises. Today, you can insure almost anything, but not all insurance is necessary to have. Understanding the different kinds of insurance and evaluating your potential losses will help you make more informed choices about what kinds of insurance are most beneficial.

Lloyd's of London is one of the oldest and most famous insurance groups in the world. It has issued insurance policies on several rather interesting and unique things, including Mariah Carey's legs, Jimmy Durante's nose, Bruce Springsteen's voice, America Ferrera's smile, and Dolly Parton's body. Others include John Schnatter, the founder of Papa John's Pizza who insured his hands for $15 million and former Pittsburgh Steeler's safety Troy Polamalu who insured his curly, waist-length hair for $1 million. Of course, most insurance companies are not quite as exotic with their policies. They tend to provide insurance for routine things such as cars, houses, and boats.

When getting an insurance policy, you pay a premiums to cover cost of the policy which also covers the potential loss of your belongings. Insurance companies take premiums from all of their policyholders and pool them together to pay for any future claims filed by their clients. By using this pooling process, they can charge lower prices and provide more services for their customers than having one person pay for every potential loss they may suffer.

Insurance premiums are based on the potential risk and potential losses they will have to pay to the group members. While insurance premiums sometimes seem rather high, the rates vary from person to person—depending upon personal risk factors such as age, health, personal behaviors, employment, and credit ratings. In return for paying the premium, you receive an insurance policy from the company explaining your rights and responsibilities when using the insurance. An insurance policy is simply a contract between you and the insurance company outlining what is covered, the limits of your coverage, and whatever procedures you must follow to maintain the policy and collect payments for your losses.

While the insurance company pays a large percentage of your loss, you will generally be responsible for paying part of it as well. The additional amount you pay when filing a claim with the insurance company is called the deductible. The deductible is the term used for the amount you, the insured, are willing to pay before your insurance policy picks up the remainder of the cost. It represents the portion of the risk you are prepared to cover from your personal savings. You will often hear the phrase "after you meet your deductible" to indicate the amount you must pay before your insurance policy takes effect.

When making insurance choices, you should consider the following:

- Is this insurance necessary? If the potential loss is large, it could be financially devastating to you and your family. If the potential loss is small, you may have savings or other financial resources to cover it without insurance.
- How much insurance is needed? Do you want to cover the minimum loss, or do you need to cover the cost to replace your loss?
- How much will it cost? Do the benefits of purchasing the insurance outweigh the costs?

Types of Insurance

There are many different types of insurance, almost more than you can list. Whether it is health, disability, life, homeowners, renters, or auto insurance, understanding how insurance companies calculate risk and the standard features of each type will help you make the best choices for your personal needs. Some of the more common types of insurance and a brief overview of them include:

Health Insurance. What happens when you go to the doctor? Perhaps one of your family members has health insurance that covers your medical expenses. While you may be covered by someone else's insurance now, you will soon be in a position to make your own choices about health insurance. Sometimes called medical insurance, health insurance helps protect you and your family from expensive or unexpected health care-related expenses such as doctor's appointments, hospitalization, prescriptions, and other similar costs. Originally, health insurance was designed to cover "catastrophic" health-related expenses, but it has been gradually expanded to include more preventative care options including immunizations, wellness visits to the doctor, and special health screenings.

In some cases, your employer will pay all or part of your premiums as part of your benefit package with the company. Having a group policy through your employer is generally less expensive than buying it on your own because the policy will cover people who rarely use their insurance along with those who have greater health needs. When buying insurance on your own, your premiums will consider your age, location, tobacco use, individual vs family policy, and the type of plan you select (primarily based on the amount of the deductible.)

Insurance policies do not cover all health care costs; you are still responsible for certain out-of-pocket costs, deductibles, and co-payments. These expenses can vary greatly and become budget-breakers if not carefully considered. A co-payment is the amount pay each time you visit a health care provider; these may be as low as $25 or as much as $100 per appointment. You may also have to pay the deductible, which is the amount of out-of-pocket expenses you will pay before your health insurance starts paying any of your medical costs.

Co-payments, premiums, and out-of-pocket expenses depend upon the type of health insurance you have. A plan called a PPO tends to have more out-of-pocket costs than an HMO, but PPOs offer more flexibility when choosing a doctor and other services. A PPO is a "preferred provider organization," and an HMO is a "health maintenance organization."

In addition to deductibles and co-payments, most health insurance policies use the principle of co-insurance, which is the percentage of your medical costs you will need to pay after meeting your deductible. Most policies specify the insurance company will pay about 80% of your medical costs and you pay the other 20%. However, that percentage can vary from one policy to another, making it an important factor to consider before making a final decision about which policy to choose.

The best health insurance plan for you is the one that gives you the greatest flexibility and the most benefits for the lowest cost. There is no standard health insurance plan or a "one-size-fits-all" policy. You will need to compare costs and benefits before choosing a plan.

Disability Insurance: Disability insurance, also known as disability income insurance, is another type of medical coverage. It 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. Most disability insurance pays a fixed amount for a certain number of months, while others pay a monthly amount as long as you are unable to work. Some employers offer disability insurance as part of their benefits package.

Medicare: Medicare is a health insurance program provided by the federal government to people over the age of 65 or those with certain health conditions such as permanent kidney failure. Medicare tends to pay for basic medical costs including hospitalization, hospice care, skilled nursing, home health care, medical supplies, and doctor visits. However, patients must purchase additional insurance to provide prescription drug coverage.

Medicaid: Medicaid is another type of 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 provide matching funds to offset the costs. Medicaid recipients must meet specific criteria to quality for the benefits, but once approved, all medical services are provided free of charge.

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. Generally, people who need long-term care require assistance with daily activities such as dressing, bathing, walking, etc.

Because many people require long-term care as a result of an accident, age is not a determining factor for purchasing long-term care insurance. In fact, about 40% of those receiving long-term care are between the ages of 18 and 64. The late actor Christopher Reeve became paralyzed following an equestrian accident in 1995 at the age of 42 and required nine years of long-term care, costing millions of dollars. Most people do not want to think about being severely injured and postpone the decision to buy long-term care insurance. However, it may be too expensive or too late to get coverage once the insurance is needed.

Life Insurance: Life insurance is a contract with an insurance company to pay a specific amount at the time of your demise. It pays a lump-sum to your beneficiaries to help offset the potential loss of income and the cost of paying your final expenses. Life insurance is the one kind of insurance that you pay, but the benefit is passed along to someone else.

Life insurance companies offer a wide array of policies to meet your needs as your personal circumstances change and evolve. The three basic kinds of life insurance include term life, whole life and universal life. Following is a brief description of each.

- Term life. A temporary insurance that provides coverage for a defined time period, generally five, ten, or twenty years; pays cash benefits to a named beneficiary if the insured dies during the term of the policy. Term life is generally the last expensive type of life insurance to purchase and the one that many financial planners suggest. However, term life may not be available to individuals with certain types of health issues.

- Whole life. A permanent insurance that covers the insured at that amount and set premium for their rest of their life; benefits are paid to the beneficiaries when the policyholder dies. It may also include a savings plan as part of the policy.

- Universal life. A permanent insurance similar to whole life, but provides more flexibility by allowing the policyholder to maintain their policy and still make changes, such as decreasing the death benefit or changing the premiums.

Like health insurance, life insurance may be provided by your employer as part of your benefit package. If you purchase life insurance on your own, it is best to take it out while you are young because monthly premium tends to increase as you age or as you develop health issues that may shorten your life expectancy. You may also develop health issues making you ineligible for term life.

Liability Insurance. Liability insurance protects you when others claim to be hurt or injured as a result of something you did. Generally, it 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 vehicle in case you are involved in an accident; proof of insurance is required when you purchase a car tag. If you intentionally cause damage or injuries, however, it may not be covered by your liability insurance policy. Other types of insurance, such as comprehensive auto insurance or homeowner's insurance, will generally include some time of liability coverage as part of those policies as well. Also, some professionals such as doctors and lawyers may be required to carry liability insurance in case they are charged with wrongful actions.*

Homeowner's Insurance. Having homeowner's insurance protects your property against disasters such as fire, tornadoes, busted pipes, robbery, and other similar problems. Most standard homeowner insurance policies cover your house (the structure itself) and the contents (any personal property you have in the house). In addition, the majority of homeowner insurance policies provide liability coverage in case someone visiting your home is injured or your dog chews a hole in the neighbor's tires.

When purchasing homeowner's insurance, you have the option of a policy that covers either the actual cash value of your home or the replacement cost of your home. Actual cash value is the amount it would take to repair or replace the damage after normal wear and tear, commonly called depreciation. Replacement cost is the amount it would take to replace or rebuild your home with materials of similar kind and quality, without deducting for depreciation. While replacement cost coverage may be slightly more expensive, it is generally recommended over the actual cost policy option. A good rule of thumb is to insure your home for at least 80% of its market value; the other 20% would include the value of your land, which probably does not need to be replaced following a disaster. In addition, your personal possessions should be insured at about 75% of the value of your home. So, if your home is insured for $100,000, the contents (furniture, electronics, clothing, etc.) should be insured for about $75,000. A good insurance agent can help guide you in making these decisions.

INSURANCE TIP

Take an inventory of all of your personal property, along with a photograph or video of each room. Save it in a safe place away from your home or apartment or upload to a drive such as icloud or dropbox.

Few, if any, homeowner's insurance policies cover flood damage. If you live in an area prone to flooding from any cause — hurricanes, rivers, or streams, be sure to ask about purchasing flood insurance, which is available through the federal government's National Flood Insurance Program (NFIP). In some areas, flood insurance may be required as a condition for getting a loan on your property. Another relatively low cost insurance option is earthquake insurance, which would help replace your home in case of significant damage. Such coverage varies greatly, so it is important to understand exactly what you are getting.

As a homeowner, your insurance policy should provide sufficient coverage to replace the structure of your home and your personal possessions, to cover the cost of additional living expenses if you need to leave your home while it is repaired or rebuilt, and to protect others who may be injured on your property or who suffer personal damage in connection with your property. Some of the basic decisions include the amount of the deductible you can afford, the potential for natural disasters, protection for other structures on your property such as the fence or storage building, and other concerns that you may have about protecting your investment. Some homeowner policies may also include coverage for other personal expenses such as identity theft.

Renter's Insurance. As a young person, you are probably more likely to be a renter than a homeowner. However, your need for insurance is just as great as for a homeowner. The landlord should carry insurance to cover the building itself; all you need to insure is your personal property. Except for a very few circumstances, your items will not be covered by your parent's policy or by the landlord's policy. (Note: if you are living in a dorm while in college, ask your parents to see if your property is covered by their policy.)

Even if you may not have many possessions, you still want to take steps to protect them and to protect yourself against liability issues. Renter's insurance protects you from theft or damage to personal items — furniture, phone, electronics, clothing, etc. — in your apartment or your personal vehicle. A good renter's insurance policy will also include liability insurance because you can be held responsible if someone is hurt or injured while visiting your apartment.

REMINDER

When purchasing homeowner's insurance, you have the option of a policy that covers either the actual cash value of your home or the replacement cost of your home. Actual cash value is the amount it would take to repair or replace the damage after normal wear and tear, commonly called depreciation.

Before purchasing renter's insurance, make sure you understand exactly what is covered and what is not covered. If your insurance agent is not willing to explain it to you, perhaps you need to find another agent. Prices on renter's insurance differ significantly from company to company, but most premiums are relatively inexpensive. You may want to get more than one estimate before making a final decision. Generally, it can be easily transferred from one location to another when you decide to move.

Automobile Insurance. Failing to purchase automobile insurance can be an expensive decision. Everything may be fine, until something happens. Before stopping to ask why insurance is necessary, remember this: It is the law! And it's the law in almost every state in the country because it provides protection for you and for others injured by your actions, even if unintentional. Often called "bodily injury and property damage coverage" on your policy, auto liability insurance pays for someone else's property or injuries if you are found at fault in an accident.

While almost all states require liability insurance, the option of purchasing comprehensive insurance is also available. Comprehensive coverage limits your financial loss when there is some kind of damage to your vehicle, such as an accident, an act of nature, theft, vandalism, or other causes. For example, if a tree falls on your car or a baseball goes through your windshield, your comprehensive insurance policy covers your claim and helps offset the cost of repairs. It also helps cover the cost if your car is stolen or stripped on the side of the highway. The collision section of your auto insurance policy will cover any damages from an accident if the person at fault in an accident does not have insurance.

CAR CRASH STATISTICS

- There are about 6 million car accidents annually in the United States, with a cost of more than $250 billion.
- If driving and texting, you are 23 times more likely to have an accident.
- 90 people a day die in car accidents, about 10 percent are the results of distracted drivers.
- Alcohol is responsible for 40 percent of all accidents; 30 percent are the result of speeding.
- Wearing a seat belt reduces your likelihood of being killed in an accident by 45 percent; they reduce your potential of being injured by 50 percent.

Automobile insurance is an important tool for managing your risk. Trying to cover the costs of repairs and injuries without insurance is extremely expensive. With the number of auto accidents and the cost of repairs, there is a good probability that you will be involved in an accident and need to use your insurance. Young drivers, aged 15- to 20-years-old, are especially at risk and vulnerable to death and injury on the roadways. Auto accidents are the leading cause of death for teenagers in United States. Mile for mile, teenagers are involved in three times as many fatal crashes as all other drivers.

Since young drivers are more likely to be involved in accidents, then it helps explain why insurance for young drivers is more expensive than insurance for drivers in other age groups. While it may not seem fair that young people pay higher premiums, it is an economic choice for the insurance companies. They charge more because it costs more to cover the claims for young drivers. Even with the high premiums, having automobile insurance is a good risk management tool that can protect your financial future. Driving without it is high risk.

You may be able to save money on your overall insurance needs by bundling your policy, which means having one company cover all of your insurance needs. Additionally, as a young person, it may be cheaper to remain on your parent's policy as long as you live at home or meet other specific age restrictions.

Conclusion

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. However, it can become expensive if you buy coverage you really do not need or pay more than you should for the premiums. While there are many different kinds of insurance, you are the only person who can decide what is best for you. You probably do not need to insure your legs or your nose like a celebrity, but you will want to have enough insurance to cover any losses to your home, your personal property, or your vehicle. And you will want some form of health insurance in case you become ill and need immediate attention.

> ***HERE'S MY KEYS!***
>
> If a friend has an accident in your car, it goes on your insurance record. Even if they have insurance, it may not matter because you are responsible for who drives your car. The accident will go on your insurance record, and you will pay higher premiums. So, be careful who gets your keys!

FINAL NOTE: It is unfortunate that Jermaine did not take the time to get his health insurance. He will probably need to make arrangements with City Hospital and the doctors treating him to pay for his care. The average cost of a trip to the emergency room is approximately $1,200. For a young person with limited income, that can be a pretty expensive decision. His financial burden may be further complicated because he may not be able to work, meaning he may not have any income until his arm heals. As a results, he may fall behind in his car payments and car insurance payments – plus he could possibly lose his job.

Fortunately, he had remembered to get car insurance – but we are not sure if he had collision coverage or just liability. Without collision coverage, he will need to pay for all of his repairs; with collision, he will still need to pay for his deductible.

While his mother will be glad he was not seriously injured, she will probably still be unhappy with him for not getting health insurance. His accident is a good reminder that it is important to have insurance coverage – just in case.

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Oklahoma CEE Council on Economic Education

Name: ______________________________ Class Period: _____________________________

Different Types of Insurance Review 11.2

Answer the following questions and give the completed lesson to your teacher to review.

1. Which kind of insurance should you have if you live in an apartment?
   a. Liability
   b. Renters
   c. Long-Term Care
   d. Whole Life

2. Your liability insurance will pay for whose property or medical expenses if you are found at fault?
   a. Yours
   b. Yours and the person injured or whose property was damaged
   c. The person injured or whose property was damaged
   d. Liability insurance only insures property damage your apartment

3. Which type of life insurance provides coverage for a specified period of time?
   a. Whole Life
   b. Universal Life
   c. Term Life
   d. Long-Term Care Life

4. The amount of money you pay out-of-pocket before your insurance starts paying is called a
   a. premium
   b. copay
   c. deductible
   d. benefit

5. Payments for insurance are called
   a. premiums
   b. copays
   c. deductibles
   d. costs

Name: ______________________________ Class Period: _____________________________

Types of Insurance Activity 11.2

Determine which type of insurance would be appropriate in each of the following situations and write it in the space below the statement. Give the completed lesson to your teacher to review.

1. Marcus traded in his 10 year old truck for a new one. Because it is the first new truck he has ever owned, he is especially concerned about protecting it as much as possible. Marcus should get ______ insurance.

2. Tracy needs to purchase some kind of life insurance. She already has an emergency savings account and six-months of savings for household expenses in case she needs it. Now, she is putting 10% each month into her retirement account. Because she has no children, she should probably purchase ________ life insurance.

3. Rene and Bobo are moving from their apartment to their first house. They will want to get _________ insurance.

4. Mason is buying an older car that his friends call "the clunker", but it's good enough to get him to school and to his job after school. Before he can register the car and buy a tag, he needs to get ____________ insurance.

5. Andre's grandmother is retiring next month when she turns 65. She will now be eligible for __________ insurance.