



When you're young and healthy, owning insurance doesn't seem like it should be a high priority. The chances of something bad happening seem remote, and you'd rather not think about that anyway. But misfortune does happen—to expensive things. So everybody needs to think about insurance.

In this unit, you will:

- Identify ways to manage risk
- Describe how insurance is used to protect against potential financial loss
- Explain the features and processes related to automobile insurance
- Examine how insurance needs vary from person to person because of lifestyle and life situation
- Assess how insurance fits into your financial plan

UNIT SIX

Insurance: Protecting What You Have

As Rachel was leaving her apartment one morning, she saw that someone had broken into her car. One of the windows had been smashed in, and a camera she had left on the passenger seat was gone. She called her dad to find out what to do.

“The first thing you’ve got to do is call the insurance agent,” he said. “Your auto insurance will cover the broken window and anything else they might have messed up on the car. But ... did you ever call him and sign up for that renters’ insurance we talked about last month?”

“No,” Rachel said reluctantly, “I haven’t gotten around to doing that yet.”

“Then you’re probably out of luck on the camera. Your auto insurance covers only the car itself—it doesn’t cover anything you leave in it. That is usually covered by your renters’ insurance,” he said.

“I can’t afford a new camera right now!” she said.

“Unfortunately, there’s nothing I can do about that. But while you’re filing a claim about the car, ask for a renters’ insurance application and fill it out. That way, if this ever happens again, you’ll be covered,” he said.

“OK, OK, I’ll do it. Thanks, dad,” Rachel said before hanging up.

What Do You Think?

Choose true or false for each of the following statements:

One in 10 Americans visits the emergency room each year.¹

Nearly 80% of crashes and 65% of near-crashes involve some form of driver inattention in the 3 seconds before the event.²

Nearly one in three Americans will become disabled for one year or more before the age of 65.³

In the United States, an automobile is stolen every 60 seconds.⁴

Seventy percent of all fatal bicycle crashes involve head injuries.⁵

Using lap and shoulder safety belts reduces the risk of fatal injury to front-seat auto occupants by 45% and the risk of moderate-to-critical injury by 50%.⁶

Sixteen-year-old drivers have crash rates that are three times greater than those of 17-year-old drivers and five times greater than those of 18-year-old drivers.⁷

A disabling injury occurs every minute.⁸

¹ Agency for Healthcare Research and Quality, ² National Highway Traffic Safety Administration (NHTSA) and the Virginia Tech Transportation Institute (VTTI), ³ Life & Health Insurance Foundation for Education, ⁴ Federal Bureau of Investigation, ⁵⁻⁷ NHTSA, ⁸ National Safety Council

All About Risk

Despite our best efforts to plan, sometimes things just go wrong. You get sick, lose something valuable, or get sideswiped by another car in a parking lot. Some of these events may just be small blips on the radar screen—such as getting a cold or losing a CD. But other events may be physically, legally, and financially disastrous.

Oftentimes it's completely unexpected when things go wrong. But let's face it, sometimes our own behavior causes bad things to happen: not wearing a helmet when you're riding a bike or motorcycle; leaving your wallet behind in a public place; not locking up your bike, car, or apartment; or tackling a friend on your front lawn. All of these actions increase your risk that something unfortunate will happen.

Risk is the chance of loss from some type of danger. Risky behaviors like the ones stated earlier can cost you—big time. Not wearing a helmet or seatbelt increases the odds that you’ll be injured should you be involved in an accident. Leaving your wallet around or not locking up your bike increases the chance that someone will take your stuff. Goofing around with a friend makes it more likely that you or he will get hurt. Who will pay for the losses or medical treatment if these things happen? You will. And replacing stolen items or paying hospital bills isn’t cheap.

Whether you’re doing something to increase your risks or just going about your daily life, you *can* take steps to protect yourself.

Risk management refers to how you deal with the chance of a potential personal or financial loss. Basically, you have four options:

- 1 **Avoid the risk.** If you’re worried about being injured in a plane crash, you could take the train. To prevent being hurt in a car accident, you could walk to school. Of course, if you live 20 miles from school, walking there each day is not realistic. But if it’s important to you to avoid a certain risk altogether, you can probably find a way to do it.
- 2 A more practical option is to **reduce the risk** by taking steps to protect yourself. To avoid being hurt in a car accident, wear a seatbelt; avoid doing other things that distract you while you’re driving; choose a heavier car with safety features like airbags. These things will reduce both the risk of being in a car accident and of being seriously hurt if you are in an accident.
- 3 **Accept the risk.** This is a good strategy when the amount or likelihood of a potential financial loss is small. An example is forgoing the extended warranty on a digital music player. Maybe you plan to use the player only at home, or you’re OK with paying for another one if something happens to it. Either way, you’re willing to take the chance of having to replace it yourself.
- 4 **Share the risk.** This is what insurance companies are all about. Many people choose this approach to manage big financial risks. In exchange for your making monthly payments to them, insurance companies promise to pay you a portion of the expense should a personal or financial disaster occur. To understand how this works, you need to know some insurance basics.



Did You Know?

- The average renter has more than \$20,000 worth of stuff.¹
- The average cost per emergency room visit is \$560.²
- The average cost of a disabling auto injury is \$49,700.³

¹ State Farm

² National Safety Council

³ Agency for Healthcare Research and Quality

Exercise 6A:

Risky Business

Brainstorm a list of risks that teens face in their daily lives. Enter your responses into the first column of the chart below.



Everyday Risks for Teens:	Ways to Reduce or Avoid Risks:



Exercise 6B: Manage the Risks

How do you recommend
reducing or avoiding the risks
you listed in Exercise 6A?

Enter your answers into the
second column of the chart
on the previous page.



Assignment 6-1: A Case for Insurance

Develop a brochure, a
one-minute radio or TV
commercial, or a poster to
inform others of ways to
reduce common risks faced
by high school students.

Sharing the Risks

Insurance is a means of guaranteeing your financial protection against various risks. In exchange for a relatively small payment, you gain protection against a potentially large loss. What's a large loss? For most people, a house burning down or spending weeks in the hospital recovering from an accident can create huge expenses that can't be paid out of their own pockets. An **insurance policy** is a written contract detailing what an insurance company will cover, how much it will pay, and how much you will pay.

The **premium** is simply the amount you pay for an insurance policy. It can be paid monthly, quarterly, semi-annually, or annually. It can cost several hundred thousand dollars to rebuild a house that has been destroyed by a fire. But insuring that house might cost only several hundred dollars a year. Because most people can better afford the second option than the first, they choose to share or transfer the potential costs of rebuilding their homes to insurance companies.

The insurance premium is based on the type and amount of coverage you choose and varies from one insurance company to another. Factors that generally affect your premium include your age, marital status, whether you live in an urban or rural area, and your credit history. Insurance companies have found that people with higher credit scores are usually less risky to insure, so they tend to charge them lower premiums.

And for each type of insurance, other factors come into play. For example, your driving record and the type of car you drive matter when an auto insurance company determines the premium for your car insurance. How healthy you are helps determine the premium for your health and life insurance.

In the United States, having insurance is considered a privilege and not a right. Companies cannot reject your insurance application based on ethnicity or marital status, but they can reject your application for a variety of other reasons.

As you review your insurance options, one choice you'll have to make that affects how much you pay is the amount of coverage you want. The **coverage limit** is the maximum amount the insurance company will pay if you file a claim. It can be just a few thousand dollars, or a few million. Amounts that exceed the coverage limit are your responsibility, so you should think carefully about choosing a low level of coverage. You'd be surprised how quickly costs can add up if you hit an expensive car or come down with a long-term illness.

The size of your deductible will also affect your premium amount. A **deductible** is the amount of a loss you must pay out of your own pocket before the insurance company will step in and pay the rest. Deductibles can be as low as \$100 or as high as \$1,000 or more.

Think of your deductible as “self-insurance,” or the amount you’re willing to pay for a covered loss before the insurance payments kick in. Say you chose a \$250 deductible for your car and then hit a pole in a parking garage while trying to pull out of a space, denting the side of your car. The repair shop says that it’ll cost \$700 to fix the dent and repaint the side of your car. If you file a claim with your insurance company, you would pay the repair shop the first \$250. The insurance company picks up the tab for the remaining \$450.

Driving Down Your Costs

When you look at the cost of disasters that can happen, insurance premiums are usually a small price to pay for protection against them. Of course, premium amounts may not seem that small when you have to pay them, so here are several strategies you can use to lower your costs:

- Choose a reasonable coverage limit. While you probably need more than the minimum amount, you probably don’t need the maximum amount. Ask the insurance company for a reasonable amount of coverage for your situation.
- Go for a higher deductible. You’ll pay more if there’s an incident, but your premiums will be lower throughout the year.
- Shop for your insurance policies like you would any other purchase. You literally can save hundreds of dollars on the same coverage. And even after you buy a policy, shop around from time to time to see if you can save even more. Changes in the insurance industry, legislation, and/or your circumstances can lead to lower premiums.
- Ask your insurance agent if there’s anything you can do to lower your risk, which will in turn lower your premiums. Often, having safety equipment in place like anti-theft systems or even smoke alarms can lower your rates. And health and life insurance companies frequently offer better rates to nonsmokers.
- Consider getting all of your policies from the same agent or company. You may be able to get a discount if you buy, say, your auto insurance and renters’ insurance from the same place.

Price shouldn’t be your only consideration. After all, you buy insurance to protect yourself in times of need. Imagine how angry you’d be if, after making all those premium payments, you couldn’t get your company to cover your losses in a time of need. So the first thing you should do is look for an insurance company that has a reputation for good customer and claims service. Ask friends and family their opinion of the insurance company you’re looking at, or for recommendations of companies with good reputations. You also can check consumer Web sites that sometimes rate how well insurance companies serve their clients.

Then the second thing you should do is make sure the insurance company is financially sound, or else it might not be able to pay your claims. Companies such as A.M. Best and Standard and Poor’s actually grade insurance companies on their ability to pay claims and manage their money. And of course, better-rated companies are more likely to be there for you over the long haul.

What to Keep and Where

In Your Files:

- Current insurance policies
- Premium statements
- Medical bills you’ve paid
- Inventory of your personal assets
- Documentation for any claims you’ve filed

With You (In Your Purse or Wallet):

- Auto insurance identification card
- Health insurance identification card



Exercise 6C: Managing the Possibility of Risk

Read about Michael’s situation and recommend ways for him to manage his risk of loss.

Michael moved into an apartment with his friend Terence. He brought with him a new desktop computer and an almost-new stereo system. Michael’s Uncle Jim, who is an insurance agent, told him that he should insure his property in case a fire starts or someone breaks into his apartment.

Michael knows that it would cost him about \$1,400 to replace his entire computer system and \$700 to replace the stereo. How should he protect himself against the possible loss of this property? List three options below, and identify the method of managing risk for each one. Also, list as many advantages and disadvantages of choosing each option as you can.

Michael’s Options	Method of Managing Risk	Advantages	Disadvantages



Exercise 6D: My Personal Property Inventory

Take an inventory of your personal property. Create a list of items you own; be sure to include all your electronics, CDs and DVDs, clothing, sports equipment, etc. Estimate the cost to replace each item on the list.



Assignment 6-2: My Personal Financial Risk Exposures

Think about the financial risks in your life. For example, what would you lose if you were injured and could not work for a few weeks? Identify at least three of your personal financial risks using the chart provided.

My Potential Risks	Potential Loss Due to Risk	Method of Managing Risk
	\$	
	\$	
	\$	

All About Auto Insurance

The legal responsibility involved when you are in a car accident is extraordinary. Basically, if you hurt someone else while driving, there's no limit to the amount he or she can sue you for. This is why automobile insurance costs so much.

But insurance for teenagers is particularly expensive. Auto insurance premiums are generally based on the type of coverage you choose and the track record of other teenage drivers with similar characteristics. Some of the factors that can raise or lower your premium include:

Age. The younger you are, the higher the premium. Statistically, young drivers have more accidents than older drivers. The good news is that rates fall as you age, gain more experience driving, and maintain a clean driving record.

Gender. Males under the age of 25 have significantly higher accident rates than females under the age of 25. So male drivers pay higher premiums than female drivers.

Marital Status. Apparently, married people are more careful drivers because they tend to have fewer accidents.¹ So single people pay higher premiums.

Type of Car. The value, size, weight, age of your vehicle, and even the cost of replacement parts are essential to determining your premium payment. The model of your car is also a factor. For example, sports cars tend to be involved in more accidents than family cars. But safety features such as airbags, anti-theft equipment, and anti-lock brakes can often reduce your premium.

How Often You Use Your Car. The more you drive a car, the more likely you are to be involved in an accident. So the less you drive, the lower the premium.

Location. The odds of an accident occurring are statistically greater in a highly populated city than in a small rural town. So urban residents tend to pay higher premiums.

¹ According to State Farm Insurance, "Married drivers tend to have fewer accidents than single drivers."



Did You Know?

- **In the first year of driving, one in five 16-year-old drivers has an accident.¹**
- **Male teens are much less likely to wear their seat belts than female teens. And 7.7% of guys said they either rarely or never wear their seat belts compared with 2.8% of girls.²**
- **Sixty-two percent of high school drivers say they talk on a cell phone while driving.³**
- **Two-thirds of high school drivers say they speed.⁴**
- **Injury claim frequencies and overall collision losses for cars driven by insured teenagers are more than double those of cars driven only by insured adults.⁵**

¹⁻² NHTSA

³⁻⁴ 2004 Liberty Mutual/SADD Teen Driving Study

⁵ Highway Loss Data Institute

Driving Record. Getting speeding tickets and other traffic violations makes you a riskier driver to insure than someone who has a clean motor vehicle record.

Claim Record. Insurance companies believe drivers with histories of accidents are more likely to be involved in future accidents. So drivers without accidents have lower premiums. In fact, if you have too many accidents, a company may refuse to insure you at all.

Credit History. Didn't we say it would follow you everywhere? Insurance companies believe that people who are responsible with their finances tend to be more responsible with managing their risks.

When you first start driving, your best move is to ask your parents to add you to their insurance policy. Even if they make you pay them for your coverage, it will be cheaper than getting insurance of your very own. Still, it's smart to know exactly what you're covered for—so ask them if you can look at their policy. You'll see that it's made up of several different types of coverage, representing the different risks involved in driving a vehicle. Plus, while all states require all drivers to have a minimal level of auto insurance, keep in mind that it's probably a good idea to carry more than your state's minimum requirement. Ask your insurance agent to help you decide on the appropriate level of insurance for your age and needs. While the minimal level of auto insurance varies by state, the main types of coverage are:

General Liability. General liability covers damage you cause to other people's property and bodily injuries you cause to people outside of your car. So if you damage someone else's car in an accident, your liability coverage pays the cost to have it repaired. If you injure someone (outside of your car) in an accident and he or she sues you, general liability covers the legal bills.

Medical Payments. While general liability covers bodily injuries you cause to people outside of your car, medical payments cover immediate compensation for bodily injury expenses to you and your passengers regardless of who is at fault. Medical payments also cover you and members of your household in any accident involving an automobile, whether you are on foot, on a bicycle, or in a friend's car.

Collision. Collision covers repairs for damage you cause to your car caused by an accident, whether it involves another vehicle or an object, such as a tree. A deductible applies to collision payments. This means that you pay the deductible amount first; your insurance company pays the amount over your deductible.

Comprehensive (i.e., other non-collision damage). This covers fire damage to your vehicle, break-ins, vandalism, or theft, as well as natural disasters such as an earthquake, hail, hurricane, or flood. Basically, it covers everything except an actual collision.

Uninsured Motorist. This covers your lost wages and medical expenses if you are in an accident with someone who doesn't have auto insurance.

Underinsured Motorist. This coverage is slightly different in that it covers you when the cost of repairs from an accident caused by another driver exceeds his or her coverage limits.

While these are the main types of auto coverage, popular add-ons include coverage for towing expenses and renting a car while yours is being repaired.

In addition to types of coverage, every insurance policy comes with **conditions**, which define your and the insurance company's rights, duties, and responsibilities. One typical condition requires you to perform certain actions in the event of a loss. An example of an action is contacting your insurance company promptly and providing honest information about what happened. Another action is informing your insurer of any change in your circumstances or vehicle. Other conditions describe situations where your loss is not covered. A common example of when the insurer will not provide coverage is when a loss is caused by an act of war.

There usually are cancellation provisions as well. In most states, your insurer can cancel your policy only if you fail to pay your premium; lose your driver's license; lied on your insurance application; or fail to report a substantial change in your circumstances, such as buying a sports car to replace a family sedan. Actually, your insurance company can choose not to renew your policy for any reason.

A number of states have what's called "no-fault" insurance provisions where insurance companies cover an insured's personal injury claim regardless of who was at fault in the crash. However, accident victims can still sue the other party under certain conditions.

Of course, your insurance company has responsibilities to you as well. These include keeping you fully informed about your policy and your claims, treating you fairly, resolving complaints in a timely fashion, and safeguarding your privacy.

You should take the time to identify the conditions in your policy so you know what your responsibilities are, as well as your insurer's. This will prevent a situation where you call to make a claim and your insurer refuses to cover it because you have not fulfilled all your obligations.

So with all the options out there, how do you decide on what type of auto coverage and how much of it to get? Let's revisit the decision-making process we discussed in Unit 1.

- 1 Identify your goal. Do you want cheap, bare-bones coverage for your car, or would you rather have a lot of coverage so you don't have to worry about paying for unexpected problems?
- 2 Gather information. Who offers insurance in your state? What types and amounts of coverage do they recommend for you? What type and amount of insurance are they quoting you?
- 3 Examine alternatives. How do the policies stack up in terms of cost? How much does the premium change if you increase or decrease your deductible? In the case of a claim, would you rather deal with an agent you know or call an 800 number?
- 4 Analyze outcomes. How much will you need to add to your budgeted fixed expenses to pay for the insurance? How will you pay the deductible if you have an accident or experience another type of loss?
- 5 Make a decision. Decide which insurance policy is the best one for you.
- 6 Evaluate results. Periodically check around to see if you can get the same policy for better rates with another company. After you make a claim, consider how easy or hard the company was to work with. Also, as your car ages or your financial situation changes, you may want to re-evaluate your coverage limits and deductibles.

While the whole auto insurance pricing process may seem complicated, one bit of good news is that time is on your side. As you get older, have more years of driving under your belt, and keep maintaining a clean driving record, your premiums tend to fall. In the meantime, there are other strategies you can use to reduce your premiums:

Choose a Higher Deductible. Typical deductibles are \$250, \$500, or \$1,000. Choosing a higher one can significantly reduce your premiums. Just make sure you don't go so high that you won't be able to afford repairing your car if something happens.

Shop Around. You shop around for everything else, and your auto insurance policy should be no exception. Call your parents' insurance agent; check out insurance comparison Web sites. A little extra time shopping can really pay off in hundreds of dollars. Even after you get your policy, check around from time to time to see if other companies offer better rates.

Ask About Discounts. You can often get discounts on your premium for good grades, covering more than one car, or buying more than one type of policy through the same company. Some companies also offer discounts for safety features like airbags or anti-theft systems. And many will give you discounts for taking a defensive driving course.

Drive Less. Find a job with a shorter commute or start using public transportation to get to and from work, and you may be able to reduce your premiums.

Move to a Safer Zip Code. In some areas it's illegal and in others it's common practice to charge higher premiums for people who live in a zip code that has historically had more claims. But generally, you can reduce your rates by moving to an area that has fewer claims—typically away from the city and toward the suburbs.

Get Married. While you shouldn't tie the knot just to get cheaper insurance, you will pay less for insurance after you wed.

Keep Your Driving Record Clean. This may be the single biggest thing you can do to reduce your premium. Many companies offer a discount if you are accident-free for a certain length of time. Also, speeding and other moving violations can raise your rate. So again, it pays to be a careful driver.

Making Sure That You're Covered

When it comes to buying your own auto insurance, you should know there are basically two different ways to do it. The first is to work with an insurance agent, whom you will call when you have questions or need to file a claim. Some people like working with an agent who knows them and will work with them when there's a problem.

The other way is to buy your insurance directly from an insurance company. You simply call an 800 number or sign up on a Web site. People who go this route don't care as much about talking to the same person every time they need assistance but like the fact that they can reach someone at the company 24 hours a day. There's no right way to go, and neither way is always cheaper than the other. It's really what you prefer.

Shopping for auto insurance has gotten a lot easier in recent years as more insurance companies started offering quotes via the Internet. There are also a number of insurance quote sites that let you fill out one form and get quotes from a variety of insurance companies. Before you provide any information over the Internet, be sure you're using a secure Web site. Of course, your shopping shouldn't stop at the Internet. Call the company your parents use. Call other companies you've heard of that aren't online. And remember, it'll be easier to compare if you make sure all the quotes reflect the same coverage limits and deductibles.

To give you an accurate quote, insurance companies need some information about you, your car, and your driving record. Of course, they'll need your name, address, and birth date. But you also should have the following information on hand when you start shopping:

- Your Social Security number (SSN)
- How long you've had a valid driver's license
- Your E-mail address
- How you pay for your car (lease, own, or own and make payments)
- Your car's vehicle identification number (VIN)
- Your car's year, make, model, body style, and safety equipment (anti-theft systems and airbags)
- How many, if any, moving violations (speeding tickets, breaking traffic laws) you've had
- How many, if any, claims (accidents, theft) you've had and whether they were your fault
- Current insurance company name (if applicable)
- Current liability coverage limits (if applicable)
- Policy expiration date (if applicable)

Yes, it may take a little work to give each company all the information it needs to give you an accurate quote. But the potential payoff can be huge. Think of it as investing a little time so you can save money for something much more fun and exciting.



Exercise 6E:

What's in an Application?

Fill out a sample automobile insurance application.

If You Have an Accident

Chances are you will someday have to file an auto insurance claim. A rock may crack your windshield, a vandal may break your tail light, or you may back into another car in a garage. While the incident may definitely be upsetting, you can relax a little knowing that you've been diligently paying your insurance premiums just for times like these.

After the accident or other damage to your car occurs, call your insurance agent right away. Your agent will help you fill out a claim form—the formal document you use to request benefit payments according to the terms of your policy. Providing accurate details can help speed the process.

Your agent may also send someone out to evaluate the damage to your vehicle. Your agent will contact your insurer's claims adjuster. The adjuster's job is to investigate your claim and work with you to fix the damage. How long this process takes depends on several factors, especially the cooperation of the other party (if there is one) involved in the accident. While compensating you for auto repairs or medical expenses is relatively easy and straightforward, determining who is liable for an accident can be more complicated.

You may need to provide the claims adjuster with documentation such as copies of your auto repair and medical bills, or a copy of the police report to support your claim. Be sure to provide your claims adjuster with copies of your documents in case you need to refer to the originals in the future.

At some point, the claims adjuster will make a recommendation to your insurance company. The adjuster might recommend accepting the claim and paying the full amount requested, accepting part of the claim and making a partial payment, or refusing the claim and making no payment. Your insurance company will then make a decision regarding your claim and let you know its final decision on what it will cover and how much it will pay so you can get back on the road.

Exercise 6F:

Filing a Claim

Review the scenario at the beginning of the unit where

Rachel's car was broken into outside her apartment building. Then fill out a sample automobile insurance claim form.



Assignment 6-3:

Insure the Car of Your Dreams

Shop for automobile insurance for the car of your dreams.

Use the decision-making process to establish criteria and determine how the options stack up.



Think About It!

How might your risks change during your lifetime? Chart the milestones in a typical person's life.



Through the Years: Other Types of Insurance

Auto insurance is probably the biggest insurance concern you have at the moment. But you have many life changes ahead of you. You'll probably start a career and change jobs a couple of times. You may get married and start a family. Maybe you'll start your own business or get divorced. And at some point, you'll hopefully be able to retire. Whether you end up living the lifestyle of the rich and famous or living a simpler life, you're going to need some additional kinds of insurance protection for yourself and your loved ones.

Health insurance pays medical bills when you or your family becomes sick or injured. Given the high costs of medical care—even routine check-ups and illnesses—virtually everyone needs health coverage. If your parents have health insurance, it will cover you until you turn 19 years old, or until age 23 if you're a full-time student. So at some point, you're going to need to find your own coverage—the best way is usually through an employer. You can purchase an individual health policy for yourself or your family, but it's usually much more expensive than the coverage an employer offers.

Property insurance protects your possessions such as clothes, furniture, electronics, appliances, sports equipment, and computers. You probably don't think about it, but a lot of things can happen to your stuff, including fire, flood, or theft. Renters' insurance does the job for those who don't own their own home. For those who do, homeowners' insurance protects your stuff as well as the house itself. If you own a digital camera, it's a good idea to take digital pictures of your stuff and store them on a CD that you keep in a safe place outside of your home. The pictures will come in handy if you ever need to make a claim.

Life insurance provides financial support for the people who depend on you in the event of your untimely death. If you are single and no one is dependent on you, you probably don't need life insurance. But once you marry or have children, it's something to consider seriously. Some types of life insurance are designed like an investment to increase in value.

Disability insurance protects your earning power. When most people think about insuring their valuables, they think about their car or home. But your most valuable asset is actually your ability to earn a living. Disability insurance pays you an income when an illness or injury prevents you from working for several weeks or even years. And it's far more necessary than people think. According to the National Association of Insurance Commissioners, people in their 30s are three times more likely to suffer a disability than they are to die.

Liability insurance protects you in case you are legally responsible for unintentionally injuring someone or damaging another's property. It covers everything from legal fees to settlements in court cases. Homeowners' and renters' insurance includes liability coverage to some degree. You can also get additional protection through something called an umbrella policy, which will protect you in almost all areas of your life.

You Can Insure Just About Anything

Here are some special types of insurance people get, and the types of people who buy them:

Type of Insurance	Who Buys It
Boat insurance	Boat owner
Travel insurance	Someone going on a trip
Wedding insurance	An engaged couple
Malpractice insurance	Doctors
Errors and omissions insurance	Businesses that provide services
Pet health insurance	Pet owners
Kidnap and ransom insurance	Frequent travelers to unstable countries

For many types of insurance, your employer may be the first and best place to look. By offering an insurer a group of people to cover, employers are often able to negotiate better rates than you can get on your own for health, life, and disability insurance.

Some states also offer a health insurance plan for residents who are having trouble finding health insurance elsewhere. Also, many of the same Web sites and companies you looked at for auto insurance can help you evaluate and obtain other types of insurance.

Finally, don't forget that some of the government programs we discussed earlier are insurance plans as well. Social Security is a retirement and disability program in which almost all workers in the United States are required to participate. Medicare is the federally sponsored health program for people over age 65 and individuals with disabilities. Medicaid is jointly funded by the federal and state governments to provide health coverage to low-income Americans. Many states also require employers to pay into unemployment insurance, so if a worker is laid off, he or she will receive some income while seeking a new job.

Exercise 6G:

What's Covered?

Look at an insurance policy and determine what is and what isn't covered.



The Big Picture

No matter how diligently you create and follow a financial plan, not having adequate insurance means all your hard work can be destroyed in an instant. For a relatively small payment, owning insurance prevents accidents and other losses from wiping out all of your financial resources.

At your age, the two most important types of insurance you most likely need are auto and health insurance. But after you graduate and start working, disability insurance also becomes important. And then when you marry and have a family to think about, you should definitely consider purchasing life insurance. As your life evolves, so should your insurance coverage.

What happens when you don't have insurance? Obviously, you risk paying the full cost of accidents, loss from thefts, illnesses, lawsuits, and other disastrous things that might happen to you. And because you probably didn't account for these disasters in your spending plan, their costs eat up money that would normally pay the bills. This, of course, also puts your credit history at risk. Finally, all these unexpected expenses can jeopardize your credit rating and financial future—how much you're able to save or invest, special purchases you planned to make, interest rates on future big-ticket items. In short, one loss without adequate coverage can affect you for the rest of your life.

So getting insurance is a no-brainer—you need it and just have to find a way to pay for it. The best way to do that is to revisit the spending plan you created in Unit 2.

How much do you have available to spend on insurance premiums each month? And how often would you prefer to pay them? Insurance companies sometimes offer a discount for making a single, annual premium payment. If you do choose the annual, semi-annual, or quarterly payment route, you must set aside money every month so you have enough when the premium comes due. If you fail to pay your premium, the insurance company might cancel or void your policy. So if you're not disciplined enough to set aside money each month toward the premium, paying your premium on a monthly basis may be a better option.

The other expense you need to look at building into your budget is the cost of deductibles. If your collision deductible is \$500, it would be smart to set aside money every month until you have that amount saved. That way you won't be sidelined after an accident because you can't afford to pay the deductible on the repairs. And once you start paying your own medical expenses, you should do the same for any annual health insurance deductibles. Doing these things will help keep you on track with your budget and prevent the stress of having to pay unexpected and potentially large expenses.



Assessment 6-1: My Insurance Plan

Outline a personal insurance plan.

Adding It Up

You created a spending plan in order to achieve your financial goals. One of the best ways to make sure you stay on track with it is to protect yourself from potentially big expenses and losses.

By now, you should understand the importance of having insurance. You've got a better idea about the types of insurance available to protect you and your family. You've also got a handle on how insurance works and how it's priced. And you've also learned what's required to get insurance and to be a responsible insurance consumer.

You may not currently need all of the types of insurance you learned about. But you will need them as your life changes. By following the recommendations discussed in this unit, you will be better prepared for buying them. Remember, the cheapest and easiest way to get health, life, and disability insurance coverage is often through your employer. So it pays to look beyond the salary a company is offering to its employee benefits as well.

In the next unit, we'll talk about earning money instead of spending it!

For more tips, tools, and articles about insurance, visit hsfpp.nefe.org.





Unit Assessment 6-1: My Insurance Plan

Competency:

Create a personal insurance plan that will minimize your personal or financial losses.

Use what you learned and practiced in Unit 6 to outline a personal insurance plan. Your insurance plan should be realistic for your current lifestyle and what you think your lifestyle will be three years from now. For example, will you be working a full-time or part-time job while attending school? Do you own a car now or will you in the near future? Will you rent or own a home three years from now? Will you be married or have any children? Will you have a hobby or job that is considered dangerous?

Directions:

Preview the Required Criteria to plan your activities for this assignment.

List the types of insurance that apply to your current situation. Also identify what your insurance needs might be three years from now. Use credible references to find monthly or annual costs of each type of insurance.

Explain strategies you will use to minimize your insurance costs.

Describe risk management strategies you will use to avoid, reduce, accept, and/or share the risk of loss.

Required Criteria	Status	
1. You identify lifestyle characteristics that will affect your insurance needs now and three years from now	complete	not complete
2. You outline your insurance needs related to your current lifestyle	complete	not complete
3. You outline your potential insurance needs related to your predicted lifestyle three years from now	complete	not complete
4. You estimate the monthly or annual costs of each type of insurance	complete	not complete
5. You describe how your insurance needs will affect your budget	complete	not complete
6. You list at least three specific ways you can reduce your insurance costs	complete	not complete
7. You describe specific ways you can avoid, reduce, accept, and/or share the risk of personal and financial loss	complete	not complete
8. You provide a rationale for choosing the insurance and other risk management options	complete	not complete

Feedback:

Score _____/50

Name _____

Date _____