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

Standard 11. Risk Management and Insurance
Lesson 11.1 Identifying Risk
Lesson 11.2 Different Types of Insurance
Handout 11.2.1 Money Bingo
Lesson 11.3 Using Insurance to Manage Risk
11.3.1 Paycheck Deductions
Identify common risks to life and property (e.g., illness, death, natural catastrophe, and accident).

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

Examine appropriate amounts of insurance and how insurance deductibles work.
Standard 11.1
Risk Management and Insurance

Identifying Risk
Payoff

- Identify possible risks.
- Explain strategies for handling risk.
- Recognize the role of risk.
- Explain how insurance transfers risk to a third party.
Suppose you overhear this conversation between Steven and George in the hallway:

”George, what is hot for the holidays?”

”Skiing. Do you want to go? There are still seats on the bus, Steven.”

Steven says, “That is too high of a risk for me. I am staying here to ride my new ‘cycle.”

What do you think? Are George and Steven both taking a risk?

If so, what can they do to lower their risks?
Cache

Risk
Building Interest

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

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

Risk management tools include:

• avoid it
• reduce it
• accept it
• transfer it to someone else
Managing Risk

Transferring risk to a third party (an insurance company) reduces your “out of pocket” financial responsibility and your potential losses.
A good risk management plan has two requirements:

• Be aware of what risk problems you are going to face.

• Gather the information you need to manage the potential risk. After taking these two steps, you are ready to make informed choices about your insurance needs.
When it comes to your money and your personal information, trust only those people you know to be trustworthy.

If you do become a victim, take immediate steps to contact law enforcement officials.
Identify three ways you can minimize risks associated with your automobile insurance.

What are the two most critical components of a risk management plan?

How do you transfer risks to a third party?
Do you think Alfredo might be a victim of consumer fraud?

The answer is yes. It appears that he is a victim of false billing fraud.

Alfredo and his mother the credit card company to ask about the charges.

The charges were being made by a fake company. The charges were removed from his card.
Standard 11.2
Risk Management and Insurance

Different Types of Insurance
Examining the different types of insurance available.
Identify key terms associated with insurance and risks: natural disaster, liability, disability, deductibles, and risk management.
Payoff

Explain the purpose and importance of different types of insurance protection as a risk management strategy (e.g., life, health, property, liability, disability, and automobile).
Jermaine got his car last week, but forgot to get insurance.

He could get health insurance at work, but he needed the money to make his payments.

Smashed cars. At least no one was badly injured.

His arm was broken, and he had no insurance.

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

Deductible
Premium
Claim
Building Interest

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

Health insurance - also called medical insurance, helps protect you and your family from expensive or unexpected healthcare related expenses.

Some employers will pay your premiums as part of your benefit package with the company.
Types of Insurance

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

• Employers can pool healthy employees who require minimal amounts of health care with those who have numerous health problems and frequently use their health care benefits.

• If purchased individually, premiums are based on your personal risk factors such as age, overall health, and previous health problems.
Types of Insurance

Most insurance policies do not cover all health care costs.

- Co-payment: amount you will pay each time you visit a health care provider.
- Co-insurance: Percentage of medical costs you will pay after meeting your deductible.
- Most major medical insurance policies have a limit of coverage.
Types of Insurance

- Co-payments, premiums and out-of-pocket expenses depend upon the type of health insurance you select.

- An HMO is a “health maintenance organization.”

- A PPO (Preferred Provider Organization) tends to have more out-of-pocket costs than an HMO—but PPOs offer more flexibility when choosing a doctor and other services.
Types of Insurance

**CAR CRASH STATISTICS:**

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

💰 Pays part of your income if you become ill or injured and need an extended period of time to recover or if you can no longer work.
Medicare is a health insurance program provided by the federal government to people over the age of 65 or with certain health conditions.
Medicaid is also federal health insurance, and it pays health care costs for low-income citizens of all ages. It is administered by state and local governments, which also provide matching funds to offset the costs.
Long-term Care Insurance

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

Many people require long-term care as a result of an accident, so age is not a determining factor for purchasing long-term care insurance.
About 40% of those receiving long-term care are between 18 and 64.

Most people do not want to think about being severely injured and postpone the decision to buy long-term care insurance.
Life Insurance

Insurance is to insure against loss of income due to death and can also be used for retirement planning and investing.

Life insurance companies offer a wide array of policies to meet your needs as your personal circumstances change and evolve.
Life Insurance

Three basic kinds of life insurance:

1. Term life or ‘temporary’ insurance –
   • coverage for a defined time period, generally 5, 10 or 20 years
   • pays cash benefits to a named beneficiary if the insured dies during the term of the policy

2. Whole life insurance –
   • covers the insured for their whole life
   • benefits are paid to the beneficiaries when the policyholder dies
Life Insurance

Three basic kinds of life insurance - continued:

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

Life insurance is often provided by your employer as part of a benefit package
Life insurance - continued:

- is generally less expensive to purchase while you are young
Liability Insurance

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

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

You can purchase homeowner’s insurance that covers either actual cash value or replacement costs.

• Actual cash value - amount it would take to repair or replace damage to your home after normal wear and tear, commonly called depreciation.

• Replacement cost - amount needed to replace your home or repair damages with materials of similar kind and quality, without deducting for depreciation.
Homeowner’s Insurance

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

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

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

Almost every state in the country requires you to have automobile insurance if you own a car.

Automobile insurance limits financial loss due to damage or a car accident.

Auto liability insurance pays for someone else’s property or injuries if you are at fault in an accident.
Automobile Insurance

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

Young drivers, ages 15- to 20-years old, are especially at risk and vulnerable to death and injury on our roadways.

Auto accidents are the leading cause of death for teenagers in America.

Mile for mile, teenagers are involved in three times as many fatal crashes as all other drivers.
Automobile Insurance

Because young drivers are more likely to be involved in accidents, insurance for young drivers is more expensive than insurance for drivers in other age groups.
Insurance is generally considered a valuable risk management tool because it allows a third party—the insurance company—to assume part of your risk and your costs.

Insurance can be expensive if you buy coverage you really do not need or pay more than you should for the premium.
You will want enough insurance to cover any losses to your home, your personal property, your vehicle and your health in case you become ill and need attention.
What is an insurance premium?

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

Why is automobile insurance more expensive for younger drivers?

What does it mean to “spread risk?”
Jermaine may be charged a big fine or lose his driver’s license for failing to have insurance on his vehicle.

He will need to repair his car as well as the one he hit.

Jermaine will need to make arrangements with City Hospital to pay for his care. He may not be able to work, meaning he may not have any income until his arm heals.
Driving and talking on the phone is not illegal, but it can be distracting.

When sitting behind the wheel of a vehicle, driving that vehicle should always be your first priority.
Standard 11.3
Risk Management and Insurance

Using Insurance to Manage Risk
Payoff

Examine how deductibles affect insurance premiums.
Determine how out of pocket expenses impact the cost of using insurance.
Identify ways to save money on insurance premiums.
Demonstrate the ability to select appropriate amounts of insurance in selected situations.
A tree had fallen on Maggie’s car and busted the windshield. Maggie has a $500 deductible, and it will cost $700 to put in a new windshield and repair the paint scratches. Lily injured her knee running track. She needs surgery to repair the ligament and the estimated cost is $5,000 for outpatient surgery.
Lily has a $500 deductible and 80/20 co-insurance with a $5,000 cap, but her policy pays 100% of all hospital costs. Should Maggie and Lily use their insurance to cover their costs?
Co-insurance
Co-payment
Deductible
What is the difference between a “deductible” and a “co-pay?”

What does the term “reasonable and customary” mean?

Who pays for charges that are not considered to be “reasonable and customary?”
The more likely an insurance company believes you are to make a claim (higher risk), the more they charge you for the insurance (higher premiums).

Insurance is based on the principle of probability.

You decide what you are going to need, using probability to weigh the costs and benefits of specific types of insurance.
Insurance companies will consider the following risk factors when setting your insurance premium:

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

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

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

• Consider paying for small amounts of damage out of your pocket instead of filing a claim.
• Examine the possibility of increasing your deductible because a higher deductible will decrease your premiums.
• Non-smokers pay less for most types of insurance than smokers because smokers are considered higher risk.
Suggestions to help you maximize the money you spend on insurance. - continued

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

- Take a driver's safety course approved by your insurance company to qualify for an auto insurance discount.
- Maintain a good credit history.
- Avoid insurance that covers only one type of risk (cancer, credit life, flight).
Saving Money on Insurance

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

- Shop around
Earnings

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

⚠️ Remember, not purchasing insurance could be a very expensive mistake!
How does the number of claims you make on your insurance policy affect your rates?

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

True or false? All insurance companies charge about the same premiums for similar policies.
Maggie would be better off to pay for the damage without filing a claim with her insurance company. By the time she pays her deductible, insurance would only pay $200. ($700 - $500 = $200).

Chances are the insurance company will raise her premiums, especially if she has filed other claims recently.
Lily, however, should contact her insurance company to get approved for surgery. With her deductible and co-insurance responsibility, her total cost for the surgery is $780. That leaves $4,220 for her insurance company to pay. ($5,000 - $780 = $4,220).