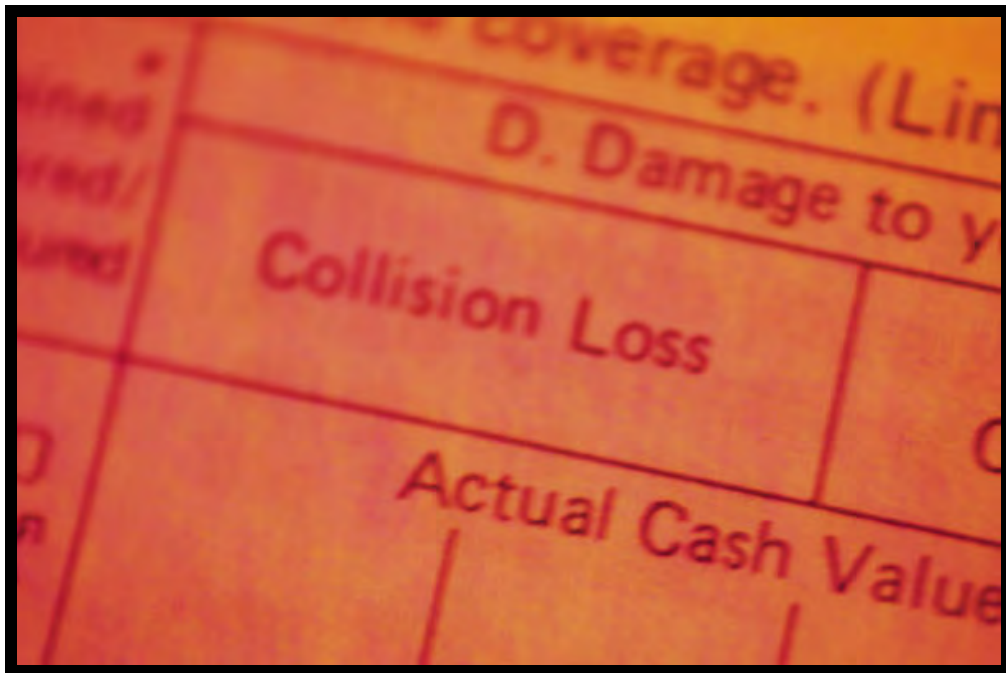


*Teens can't wait to get behind the wheel. But it's a costly milestone—young, inexperienced drivers face some of the biggest auto insurance premiums.*

*-Ann Job, Freelance Writer*



# Section VI

## Insurance

## Insuring Against Risk

Teenagers often think insurance is something for adults. This lesson plan compares basic types of private versus public insurance, who pays the premium, how a deductible works, and what trade-offs and opportunity costs are associated with purchasing insurance? Many students are introduced to insurance when they obtain their driver's license.



## Insuring Against Risk

### NCSCOS Objective(s):

**8.08** Evaluate the investment decisions made by individuals, businesses, and the government.

### Warm-Up/Bell Ringer Activity:

The teacher should open the class by asking why citizens buy and use insurance. Ask students to name a type of insurance that individuals may need to purchase.

### Key Questions:

1. Who pays for private insurance versus public insurance?
2. What trade-offs and opportunity costs are associated with the purchase of insurance?

### Materials Needed:

"Public versus Private: Who/What Does It Protect?" (grid notes for students)

### Time/Pacing:

Half a block class or one 45-minute period

### Link(s) to Prior Learning:

This lesson will assess prior knowledge of the concepts trade-off and opportunity cost.

### Purpose/Objective of this Lesson:

Students should be able to:

- Compare private insurance to public insurance
- Describe who provides each type of insurance
- Describe the types of insurance associated with private insurance and public insurance.

**Teacher Input:**

The teacher will use students' prior knowledge from the warm-up activity to explain why insurance is used by citizens.

Using the notes, "Private versus Public Insurance, Who Does It Protect?"

- Discuss the difference between private and public insurance.
- What is a premium?
- Who pays the premium for each type of insurance?
- What is a deductible ?
- Describe the various types of private and public insurance.
- The teacher should recall student knowledge of trade-off and opportunity cost in relation to the purchase of insurance.

**Continuous Assessment Tools/Strategies:****Oral Questioning:**

The teacher should have students share why insurance is important to the study of personal finance. Students should be able to share what types of insurance consumers should purchase.

**Strategies for Differentiation/Extension:**

Students can write scenarios in which different types of insurance would be used. In each scenario, students should be able to identify how trade-off and opportunity cost are related to insurance.

**Class Activity****Guided Practice:**

The teacher will explain the notes titled, "Public versus Private, Who Does It Protect?" As the teacher is explaining the different types of insurance, the teacher should give examples of a situation that would require the use of specific insurance (i.e., a car wreck would likely use automobile and health insurance).

**Oral Questioning:**

The teacher can ask students to think about what types of insurance they will need. Ask students to share answers.

**Summary/Closure:**

The teacher should review the reasons why citizens have insurance and how insurance is funded.

**Homework:**

The teacher can have students conduct an interview with a parent or guardian regarding which types of insurance the family uses, and then report findings to the class. The data collected by each student could be compiled to form a class graph of the most commonly used insurance. Students could create a hypothesis to generalize why certain insurance is purchased by families in their community.



**Public versus Private  
Who/What Does It Protect?**  
(Overhead Transparency)

Private Insurance Who/What Does It Protect?	Public Insurance Who/What Does It Protect?
<b>Automobile-</b> Pays for damage and repairs to a vehicle (yours, or if you are responsible for the accident, the other driver's).	<b>Social Security-</b> Provides benefits to all retired workers at age 65. If a worker must retire early due to illness or disability, the worker may receive benefits before age 65.
<b>Health-</b> Pays for hospitalization and doctor visits.	<b>Unemployment-</b> Pays benefits to workers who have lost their job.
<b>Liability-</b> Protects property owners against injuries and accidents that occur on their property.	<b>Medicare-</b> Provides health insurance, benefits, and medications to citizens 65 years old and older.
<b>Property-</b> Replaces or repairs property that is damaged, stolen or destroyed.	<b>Medicaid-</b> Provides health insurance/medical benefits to low-income citizens regardless of age.
<b>Life-</b> Provides payment (money) to the beneficiary (person named to receive the money) in the event of the insured person's death.	<b>Food Stamps/Earned Income Tax Credit (EITC)-</b> Provides food benefits and tax savings to low-income citizens.

## Key Insurance Terms:

**Payment or Benefit**- the amount of money given to an individual who qualifies for the social insurance. A citizen may have to prove annual income is to be considered "low-income."

**Deductible**- The amount of money that an individual must pay before more benefits are paid (i.e., if a citizen has a \$350 deductible, the citizen must pay the first \$350, then the insurance will begin to pay).

**Premium**- The monthly payment a citizen pays for any private insurance type.



## Insurance: Do We Need It?

The most fundamental level of financial planning is the purchase of insurance. This is to protect the purchaser from major financial ruin as the result of some unexpected catastrophe such as a major illness or natural disaster. It is to protect assets that will need to be replaced or protected from loss.

This lesson introduces students to different types of insurance. It is designed to encourage students to engage in discussions with their parents about the many types of insurance that they acquired through their jobs or have purchased on their own. It discusses insurance that students are aware of, such as car insurance or health insurance, and introduces them to types of insurance they may not be aware of, such as long and short term disability insurance.



## Insurance: Do We Need It?

### Objectives:

7.05 Explain the impact of investment on human, capital, productive, and natural resources.

### Warm-Up/Bell Ringer:

Write the following question on the board:

“What do you think is the purpose of insurance?”

Have each student write one paragraph response to the question.

### Key Questions:

1. What is insurance and what is its purpose?
2. What are the different types of insurance and what does it cover?

### Materials Needed:

“Notes on Insurance”

“Key Questions About the Notes On Insurance” overhead transparency

“Insurance” activity sheet

### Time Needed:

One Day

### Link(s) to Prior Learning:

TV commercials about insurance, discussions and interaction with different types of insurance

### Purpose/Objective of this Lesson:

Students will have a basic knowledge of the purpose of insurance and the different types of insurance.

### Teacher Input:

The teacher will pass out information on insurance and how to protect financial investments from catastrophic occurrences.

**Continuous Assessment:**

Discussion

Questions and Answers

**Class Activity****Guided Practice:**

The teacher will pass out the insurance notes. Then, the teacher will provide examples of the usage of the different types of insurance outlined in the notes. The key questions on the board or overhead should be answered in class by the students, as they go through the information in the “Notes on Insurance”.

**Independent Practice and Summary/Closure**

Pass out the activity sheet, “Insurance.” The students are to complete the top part while still in class, either while going over the notes or as a follow-up activity to show comprehension.

**Homework:**

Have the students complete the chart activity at home using parental input.



## Notes on Insurance

### The Purpose of Insurance

We live in a world full of risk. Risk is the possibility of loss. All risk cannot be completely eliminated, but there are ways to avoid, minimize, or protect oneself from risk. The basic purpose of insurance is to anticipate catastrophic losses that could financially impair your future. Insurance is to provide financial security and peace of mind for you and your family in case of some major event such as storms, accidents, illnesses or some other life-altering event.

There are five major areas in which people want to be financially covered. Life insurance helps your family financially after you have died. Health insurance helps pay medical bills, which can be very expensive. Disability insurance pays you and your family so that you can financially survive a major medical event that prevents you from working. Property insurance financially helps you and your family repair the property that has been rendered unusable as the result of some event. The last major type of insurance is auto insurance to pay for damage to you or others as a result of some action by your automobile.

### Life Insurance

The main purpose of life insurance is to provide cash to your family after you die. It can ensure your loved ones have enough money to maintain their current lifestyle. Your family will be able to continue to meet expenses on major expenses such as:

- The home you have purchased together by providing money for the mortgage
- The automobile that will need to be repaired or replaced
- Your funeral and burial expenses  
(Average cost is anywhere from \$2,000 to \$15,000)
- A college education for your children

You need to review your coverage with changes in your family such as marriage or the birth or adoption of a child. Ideally, you should carry enough insurance to help cover expenses until your children become independent, at which time you will want to review your insurance needs again.

### **Health Insurance (Medical Insurance)**

Health Insurance is to provide against financial losses resulting from sickness or accidental bodily injury. This type of insurance provides for payment of benefits for covered sickness or injury. Health insurance is a major benefit provided to many employees by employers. Employees pay some proportion of the premium for themselves and their family coverage.

There are two principle types of coverage. Base (or basic) plans generally cover hospital expenses or surgical expenses, or both. Base (or basic) plans usually have no deductible or a lower maximum amount, such as \$10,000, \$25,000 or \$100,000. Major Medical plans have a deductible to initial expenses such as \$500 per year. After the deductible is satisfied, typically 80 percent of the remaining amount is covered by the company to some much larger amount such as \$500,000 or \$1,000,000. This kind of insurance covers hospital and surgical costs but physician expenses, private duty nurses, lab expenses and prescriptions.

As a result of the increasing costs of Medical Insurance many companies are increasing the costs to their employees. People who are not covered by some sort of group insurance feel that they cannot afford to be covered by insurance are not.

### **Disability Insurance**

The purpose of Disability Insurance is to protect against financial disaster when someone is unable to earn a living because of sickness or injury. Whether to purchase this type of insurance is an important financial decision about protecting one's earnings and lifestyle due to illness or injury. Disability insurance helps cover the gap between your inability to work and bring home a paycheck, and your living expenses, and therefore could provide valuable protection. There are two major types of disability insurance, short term and long term.

**Short-Term Disability Insurance** covers disabled workers for a period of time up to six months after some qualifying period of not working. The pay out is usually less than 100 percent of your regular paycheck because insurance companies and the government want to deter workers from not returning to work as soon as they are able to do so.

**Long-Term Disability Insurance** coverage usually begins after the short-term disability coverage period ends. It covers a portion of salary in case an employee is out of work for an extended period because of illness or injury. It provides replacement income in the event that the employee can no longer work.

### **Property or Homeowners Insurance**

Property or Homeowners Insurance is one of the most popular forms of insurance on the market today. This insurance covers two major areas, one is the property itself and the second part provides liability coverage for the homeowner. Often the homeowner must purchase this type of insurance to satisfy their lender as a part of obtaining a mortgage.

The insurance can cover either actual cost value or replacement cost. Actual cost covers the property at its depreciated value at the time of the loss. Under replacement insurance, the policy owner is reimbursed the amount necessary to replace the damaged property with one of similar type and quality and at the current price.

One must make sure to get the insurance that covers the different type of losses that their property might face, such as flood or wind damage insurance.

## **Automobile Insurance**

The purpose of auto insurance is to help pay the cost of damages to at least the other person and their car. Depending on the type of insurance, it may cover your car and it may even cover your car if it is damaged because of fire, wind, and water damage. If you get in an accident and you do not have insurance you might have to pay a fine and or lose your license. Everyone who drives needs car insurance. In fact, most states require it by law. When you buy car insurance, you are buying what is called a "policy." Your policy is based on a variety of factors, including what kind of car you drive, your driving record, where you live, your age, and marital status, as well as the amount of insurance you want.

### **The Four Parts To An Automobile Insurance Policy:**

1. The first part provides liability coverage from lawsuits arising from either negligent operation or ownership. The two major areas covered are for bodily injury of people you injure in an accident, and the other to cover any property damage you might have caused as a result of the accident.
2. The second part pays medical expenses for the policy owner and passengers in the car at the time of the accident.
3. The third part is to cover the policy owner from uninsured or underinsured motorists. This coverage is to compensate the injured policy owner when the other motorist has little or no insurance to cover medical and property damage.
4. Part four covers damage to your car when it is involved in an accident.





Student Activity

Name \_\_\_\_\_

Date \_\_\_\_\_ Period \_\_\_\_\_

## Insurance

**Directions:** From the Notes on Insurance answer the following questions.

1. Why should you have insurance?
2. List and explain three different types of insurance.
3. How can different types of insurance protect you from risk as circumstances change over time?

Using the chart below, and discussions with your family, list basic insurance information for your family. Include as many different types of policies as possible: life, disability, auto, property and health.

Type of Policy	Premium and How Often Paid	Deductible (if any)	Coverage Limit(s)