CHAPTER 10

Insurance

Reading for Meaning

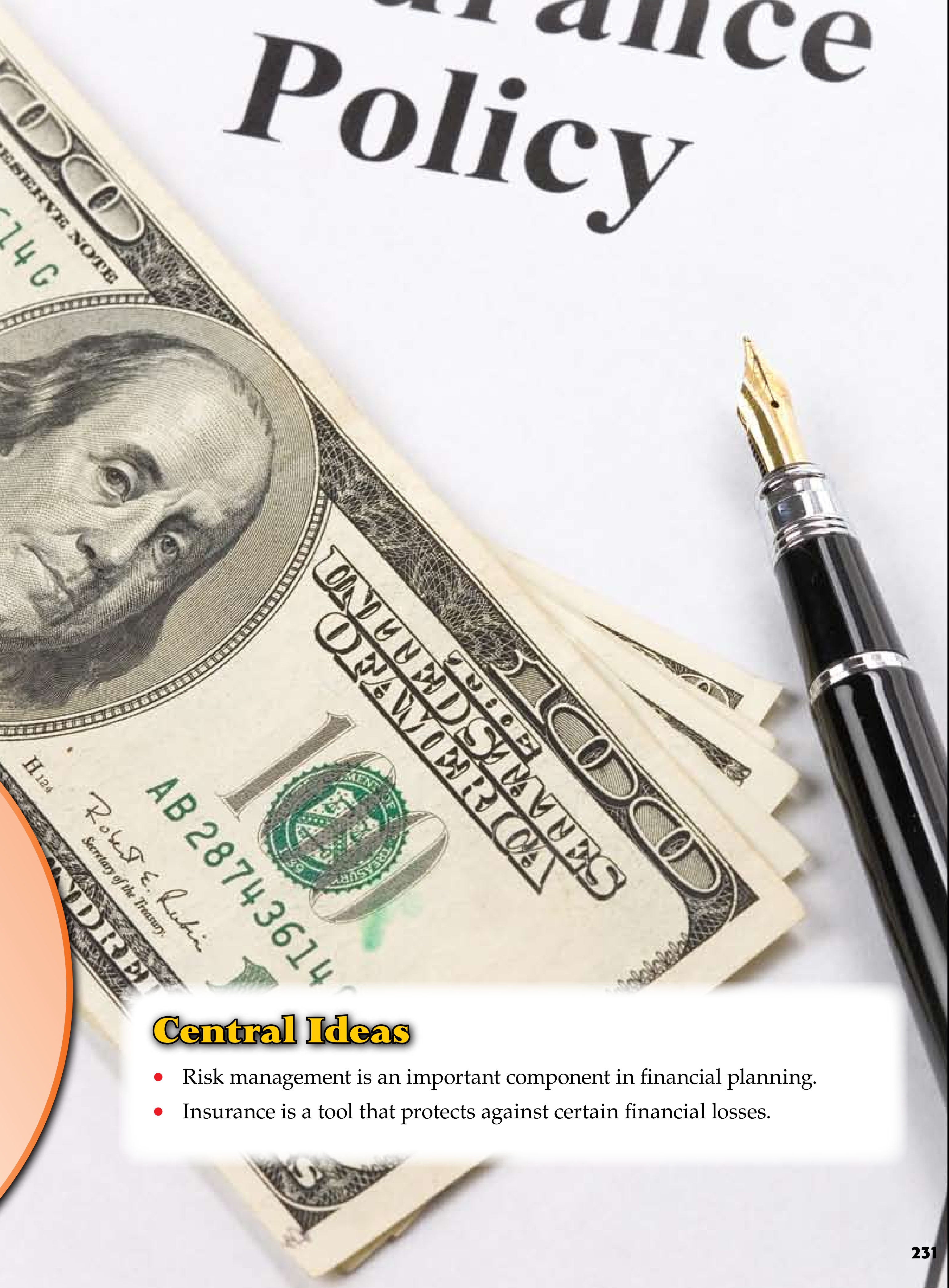
After you read the chapter, test your comprehension of new vocabulary. Write a sentence using each vocabulary word.

- risk
- risk management
- dependent
- policyholder
- premium
- deductible
- fee-for-service plan
- coinsurance
- inpatient
- managed care plan
- co-payment
- health savings account (HSA)
- exclusion
- preexisting condition
- beneficiary
- term life insurance
- whole life insurance
- endowment insurance
- appraisal
- depreciation
- bodily injury liability
- property damage liability
- no-fault auto insurance

CHAPTER OBJECTIVES

After studying this chapter, you will be able to

- **explain** how insurance protects individuals from financial risk.
- **outline** the different types of private health insurance coverage.
- **describe** types of government-sponsored health insurance programs.
- **explain** the purpose of disability insurance.
- **distinguish** among the various types of life insurance.
- **outline** the key factors to consider when buying home insurance.
- **select** auto insurance coverage to meet individual needs.



Central Ideas

- Risk management is an important component in financial planning.
- Insurance is a tool that protects against certain financial losses.

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Life involves risk. **Risk** is a measure of the likelihood that something will be lost. Some risks are predictable—you will sometimes get sick and you will grow old. Other risks are unpredictable. These include serious illnesses or injuries, car accidents, house fires, and theft. Some events can limit your ability to earn a living or wipe out your assets. When you earn income, own property, and accumulate savings, these are too important to lose.

Financial security depends in part on risk management. **Risk management** is the process of measuring risk and finding ways to minimize or manage loss.

Managing Risk

There are four strategies for dealing with risk. You have probably used several of them.

- *Avoidance* is avoiding risk. For example, if a trail marker warns "Do not go beyond this point!" hikers avoid injury by obeying the warning. There may be hazards beyond the sign.
- *Reduction* is a strategy of minimizing risk because you cannot always avoid it. For example, a reduction strategy for staying healthy is washing your hands often to eliminate disease-causing germs. Wearing a seat belt while driving is a reduction strategy that lowers the chance of injury or death in the event of an accident.
- *Retention* refers to assessing risk and making financial preparations for possible future loss. It is also called *self-insurance*. For example, a person may set aside money in a savings account in case he or she loses a job. Retention strategies do not work as well when potential losses are very high.
- *Transfer* is the shifting of risk. You do this by joining a big pool of people and transferring your risk to an insurance company. The company invests the fees you pay and uses earnings to pay claims of insured persons. If you have an accident or another setback, the insurance company pays for your losses. There is little probability that large numbers of people will need payouts at the same time.

Risk Managers

Risk managers identify potential problems and predict their probability of occurring. They suggest ways of appraising and controlling risk and minimizing its effects. Their input helps to determine the amount people pay for insurance.

Insurance Protection

The main purpose of insurance is to provide protection against specific types of financial losses. A sound insurance program begins by assessing the risks you face. Consider the losses that could damage or destroy your financial security, then take steps to protect yourself with appropriate insurance.

Events that could put your finances at risk include illness or injury, accidents, death, and property losses, 10-1. The purpose of insurance is to pay for losses that would be difficult or impossible for you to cover. A careful look at the risks you face and a plan for managing them with insurance and other resources are basic steps in any financial plan.

The type and amount of insurance needed varies from person to person. It depends on the risks being covered, the amount available to pay for losses, and the financial obligations of the insured persons. For example, a childless unmarried person generally needs less coverage than a head of a family with several children. Protection needs increase with each new dependent and with increased assets. A **dependent** is an individual who relies on someone else for financial support, such as a child, a spouse, or an elderly parent.

10-1
Insurance can help you cover unexpected expenses, such as rebuilding a home after a flood.

When you buy an insurance policy, you become a **policyholder**. You pay a set amount of money, called a **premium**, to the insurance company on a regular basis. The premiums you and other policyholders pay are invested by the company to earn money. Both premiums and earnings are used to pay insurance claims. A *claim* is a bill submitted to the insurance company for payment.

Types of insurance that protect against financial risks include health, disability, life, home, and auto. These are discussed in different sections of this chapter.

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Private Health Insurance

Health insurance offers protection by covering specific medical expenses created by illness, injury, and disability. Today, approximately 35 percent of health care costs are paid by private plans offered by insurance companies. Many of these plans are available through employers.

Participants in private insurance plans usually pay a monthly premium plus a deductible. A **deductible** is the amount you must pay before insurance begins to pay. For example, if your deductible is $500 annually, you must pay for health care services until you reach a total of $500, at which time the insurance company begins paying.

Most private insurance programs are group plans sponsored by employers, unions, and other organizations. Individuals may also purchase private health insurance, but it usually costs more and provides less coverage than group plans.

Fee-for-Service Plans

Fee-for-service plans pay for covered medical services after treatment is provided. You can usually go to any licensed health care provider or accredited hospital of your choice, 10-2.

You are responsible for a deductible and coinsurance. **Coinsurance** is a percentage of the service cost that patients pay. For example, if a medical service costs $100 and the coinsurance is 20 percent, your cost would be

10-2

In a fee-for-service health insurance plan, you have the freedom to go to any licensed health care provider you like.

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$20. In a fee-for-service plan, you pay the $100 at the time of the medical service. Either you or the doctor's office submits a claim to the insurance company. You then receive a reimbursement, or repayment, of $80.

If you have fee-for-service coverage, learn how to file claims and file them promptly. Keep the name and phone number of your plan handy, with membership numbers and other information you may need to receive services and file claims.

Fee-for-service plans generally offer basic and major medical coverage. Basic coverage includes prescriptions, hospital stays, and inpatient tests. An **inpatient** is a person whose care requires a stay in a hospital. Basic coverage also pays for some doctor's visits, outpatient procedures and certain other medical services.

Major medical coverage typically covers the costs of serious illnesses and high-cost procedures and injuries. Often fee-for-service plans combine basic and major medical protection in one policy called a *comprehensive plan*.

Managed Care Plans

Managed care plans contract with specific doctors, hospitals, and other health care providers to deliver medical services and preventive care to members at reduced cost. Your choice of service providers is limited to those who participate in the plan, except for necessary referrals to specialists outside the plan.

You and/or your employer pay a set amount in monthly premiums. You also pay any required deductibles, coinsurance, or co-payments. A **co-payment** is a flat fee the patient must pay for medical services. Co-payments are due at the time of service. For example, when you have a doctor's appointment or a prescription filled, you pay the co-payment at that time. Co-payment amounts are determined by your health care plan.

Three forms of managed care are health maintenance organizations (HMOs), preferred provider organizations (PPOs), and point-of-service (POS) plans.

Health Maintenance Organizations (HMOs)

These organizations provide a list of participating physicians from which you choose a primary care doctor. This doctor coordinates your health care and carries out routine exams and treatments. The plan normally covers only treatment provided by doctors who participate in the plan. If you go outside the plan for care, you pay part or the entire bill.

Normally, you must go through your primary care doctor for a referral to a specialist if you require specialized treatments, consultations, or procedures. Your primary care doctor and a referral specialist from the HMO will determine which treatments and procedures are covered.

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Preferred Provider Organizations (PPOs)

These organizations arrange with specific doctors, hospitals, and other caregivers to provide services at reduced cost to plan members. You receive services at lower cost by going to participating caregivers, but you may go outside the plan if you are willing to pay the extra cost. For example, the plan may pay 80 percent of the cost of care within the plan and only 60 percent outside the plan. This offers you more choice than an HMO.

Case Study: Life Plans

It's Negotiable

Maurice was elected to represent his union. In three months, he will take part in negotiating a new contract with company management. One of the union demands is maintaining the cost of health care insurance for union members and their families. Currently, union members pay 15 percent of premiums while the company pays 85 percent.

The company wants to increase the cost union members pay to 20 percent. Carmela, a company spokesperson, argues that health care costs are rising dramatically and the company can no longer afford the current coverage. She also argues that health care costs are passed on to customers, making the company less competitive and possibly risking its future. She also points out other companies within the industry have a 20–80 split.

Case Review

1. Should companies be financially responsible for the health care of employees and their families?
2. Should employees be responsible for paying a portion of their own health care costs?
3. What types of problems might occur in an employer-sponsored health program?
4. How might health care programs differ for large and small companies?
5. What health care provisions should employees be aware of in case they lose or change their jobs?

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Point-of-Service (POS)

These plans connect you with a primary care doctor who participates in the plan and who is your "point of service." That doctor supervises your care and makes referrals as necessary to participating or nonparticipating specialists.

POS plans combine features of both HMOs and PPOs. There usually is no deductible and co-payments are limited if you see doctors within the plan. You may also choose health care providers outside the plan, but a deductible may apply and co-payments are higher.

Health Savings Accounts

A **health savings account (HSA)** is a tax-advantaged savings account available to people enrolled in qualified *High Deductible Health Plans (HDHPs)*. In an HDHP, the patient pays a high deductible before the insurance begins to pay. However, the monthly premiums are usually lower than other types of plans.

If you have an HSA, you may contribute pre-tax dollars into the account. The maximum annual amount you can contribute is adjusted each year. Current HDHP deductible amounts and HSA contribution levels are available on the U.S. Treasury Department Web site.

You may use savings in the account to pay for health care costs. Unused funds in the account may accumulate tax-free. However, if you use funds for purposes other than health care costs, you will incur tax penalties.

An HSA can save you money three ways. The high deductible feature in your health care coverage makes premiums less expensive. You can deduct the amount you contribute to your HSA, thus reducing your taxes. The unspent savings in your account are allowed to accumulate tax-free until you need them to pay health care expenses.

You may be able to set up an HSA through your employer. If your employer does not offer these accounts, you may be able to establish one on your own. For a list of companies that offer HSA-eligible plans in your state, go to www.HSAInsider.com.

COBRA

If you are covered by an employer-sponsored group plan and leave your job, you are likely to lose your health care coverage. In this case, you may be entitled to continue your health benefits under the *Consolidated Omnibus Budget Reconciliation Act (COBRA).*

This law gives qualified workers the right to continue their group coverage for a limited period of time. However, you must pay the premiums for continuing coverage. For information on COBRA and its possible benefits, contact the nearest U.S. Department of Labor office.

Individual Plans

People who are not eligible for COBRA, those who are between jobs, and the self-employed may purchase health insurance on their own.

REAL LIFE CONNECTIONS

Risks of High Medical Costs

Many employers stop offering group health insurance due to ever-escalating health care costs. Many workers cannot afford individual insurance.

Individuals and families without insurance face serious financial risks. Uninsured individuals often wait to see a doctor until they are seriously ill. At this point, many preventable illnesses have escalated and treatment options are less effective and more costly. High medical bills are one of the top reasons people file for bankruptcy.

Uninsured mothers often do not get adequate prenatal care. Uninsured children may fall behind in school because of frequent, untreated illnesses. Even with government-sponsored health insurance, many older adults cannot afford prescription drugs. They may skip doses or cut back on other necessities, such as food, to pay for prescriptions.

In recent years, politicians, medical associations, insurance companies, and employers have worked on overhauling the country's health care policies. The goal is to reduce costs, yet make health care available and affordable to all U.S. citizens.

These individual policies are more expensive and more exclusive than group plans. Premiums for an individual can be as much as $800 a month. Families often pay more than $1,000 a month.

Many families and individuals cannot afford these premiums, so they go without health insurance. However, it is risky to go uninsured. A serious illness or injury can easily wipe out a person's life savings, assets, or business.

Many health insurance companies sell individual plans. An application process includes filling out a medical history questionnaire and sometimes submitting to medical tests or a complete physical exam. Healthy young applicants are usually accepted. However, people suffering from serious injuries, illnesses, or chronic physical or mental health problems may be denied coverage. If they are accepted, they pay high premiums.

These plans may contain many exclusions. **Exclusions** refer to medical services that are not covered. Examples include dental care or treatment of preexisting conditions.

A **preexisting condition** is an illness or an injury you had before signing up for health care insurance. Generally, these conditions are not covered by a new plan for a stated period of time, if at all.

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Coverage for Young Adults

Many health insurance plans cover the policyholder's children until they reach a certain age. Full-time college students can usually remain on their parents' plan. However, once they leave college, change their student status to part-time, or get married, they may no longer be eligible, 10-3. Eligibility requirements vary from state to state.

Many colleges offer student medical insurance for major medical expenses. For routine health problems, students can visit free and low-cost campus

10-3
Many young adults may remain on their parents' health insurance plans until they graduate college or reach a certain age.

health and mental health clinics. People who do not go to college often get health coverage through an employer. However, health coverage is usually not available to part-time, temporary, and contract employees.

Many young people pass up health coverage because of high monthly premiums and deductibles. Healthy young people may not want to pay for health insurance, but serious illness is always a possibility. Also, accidents are a leading cause of injury and death among young adults. Experts recommend carrying major medical insurance to at least pay for hospitalization, tests, and surgery in case of serious illness and injury.

Long-Term Care

Long-term care insurance covers certain costs of care in a nursing home, an assisted living facility, or at home. The plan pays for the assistance needed by a person with a chronic illness or disability who cannot safely live alone.

Older consumers are the primary purchasers of long-term care insurance. Plans vary in cost and the services provided.

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Choosing a Plan

Many different types of private insurance programs are available. If you are looking for an individual plan, it pays to shop around. Your state insurance department Web site may offer consumer information and assistance.

If you have access to a group plan through your employer or some other affiliation, you can usually sign up during an *enrollment period*. At this time, policyholders can also change plans or renew coverage. Carefully review the insurance materials provided and choose the plan that meets your needs.

In evaluating health insurance plans, consider the services covered, the choice of health care providers, and the costs.

Services

No plan will pay for all your medical expenses or cover all the services you may need. *Maximum benefits* refer to the maximum paid for specific types of treatment or the maximum number of days care is covered. For example, payment for mental health care may be limited to $1,000 annually; the number of days in a hospital may be limited as well.

Plans also may require preauthorization and utilization reviews for certain services. A *preauthorization* is a requirement to obtain approval from the plan before receiving certain procedures and treatments. A *utilization review* is an insurance company's examination of requests for medical treatments and procedures to make sure they are covered and the patient truly needs them.

Be sure to find out if preauthorizations and utilization reviews are required. Look for coverage of the services that are most important to you. These may include the following:

- inpatient hospital services
- outpatient surgery
- office visits
- preventive care and screenings
- maternity care and well-baby care
- medical tests
- emergency room care
- physical therapy
- x-rays
- mental health services
- drug and alcohol abuse treatment
- prescription drugs
- home health care

Choice

Some plans allow you to choose your doctors, regardless of where they practice or their hospital affiliation. Other plans limit you to participating health care providers. Consider the following questions:

- How important is it to choose your own doctor and hospital or continue with the providers you already use?
- What health care providers, including doctors, hospitals, and labs, participate in the plan? Where are they located?
- What are the provisions for seeing a specialist if you believe you need one?
- Can you change doctors without prior approval if you are dissatisfied with your primary care physician?

Cost

Make sure you know the answers to the following questions before choosing a plan:

- What premiums must you pay?
- Is there a deductible? If so, how much is it? Which services are subject to the deductible?

Claims Investigators

Claims investigators handle insurance claims when a company suspects fraudulent or criminal activity, such as arson, falsified claims, staged accidents, or unnecessary medical treatments. They often perform surveillance work.

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- What are the costs of using non-participating providers and facilities?
- What health costs should you be prepared to pay? Check any exclusions, service limitations, or restrictions on preexisting conditions that may apply to you.
- What portion of charges must you co-pay? Do co-payments apply to every medical service you receive or only to specific items such as office visits and prescription drugs?
- In a managed care program, find out whether co-payments are higher if you go outside your health care plan for treatment.

Figure the total cost of the premiums you would pay together with the deductible. Certain plans have lower premiums, but higher co-payments or deductibles. Others may have the reverse. Very often you can reduce monthly premiums by choosing a plan with a higher deductible. This can save you money if you typically require only routine health care services.

You can control your health care costs by developing habits that make the most of your health care dollars. See 10-4.

Government-Sponsored Health Insurance

The government offers health insurance to certain eligible people, including older adults, people with disabilities, low-income families, and children. What each person pays, if anything, depends on various factors.

Ways to Lower Health Care Costs

- Make good health a priority. Follow a balanced approach to diet, exercise, sleep, stress control, and accident prevention.
- Find out what free or low-cost health services and programs are available through your school, employer, community, and government.
- Know exactly what expenses your health insurance covers, keep accurate records, and file claims promptly for covered expenses.
- Discuss fees and prices with health care providers. Cost-conscious patients can often avoid unnecessary expenses.
- Lower hospital costs by asking for outpatient care, if possible, and minimum hospital stays.
- Get a second opinion before agreeing to non-emergency surgery or costly procedures.
- Obtain necessary authorizations before receiving treatments to be sure they are covered by your insurance.
- Keep track of out-of-pocket spending on health care expenses. If these are more than a certain percentage of your income, they may be tax deductible.

10-4
Individuals can lower the cost of health care by following these recommendations.

Medicare

Medicare covers specific health care expenses for eligible citizens age 65 and older. It also covers those under age 65 with certain diseases or disabilities. The government funding for Medicare comes from payroll taxes. Four different parts of Medicare provide coverage for specific services.

Part A—Hospital Insurance

Part A helps pay for inpatient care in hospitals and skilled nursing facilities up to a specified number of days. It does not cover long-term care, but it covers some home health care and hospice care. *Hospice care* is for people with a terminal illness.

Most people do not pay a monthly premium for Part A coverage if they paid Medicare taxes while working. Employers and employees each paid half the premiums, while self-employed people paid the full amount.

A deductible must be met before Medicare will pay for hospital stays. If a patient needs care beyond the specified number of days allowed for home health, hospice, and skilled nursing care, the patient is responsible for paying certain costs. Current deductible rates and patient costs are available online at www.medicare.gov.

Part B—Medical Insurance

Part B is a voluntary program that helps pay for a variety of health care costs. These include doctors' fees, outpatient hospital services, home health services, certain tests, and other health care costs. To obtain Part B coverage, enrollees must pay a monthly premium.

Patients also pay an annual deductible each year before Part B will pay for services. In addition, patients pay coinsurance for certain services. For example, patients pay 20 percent of the cost for a physical therapy session. Premiums, deductibles, and coinsurance rates change periodically.

Part C—Medicare Advantage Plan

Private health insurance companies contract with Medicare to provide this type of plan. Medicare Advantage Plans combine Part A and Part B benefits under one plan. Some people prefer this type of plan because it simplifies enrollment and payment procedures. In most cases, prescription drug coverage is also included. Plans vary in coverage and costs.

Part D—Prescription Drug Coverage

Part D helps to lower prescription drug prices and protect against higher future drug prices, 10-5. Those who enroll in this program pay a monthly premium. Private insurance companies provide the coverage. There are a variety of plans offered and subscribers choose the one that best suits their medical needs.

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Medicare Part D helps patients pay for prescription drugs.

Medigap Insurance

This helps pay for health care costs not covered by Medicare, such as co-payments and deductibles. Private insurance companies sell this type of protection—not the government. Usually, this insurance is only available for patients who have both Medicare Parts A and B.

It is available in up to 12 standard benefit packages that provide varying degrees of coverage. The broader the coverage is, the higher the premium. It pays to shop carefully for a reputable, reliable insurance company with a good record of customer service.

Medicaid

Medicaid is a health insurance program for eligible low-income persons and those with certain disabilities. It is a state-administered program financed by federal and state tax revenues.

Patients apply for Medicaid at public aid offices within their state. The services provided vary from state to state. Most Medicaid programs pay for inpatient and outpatient hospital services, clinic care, X-rays, and laboratory services. Some states also pay for family planning, home health care services, dental and eye care, and other medical needs.

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Children's Health Insurance Program (CHIP)

Many American families earn too much to qualify for Medicaid, but not enough to afford private health insurance premiums. The *Children's Health Insurance Program (CHIP)* gives federal funds to states to provide health insurance coverage for children ages 18 and younger. The program rules vary slightly among states. Taxes on cigarettes and other tobacco products fund the program.

Disability Insurance

Disability insurance pays a portion of income lost to a worker who is unable to work for a prolonged period because of illness or injury. Many people do not think they need disability insurance. However, the loss of income because an inability to work can be financially devastating.

Disability insurance may replace as much as 60 to 70 percent of the income normally earned. The two types of disability insurance are short term and long term. Short-term coverage normally requires a waiting period of up to 14 days and provides coverage for up to two years. Long-term coverage may have a waiting period of several weeks or months and it pays for a number of years or for life.

Many employers provide limited disability insurance to their workers as a benefit. The employer pays the premium for these group plans. If an employee wants a higher level of insurance through the group plan, he or she may be able to pay for it. Consumers may buy this type of coverage independently if they are not part of employer health care plans or other insurance programs.

Shop carefully if you are buying disability insurance because plans vary greatly from company to company. Important questions to ask when buying disability insurance include

- ***What benefits are promised?*** How much money will you receive?
- ***What is the waiting period?*** Benefits do not start immediately. There is a waiting period of weeks or months. If you opt for a longer waiting period, your insurance premium will often be lower.
- ***How long are benefits available?*** The length of time a person can receive benefits varies. This can be a few years, until retirement, or for a lifetime.
- ***Can the policy be canceled by the insurer?*** A *non-cancelable clause* means that the insurance company cannot cancel your coverage so long as you pay the premiums. A *guaranteed renewable clause* means that you can renew the coverage with the same benefits but usually at a higher cost.

You may have to give up some of the features you want to get an affordable premium. For example, lowering the amount of the benefit or lengthening the waiting period will reduce the premium you must pay.

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Linking to... History

Occupational Safety and Health Administration

The *Occupational Safety and Health Act of 1970* requires employers to provide a safe working environment and safety training for their employees. The Occupational Safety and Health Administration (OSHA) is the government department that sets and enforces safety regulations and health standards for workers. Since the agency was created in 1971, injuries have declined by 42 percent and occupational deaths have dropped 62 percent. Still, over 5,000 employees lose their lives on the job each year.

OSHA provides workplace inspection, training, and education programs. It also enforces the law. The penalty for violating an OSHA standard can range as high as $70,000, depending on the seriousness of the violation. Workers are also required to adhere to OSHA health and safety standards. Not doing so can result in injured coworkers and job termination.

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Workers' Compensation

Workers' compensation insurance is another type of disability insurance. It provides a safety net for workers with work-related illnesses or injuries. It covers medical care and pays for a portion of lost wages. It also pays for medical treatment and rehabilitation that injured workers may require.

When workers are permanently disabled, they may receive benefits for life. If injuries and illnesses are fatal, workers' compensation provides death benefits to survivors.

Employers in every state are required to provide some form of workers' compensation insurance. Employees must file claims through their employers to apply for workers' compensation. Each state has its own laws and time limits for filing claims. Applicants must prove they are disabled and usually must submit to examinations by insurance company doctors. To find out more about your state's workers' compensation laws, check with the state workers' compensation board.

Life Insurance

The right life insurance choices can help provide financial security for you and your family. Life insurance protects dependents from loss of income and other expenses after the death of the insured person. The larger your financial responsibilities, the more important it is to have adequate coverage. Life insurance is especially important if you have a spouse, children, or elderly parents who depend on your income.

When an insured person dies, the face value of his or her policy is paid to the beneficiary. The *face value* is the amount for which the policy is written. A **beneficiary** is a person or organization named by the policyholder to receive assets after the policyholder's death.

The three traditional types of life insurance are term, whole life, and endowment. Each is available in slightly different forms and with different features.

Term Life

Term life insurance provides protection only for a specific period of time. This may be one, five, ten, or twenty years or until a specified age. When the term ends, so does the protection. Term policies often include a renewable option that allows you to renew the coverage at the end of the term, but at higher rates.

The advantage of term insurance is that it offers the most protection for your insurance dollar. Policies offering only protection cost less than policies with savings features. For those who really need insurance and cannot afford high premiums, term coverage may be the best choice.

Whole Life

Whole life insurance provides basic lifetime protection so long as premiums are paid. Whole life insurance is also called *straight life insurance*.

The face amount is paid to the beneficiaries upon death of the insured. The coverage builds cash value over the years. *Cash value* is the amount of money a policyholder would receive if the policy were surrendered before death or maturity.

You may be able to borrow against the cash value of whole life insurance at a relatively low interest rate. However, until repaid, benefits are reduced by the amount of the loan. You also can surrender the policy for its cash value if you want to change or eliminate coverage. New types of whole life insurance were developed in recent years to meet today's needs and demands. The new types include variable life, adjustable life, and universal life.

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Case Study: Life Plans

A Death in the Family

Robb's father died suddenly during Robb's senior year in high school. The death left his family in a state of emotional and financial shock.

Robb's father was only 42 years old and in fine health. His income was good, but benefits were limited. The family received $30,000 from a pension plan and $25,000 from a life insurance policy. The benefits plus $7,500 in savings wasn't enough for their family of four with no income and three teenagers to educate.

Now the family must sell their home and look for cheaper housing. Robb was accepted by a college and planned to go in the fall, but will have to delay college plans or go part-time for now.

Robb figures he must work full-time after graduation to help support his family. His mother, once a teacher, plans to teach full-time after taking some required courses. His younger sisters will have to babysit and find other jobs to earn spending money for clothes and extracurricular activities.

Case Review

1. Could Robb's family have planned better to minimize or eliminate some of these financial problems? Name at least five steps they could have taken.
2. What else can the family do at this point to meet and overcome the financial hardships they face?
3. What government and community agencies and programs could be helpful to a family in their situation?

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Limited Payment Policies

Limited payment policies offer lifetime protection. They call for premium payments over a stated period of time, such as 20 years, or until you reach a certain age. During the payment period, premiums are higher and cash value builds faster than for standard whole life coverage.

Variable Life

Variable life insurance premiums are fixed. Your insurance protection is combined with an investment feature. The face value varies with the performance of the fund in which the premiums are invested. However, the face amount may not fall below the original amount of the insurance. These policies guarantee a minimum death benefit. The benefit may be higher than the guarantee, depending on the earnings of the premium dollars invested.

The advantage of this type of life insurance is the possibility of gaining earnings when the value of the fund rises. The main disadvantage is it may not offer the best of either insurance or investment opportunities.

Adjustable Life

You can revise an adjustable life insurance policy as your needs change, 10-6. Within limits, you may raise or lower the premiums, face value, and

10-6

Parents may wish to increase their life insurance coverage when they have a child. Adjustable whole life insurance allows policyholders to change coverage when needed.

premium payment period. Coverage may start with term insurance for a given amount, premium, and term. All these may change as needed. Flexibility is the key advantage of adjustable life coverage. The need to constantly monitor coverage may be a disadvantage.

Universal Life

Universal life insurance permits the adjustment of premiums, face value, and level of protection. In addition, it offers an investment feature. The cash value is invested to earn interest at current market rates. An annual statement shows the current level of protection, cash value, and interest earned. The statement also includes a breakdown of how premiums are allocated to protection, investment, and expenses.

An advantage of universal life is flexibility, both in the amount of the premiums and in the level of protection. Earnings also keep pace with current market rates. If interest rates go down, however, your earnings decrease. You pay no taxes on the accumulated interest until you cash in your policy. This can be an advantage for persons in high income tax brackets.

Endowment Insurance

Endowment insurance pays the face value of the policy to beneficiaries if the insured dies before the endowment period ends. It pays the face amount to the insured if he or she lives beyond the endowment period.

The advantage of endowment insurance is the combination of protection and savings. It is a type of investment. Disadvantages are the high premiums and possible tax consequences.

Selecting the Protection You Need

Each person's needs are unique. The life insurance coverage that is right for one person or family may be wrong for another. Finding the type and amount of protection that works best for you requires careful planning.

The amount and type of life insurance protection you need depends on two key factors: your present and future earning power and your financial responsibilities and obligations.

Amount of Protection

Protection is often based on the amount of earnings that would be lost if the insured died prematurely. It is also matched to the needs of survivors for whom the insured is financially responsible. These needs depend on the number of survivors, their marital status, their earning power, and their lifestyles.

Other factors to consider include the share of family income provided by the insured and income available from other sources. Careful analysis

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is needed to determine the amount of protection to buy. Consider the following factors to decide how much coverage you need.

- ***Ages and financial needs of those depending on your income.*** Dependents may include aging parents or relatives as well as a spouse and young children.
- ***Amount of money your dependents would need to maintain their standard of living without your income.*** Ideally, money would be left to cover a home mortgage and everyday living expenses. It might also cover major future expenses such as college education for children.
- ***Other sources of income that would be available for dependents.*** Would dependents be able to draw on Social Security benefits, savings, employee benefits, or their own earnings? You want enough coverage to fill the gap between what is available from other sources and what your dependents would need.
- ***Amount of cash needed to pay burial costs and unpaid debts.*** Even if you are single with no dependents, you need enough life insurance to take care of these costs. Then your financial obligations will not burden your parents or other relatives.

Types of Protection

You can buy life insurance in a variety of forms and with many special benefits. The decision depends on how much coverage you need, what you can afford to spend, and the special features you want.

Group insurance may be available through your employer, union, or another group to which you belong. As a rule, group coverage costs less than an individual policy for the same amount of coverage. Very often, group coverage is provided as a fringe benefit where you work. The employer may pay all or part of the premium. If you rely on group protection, look for a conversion clause. This permits you to convert to an individual policy without proof of insurability if you should leave the group.

Individual policies, though more expensive, generally can be tailored to the policyholder's needs. Features to consider when choosing life insurance protection include the following:

- ***Guaranteed renewability*** allows you to keep coverage in force at the end of a term without new evidence of insurability. Premium rates increase with each new term.
- ***Double indemnity*** provides for double benefits if death is the result of an accident. This may also be called an *accidental death benefit*.
- ***Disability benefit*** provides for a waiver of premiums if the insured becomes permanently and totally disabled. While this provision often is available as a feature on a life insurance policy, more comprehensive separate disability coverage is usually desirable.
- ***Convertible provision*** permits you to convert or exchange a term policy for another form of protection without new evidence of insurability.

Case Study: Life Plans

Life Insurance for Coni

Coni is 23 and just started her first job after college. She is single with no dependents. Both Coni's parents are living. A $150 credit card balance and a $1,500 car loan are her only major financial obligations other than her apartment lease.

When Coni is 25, her father dies. His retirement funds leave just enough money for her mother to make ends meet. Coni's mother could become financially dependent on her if she outlives her source of income.

At 28, Coni marries Arend. Arend has no dependents. That year, Coni is promoted at work. At 30, Coni has their first child. Two years later, she has a second child. She works part-time until the children reach school age. This reduces her income temporarily. Coni and Arend start setting aside money for the children's college costs.

When Coni and Arend reach their mid-forties, the children are in high school. They will start college in three and five years. Coni's mother is in a nursing home, and Coni is paying most of the bills. Both Coni and Arend are working and are at the peak of their careers. They expect their salaries to remain fairly stable during the remaining 20 years of work.

Now Coni and Arend are in their mid-fifties. Both children graduated from college. Coni's mother passed away. Coni and Arend begin to consider travel and retirement.

Case Review

1. When Coni was single and both her parents were alive, do you think she needed life insurance? Explain.
2. When Coni's father died, what changes should she have made in her insurance program? Why?
3. What type of insurance program would you recommend for Coni and Arend when they married? Why?
4. What insurance and other financial planning would be suitable for a couple with young children?
5. How would Coni and Arend's financial planning change when they reached their forties?
6. What changes do you think they should make in their insurance program now? Why?

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Finally, consider how life insurance fits into your overall plan for future security and eventual retirement. Future financial security depends on the right mix of savings, insurance, and investments. Some people plan to use insurance as a form of savings. In this case, be sure the earnings on your insurance match or exceed those on other forms of savings and investments.

Choosing a Company, Agent, and Policy

Select a company that is respected within the insurance industry, by its policyholders, and by people in the financial field. Check whether the company has a reputation for settling claims fairly and promptly. Also be sure the company is licensed to operate in your state.

You can research and compare life insurance companies by reviewing *Best's Insurance Reports*. This can be found in most public libraries or online at www.ambest.com. You also can check out an insurance company through your state insurance department.

Look closely at policies that offer the benefits and options important to you. Be sure to compare the premiums charged by different companies for the same types and amounts of coverage. If you are considering whole life insurance, compare the cash value accumulation rates. Additional information on buying life insurance is available from a number of financial publications and online.

The life insurance agent you choose is also important. Very often, the agent is the key to the quality of service you receive. All states require a special license to sell life insurance. Initials following an agent's name indicate completion of specific studies in the insurance field. *CLU* indicates a Chartered Life Underwriter. *ChFC* indicates a Chartered Financial Consultant. *LUTCF* indicates a Life Underwriters' Training Council Fellow. Members of the National Association of Life Underwriters subscribe to the ethical standards of that group.

Choose an agent who can clearly explain the different types of coverage and benefits available. A good agent advises you honestly about the type and amount of coverage you need. He or she also helps you evaluate your coverage as your needs and finances change. Finally, a responsible agent handles policy revisions and claims promptly.

Once you choose a company and an agent, select a policy. Talk honestly with your agent as you discuss your needs.

After you buy a policy and it is delivered to you, review it carefully. Be sure the policy you are given is the one you chose. If the policy does not meet your expectations, most companies allow you to return it within ten days without obligation. As you review the policy, check to see that it states the following:

- Name of the company.
- Name of the insured and the beneficiaries.
- Type of coverage.
- Amount of coverage and benefits.
- Amount and due dates of premiums.

Insurance Representatives

Insurance representatives interact with agents, insurance companies, and policyholders. They handle much of the paperwork related to insurance policies, such as sales, policy applications, and changes and renewals to existing policies.

- Terms for borrowing money against accumulated cash value, if applicable.
- Schedule of cash value accumulation, if applicable.
- Benefits and options of the policy.

Be sure to ask questions about any terms, provisions, or sections you do not understand. Once you are insured, inform your family and beneficiaries of the coverage and the location of the policy.

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Home Insurance

Once you invest in a home of your own, you want to protect it with insurance. Homeowner's insurance provides coverage for liability and property damage under certain conditions. It provides two basic types of coverage: property protection and liability protection.

Property coverage insures you against damage to or loss of dwelling and personal property and possessions, such as clothes and furnishings. It may also pay for additional living expenses if you should need to move out of your home because of damage to the property. The specific losses covered depend on the type of policy you buy.

Liability coverage protects you if others are injured on your property. For example, if someone falls and is hurt in your home, liability coverage pays for any loss incurred.

This coverage also protects you if you, your family, your pets, or your property accidentally damages the property of others. It pays for the legal costs of defending yourself if you are sued because of injuries or damages. Limits on this coverage generally run around $100,000. You can buy additional coverage either in an umbrella policy or extended liability policy. An *umbrella policy* is an insurance policy that covers loss amounts that are higher than those covered by primary policies.

Amount of Coverage

The first step in buying the right homeowner coverage is to find out how much it would cost to rebuild your home. This may be more or less than the price you paid for the home or the amount it would bring if you sold it today. The cost of rebuilding your home depends on local building costs and the type of home you own.

Your insurance agent may be able to help you calculate building costs, or you may need an appraisal. An **appraisal** is an estimate of the current value of property. A qualified appraiser should make an appraisal. Once you arrive at an appraised value, buy enough insurance protection to cover the cost of replacing your home. Today most insurance companies recommend enough insurance coverage to rebuild your home if it should be completely destroyed.

To keep insurance coverage up-to-date, inform your insurance agent of any major home improvements you make. You also may want to add

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an inflation-guard clause to your policy. This automatically adjusts policy renewal coverage to reflect current rebuilding costs.

Read the policy to learn what coverage is provided for personal possessions. It generally is limited to 50 percent of the amount of coverage on the home, but may be higher. Compare the contents limit with the total value of your possessions. If coverage is not adequate, you should talk to your insurance agent about increasing protection.

Knowing whether your personal property is insured for replacement cost or actual cash value is also important.

- *Actual cash value* is the replacement cost minus depreciation. **Depreciation** is a decrease in the value of property as a result of age or wear and tear.
- *Replacement value* covers the cost of replacing what you lose without deducting depreciation.

For example, a five-year-old TV set, even in good condition, is no longer worth what you paid for it, or what a new similar set would cost. If the set were stolen, actual cash value recovery would not pay for a new one. If it were insured for replacement value, you could recover the full cost of a new TV set of comparable quality. Obviously, it pays to insure possessions for replacement rather than actual cash value, though it costs from 10 to 15 percent more.

When insuring home and possessions, make a complete inventory of your belongings. Include the purchase date and price for costly items. It is a good idea to take photos or videos of each room. This helps you remember the contents and establish your claims in case of major losses, 10-7.

Cost of Home Insurance

Be sure to call or visit with representatives from several companies to comparison shop before you buy insurance. Compare company reputations for honoring and prompt processing of claims. The cost of protecting your home and personal possessions depends primarily on four factors:

- ***Type and amount of coverage.*** The higher the amount of protection purchased and the more perils covered, the higher the premium will be. A policy with replacement value coverage is more expensive than one with cash or market value protection.
- ***Size of the deductible.*** The higher the deductible is, the lower the insurance premium will be.
- ***Risk factor where you live.*** The type of home you own and its location influence premium rates. For example, you pay more for fire protection on a frame house than on a brick house. You pay more for protection against theft and vandalism in high-crime areas than in low-crime areas.
- ***The insurance company.*** The cost of insurance premiums varies from company to company.
- ***Opportunity for discounts.*** Check with your insurance agent to see if you qualify for premium reductions for more than one policy with the

Filing a Home Insurance Claim

Follow these steps to file a claim on your home insurance.

1. Report any burglary or theft to the police immediately.
2. Notify your insurance agent or company promptly by phone with a written follow-up report. Determine exact coverage your policy provides and find out whether the loss exceeds the deductible. Ask about details of filing a claim and about records and estimates you may need to file a claim for repairs or replacements.
3. Make temporary repairs and take necessary steps to prevent further damage. Keep receipts and records of expenses involved for reimbursement.
4. Make a list of lost or damaged articles with estimated replacement costs and confirming records of purchase and replacement prices.
5. Keep records and receipts for living expenses if damage to your property requires you to find a place to live while repairs are being made.
6. Provide your insurance agent or company with the necessary receipts, records, and information required to handle and settle your claim.
7. Check your policy to find out what steps are involved in settling a claim. If you are dissatisfied or have questions concerning the final settlement, discuss matters with your agent or the claims adjuster.
8. If you find a settlement unsatisfactory or are not satisfied with your insurance company's handling of your complaint, you can contact your state insurance department or call the National Insurance Consumer Helpline for assistance.

Insurance Information Institute

10-7

These guidelines can help you file a home insurance claim.

company such as home and auto coverage. Also, check if discounts are available for devices such as a smoke detector or burglar alarm, for nonsmoker policyholders, or for long-term policyholders. These discounts can reduce your homeowner premiums considerably.

When you are ready to buy home insurance, take time to study the types and amounts of coverage available. Then find an informed, reputable insurance agent or broker who can advise you on the type and amount of coverage you need. Ask friends and business associates about their experience with insurance agents and companies.

A.M. Best & Company rates insurers for financial stability. The ratings are published in *Best's Insurance Reports: Property-Casualty*. This publication is available in the reference section of most public libraries and online at www.ambest.com. Your state insurance department may also help you evaluate a company's service and complaint record. In addition, you can find information online about home insurance coverage, companies, and rates.

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Renter's Insurance

Renter's insurance covers losses due to damage or loss of personal property and possessions. These include jewelry, electronics, furniture, bedding, and so forth. The landlord carries coverage on the dwelling itself.

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Renters should look for a policy with liability insurance. If guests were harmed in a rental home, liability insurance would cover any expenses incurred by the resident.

College students living in a dorm or renting an apartment may need renter's insurance, a floater, or an endorsement to protect their possessions. A *floater* is a form of insurance that covers specific items wherever you take them. It "floats" with possessions such as a musical instrument or a laptop computer.

An *endorsement* is an attachment to existing insurance coverage, such as a family policy to protect a computer, a television, and other expensive items taken to college.

Auto Insurance

Auto insurance gives policyholders coverage for liability and property damage under specified conditions. When you own or lease a car, you take certain personal and financial risks. If you are involved in a car accident, you may be required to pay thousands of dollars for injuries and property damage, 10-8. If you are in an accident where you are at fault or claims are filed against you, it can cost thousands of dollars in legal fees as well as damages. Practically no one can afford the financial risks of extensive property damage, serious injury, or death without insurance coverage.

All 50 states have *financial responsibility laws* that require drivers to show proof of their ability to pay stated minimum amounts in damages

10-8

Having adequate auto insurance is important. Car accidents can cost thousands of dollars for repairs, medical expenses, and legal fees.

after an accident. Most states also have *compulsory auto insurance laws* that require car owners to buy a minimum amount of bodily injury and property damage liability insurance in order to legally drive their cars.

When you are ready to buy auto insurance, shop carefully to get the coverage you need at the best price. An auto insurance policy may include several types of coverage for the insured individual or family.

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Types of Auto Insurance

Of the six basic types of auto insurance coverage, two are liability coverage. They pay other parties for losses you cause. The other auto policies pay you, the insured, for losses outlined in the policy.

Bodily injury liability is coverage that protects you when you are responsible for an auto accident that results in the injury or death of other parties. **Property damage liability** protects you when you are responsible for an auto accident in which the property of others is damaged.

These policies cover the policyholder, family members, and any person driving the car with the owner's permission. They pay damages to the other parties involved in an accident you cause. Both types of liability coverage pay the legal fees for settling claims. They also pay for damages assessed against you, up to limits stated in the policy. These damages include injuries to other parties or damage to the property of others.

Medical payments or *personal injury protection (PIP)* pays you, the insured, for medical expenses resulting from an accident in your car, regardless of who is at fault. It covers you and any person injured in or by your car.

Collision insurance pays you for damage to your car due to an auto accident or collision with another car or object.

Comprehensive physical damage insurance pays you for loss or damage to your car resulting from fire, theft, falling objects, explosion, earthquake, flood, riot, civil commotion, and collision with a bird or animal.

Uninsured and underinsured motorist insurance pays you for injuries caused by an uninsured or hit-and-run driver. It covers insured persons driving, riding, or walking. It covers you if injured as a pedestrian. It also covers passengers in the insured person's car.

Auto Insurance Costs

Auto insurance is a costly service. Coverage for young drivers is particularly high because statistically they have more accidents. Adding a teenage driver to a family policy may increase the insurance premium by as much as 75 percent.

The guidelines in 10-9 can help you select the automobile insurance you need. The cost of auto insurance depends on the following factors.

Driver Classification

Driver classification is determined by the age, sex, and marital status of the driver. Driving record and habits are also considered.

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Suggestions for Buying Automobile Insurance

1. Decide on the types and amounts of coverage you need. If you now have a policy, review your coverage and its cost before renewal time.
2. Check with several reputable insurers. Keep in mind the least expensive coverage is not necessarily the best for you. Consider such things as the company's reliability and its reputation for service, including claims handling. If you're in doubt about a company, check with your state insurance department.
3. Consider the amount you would save by paying a higher deductible. You may find it pays in the long run to take care of small losses yourself.
4. Check with your agent regarding your eligibility for premium discounts.
5. Consider special coverages or higher policy limits if you frequently drive other commuters to work or groups of children to school or special events.
6. Consider reducing or dropping collision coverage as cars get older.

10-9

These guidelines can help you select auto insurance.

Statistically, young, single males are involved in more serious accidents than other classes of drivers. Therefore, they tend to pay the highest insurance premiums. If a young man marries, his insurance costs may decrease because, statistically, married men have fewer serious accidents than single men. Rates for women, single and married, are lower than for males.

A poor driving record tends to increase premiums as does a record of previous claims and costly settlements. When your driver classification changes, so might your insurance rates.

Rating Territory

The number and amount of claims an insurance company processes in your area determines rates for auto insurance. Premiums are higher in frequent claim areas such as big cities and high traffic districts.

Premium Discount Eligibility

Some companies offer discounts to drivers who

- have a safe driving record
- get good grades (if still in school)
- are nonsmokers
- install antitheft devices and air bags
- are over a certain age
- have two or more cars on a policy
- have a positive credit report

Check with your insurance company about possible discounts.

Insured Car's Year, Make, and Model

Cars that are costly to repair or that are favorite targets of thieves cost more to insure. Premiums are higher for luxury, sports, and new cars than for standard models and older cars. For older cars, collision insurance may not be cost effective.

Cars that require expensive repairs and parts generally cost more to insure. Very popular models cost more to insure than more ordinary cars. Check the insurance costs for different models before buying a car.

Deductible Amount

Increasing the deductible amount can reduce premiums for collision and comprehensive damage coverage. Increasing your deductible from $250 to $500 could save you 15 to 30 percent on your premium. The higher the deductible is, the lower the premium will be.

Coverage Amount

The more protection you buy, the higher the premium will be. However, the cost per dollar of coverage is usually less for more coverage. For example, a $100,000 policy costs less per dollar of coverage than a $50,000 policy. Just remember to buy the amount of coverage you need. A reliable agent can help you decide.

Insurance Company

Premium rates and service for the same coverage may vary greatly from company to company. It pays to shop carefully. You may be able to save by combining different coverages into one policy rather than buying each separately.

To compare insurance costs, check the cost of coverage you need with several reliable insurance companies. Once you buy auto insurance, read your policy carefully and know what coverage you carry.

It also is a good idea to keep the policy and records of premium payments and claims together in one place so you can find them as needed. You also must carry proof of your insurance coverage in your vehicle in most states. See 10-10 for procedures to follow at the scene of an accident and in filing an insurance claim.

No-Fault Auto Insurance

No-fault auto insurance eliminates the faultfinding process in settling claims. When an accident occurs, each policyholder makes a claim to his or her own insurance company. Each company pays its own policyholder regardless of who is at fault. No-fault insurance is designed to simplify and speed up payments to accident victims. It also acts to lower insurance rates by reducing costly court trials to determine fault.

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Auto Accidents and Insurance Claims

At the Scene of an Accident

- Stop your car safely beyond the accident and out of traffic. Turn on flasher or warning light.
- Assist the injured, but do not move anyone unless absolutely necessary.
- Administer any first aid you are qualified and trained to provide.
- Stay calm and help others to do the same.
- Get help as fast as possible. Call or have someone call the police and an ambulance if needed.
- Provide police with information they request.
- Ask for a copy of the police report.
- Write down 1) names, addresses, and phone numbers of those involved in the accident and of any witnesses, 2) license number, make, and model of cars involved, 3) driver's license number of drivers involved, 4) insurance company and identification number of each driver involved, and 5) names and badge numbers of police officers and other emergency assistants.
- For a collision with an unattended or parked auto, try to find the owner. If unsuccessful, leave a note with your name, number, and address. Damages over a certain amount must be reported to the police in most states.

Filing an Insurance Claim

If your car is involved in an auto accident; if it is damaged by fire, flood, or vandalism; or if it is stolen, follow these steps in filing a claim for your losses.

- Phone your insurance agent or a local company representative as soon as possible to report the incident.
- Ask the agent how to proceed and what forms or documents are needed to support your claim. These may include medical and auto repair bills and a copy of the police report.
- Obtain and provide the information the insurer requires. Cooperate fully with your insurance company in the investigation and settlement of claims.
- Turn over copies of any legal papers you receive in connection with the accident and losses you are claiming. If you are sued or claims are brought against you, the insurance company will provide legal representation for you.
- Keep copies of any paperwork and documents you submit with your insurance claim.
- Keep records of any expenses you incur as a result of an automobile accident. They may be reimbursed under the terms of your policy.

Note: If involved in an accident, it is unlawful to leave the scene without proper notification if there is injury, death, or property damage over a certain amount. Check the laws on reporting accidents in your state.

10-10
Follow these steps if you are involved in an auto accident and must file an insurance claim.

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State legislators decide whether their state adopts a no-fault insurance plan and what form it takes. Most states with a no-fault plan have a combination no-fault and liability insurance. The no-fault pays for claims up to a set amount called a *threshold*. However, in most states individuals can sue for additional damages when an accident involves severe injuries, death, or major medical bills. Liability insurance pays for damages over and above the threshold amount.

High-Risk Drivers

It can be difficult for individuals with poor driving records to buy insurance. Insurers consider these drivers too great a risk. In such cases, it may be possible to obtain coverage through an assigned risk plan. This is a state-supervised program in which high-risk drivers are assigned to insurance companies. The companies are required to provide coverage, but premiums are considerably higher than for those with better driving records.

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Chapter Summary

The types of insurance protection consumers typically buy cover health, disability, life, home, and auto. Protection needs in these areas vary with every individual and family. It pays to shop carefully for the best coverage at the best price.

The high cost of medical care makes it important to investigate all options for obtaining health insurance. Older citizens and certain groups may be eligible for government insurance programs such as Medicare and Medicaid. Disability insurance protects against financial loss if the policyholder becomes disabled and can no longer work.

Adequate life insurance coverage guarantees income for the policyholder's survivors. It is particularly important for those who are financially responsible for a spouse, children, or others. Term life, whole life, and endowment insurance are three main types of protection against the loss of income as a result of the death of a wage earner. Life insurance may also offer investment features.

Once you own a home, you need insurance to protect it. A reliable insurance agent can help you select the type and amount of coverage you need. Costs depend on the type and amount of coverage you buy, the deductible amount, the risk factors where you live, and the opportunity for discounts.

Carrying adequate auto insurance is a major responsibility of car owners. Different types of coverage protect against the different risks individuals assume as a car owner. The cost of insurance depends on many factors, including your driving record, where you live, and the type of car you drive.

Review

1. Give two examples of financial risks that insurance can protect against.
2. Explain how HMO, PPO, and POS health insurance plans differ.
3. How can a health savings account (HSA) save you money?
4. List three disadvantages of individual private health insurance plans.
5. What factors should be considered before enrolling in a health insurance plan?
6. What are the differences between Medicare and Medicaid?
7. What is disability insurance and how does it work?
8. What are the differences between term life, whole life, and endowment insurance?
9. What are two key factors that determine the amount of life insurance to buy?
10. What four major factors determine the cost of home insurance?
11. Which type of insurance coverage pays for damage your car causes someone else's property if you are responsible for the accident?
12. List five factors that determine auto insurance costs.

Critical Thinking

13. Outline the health care costs typically covered by health insurance.
14. Explain and give examples of the following terms as they apply to health insurance.
    A. preexisting
    B. exclusions
    C. co-payments
    D. deductibles
15. What are the advantages of long-term care insurance and who needs it?
16. Name and describe the different types of whole life insurance.
17. List four factors you should consider when selecting a life insurance company and agent.
18. Explain the types of coverage home insurance policies provide.

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19. What kinds of auto insurance coverage do you or your family carry? How might the family coverage and costs change if you are added to the policy as a new driver? How might the cost change for one vehicle if you raise the deductible and lower liability coverage limits?
20. How does no-fault auto insurance work?

Academic Connections

21. **Financial literacy, research.** Use the Internet to research disability and long-term care insurance offered by three major insurance companies. Find out about coverage, costs, and factors to consider in deciding whether and how much of this type of coverage someone might wish to consider at different stages of life.
22. **Research, speech.** Describe the life insurance needs of the following family. The husband is 30 years old and earns $55,000 a year. The wife is 29 years old and earns $40,000 a year. Both have secure jobs, excellent health, and health insurance through their employers. The couple has two children, ages four and two, and no other dependents. Their financial goals include a larger home, an education for their children, and a comfortable retirement income. Talk to a life insurance agent in your community. Ask what type of life insurance is recommended for this family and why. Describe how life insurance decisions relate to investment and other financial decisions. Report your findings to the class.
23. **Math.** Make a list of personal possessions you would take if you went away to college. Estimate the value of each item and calculate the total value. Contact your family's insurance agent. Based on the value of your possessions, how much would it cost to insure them?

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24. **Financial literacy, math.** Use the Internet to obtain no obligation rate quotes for renter's insurance at two different companies. Find out how much you would pay a year for a renter's policy in an area where you would like to live. Choose the same coverage options for both quotes. Investigate the claims record and reputation of each company. Compare the policies or coverage. Which company appears to offer the best coverage and service for the least amount of money?
25. **Reading.** Obtain an auto insurance policy to study and analyze. Underline the most important phrases and circle any terms you do not understand. Discuss the policy in class, explain the coverage it provides, and define the circled terms.

Math Challenge

26. Tyrone visits his doctor because he has abdominal pain. The doctor examines Tyrone and sends him to the outpatient testing center at a local hospital for an abdominal scan. Given the following information, how much will Tyrone pay out of his own pocket for the doctor's visit and test? How much would it cost Tyrone if he didn't have insurance?

Doctor's visit: $125

Abdominal scan: $1,600

Tyrone's Insurance Coverage

Deductible: $250 per year (Tyrone has paid $75 toward his deductible.)

Co-payments: $30 per doctor visit; $10 for generic drugs; $30 for brand-name drugs (Co-payments do not count toward the deductible.)

Tech Smart

27. The law requires that drivers carry certain types and amounts of auto insurance. These requirements vary among states. Using the Internet, find the legal requirements in your state. Do you believe they are sufficient? What changes would you make? Why?