

LESSON  
**3**

# Insurance Basics

Insurance isn't so easy for teens to understand. Help give it some real-life context.

## OBJECTIVES

Students will:

- consider insurance for the types of risks that young adults might face
- calculate the amount that would be paid on an insurance claim after applying deductibles
- know that people may be required by governments to purchase certain types of insurance

## TIME

40 minutes

## MATERIALS

- Pencils and paper
- Insurance: Is It Worth It? activity sheet
- Talking About Insurance family activity sheet

## ADDITIONAL RESOURCES

- Topic 3 (Spending Smart), Lesson 4: Smart Car Buying, [High School Instructor Guide](#)
- Lessons 5 and 6, [High School Toolkit](#)

## STANDARDS

- Council for Economic Education: Protecting and Insuring 4
- Jumps\$tart Financial Literacy Standards: Risk and Insurance 1c and 2d

## DIRECTIONS

1. Ask the class: Who here is planning to get a driver's license someday? Whose car might you be driving? Do you think you'll own a car someday? Challenge students to name all the expenses that come with a car, like fuel, maintenance, and auto **insurance**.
2. Explain what auto insurance is: It exists to spread the risk of an expensive loss to a larger group of people, called a **pool**. Each person in the pool pays a **premium**, an amount set by the insurance company. The company collects the premiums, invests them, and when individual members of the pool suffer losses, the insurance company covers the losses according to the **policy**, a document that outlines the terms of the coverage. The insurance company uses the premiums from members of the pool to pay claims from members who suffer losses.
3. Note that it's legally required to buy auto insurance in most states. Ask the class if they know what the costs are to buy auto insurance (the average cost of a policy in the U.S. is over \$1,000 annually, and is generally more expensive for teen drivers than older ones).
4. Ask what kinds of expenses could be caused by a serious accident. Answers should include **property damage** (e.g., costs to repair the vehicles involved), **medical** (resulting from injuries suffered in the accident), and **liability** (expenses arising from lawsuits). These costs could total hundreds or thousands of dollars, and, in other cases, amount to hundreds of thousands or even millions of dollars. Explain that no one plans to be in an accident, but accidents do happen and auto owners have to be prepared to pay the costs involved. That's why most states require auto owners to purchase insurance.
5. Point out that it is good financial planning to make sure that we insure against the risk of huge losses. Find out what other types of insurance students have heard of. Answers could include medical, life, and property insurance. Briefly review what each type of insurance covers, then summarize by pointing out that buying insurance protects individuals against the risk of very large costs when they pay policy premiums.
6. Note that the **policy** specifies the circumstances and amounts the insurance company will pay. In addition to limits, many insurance policies have **deductibles**. A deductible is the amount that the individual pays before the insurance company starts to pay. Write the following example on the board: Suppose an auto insurance policy has a \$500 deductible. If \$3,000 in damages happen, the insurance company will not pay until the \$500 deductible is paid by the owner.
7. Point out that there are ways to reduce the cost of insurance. Some health insurers give discounts for nonsmokers, and some auto insurers give discounts for safe-





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driving courses. Sometimes, policies with larger deductibles or copayments will have lower **premiums**. Driving safely and avoiding speeding tickets will help reduce the chance of large premium increases. Finally, be aware that different insurance companies charge different rates for their policies. It's always a good idea to comparison shop when buying something as expensive as an insurance policy.

8. Hand out the Insurance: Is It Worth It? activity sheet and ask students to complete it individually or in pairs. Review activity sheet answers as a class.
9. Hand out the Talking About Insurance family activity sheet. Ask students to take it home and complete it with their parents.

### ANSWER KEY FOR STUDENT ACTIVITY SHEET

1. The cost of Taylor's policy is \$6,840 per year ( $\$570 \times 12$ ).
2. Since Taylor's company pays  $\frac{2}{3}$  of the premium, the cost to Taylor is \$2,280 ( $\$6,840/3$ ).
3. \$19,800 (the sum of the charges listed).
4. \$2,240 ( $\$1,640 + \$600$ ), derived from:  
Dr. A:  $\$3,500 +$  Dr. B:  $\$650 +$  Dr. C:  $\$900 +$  Dr. D:  $\$450 +$  outpatient physical therapy:  
 $\$2,700 = \$8,200$ .  $20\%$  of  $\$8,200 = \$1,640$ .  
 $50\%$  of the ambulance charge of  $\$1,200 = \$600$ .

### EXTENSION

Have students research the cost of auto insurance for teenagers versus the cost for adults, as well as the cost for young male drivers versus young female drivers, and research the reasons for this discrepancy. Have them write a statement about why they agree or disagree with this practice.

### ASSESSMENT QUESTIONS

Ask your students to answer the following questions on a separate piece of paper.

1. What is the point of buying any kind of insurance?

*Key point:* Insurance helps protect people against catastrophic financial losses. Through buying insurance and paying premiums, individuals can pool their risk so that everyone pays something but no one loses everything.

2. How can people reduce the cost of their insurance?

*Key point:* One way to reduce insurance costs is through modifying behavior. For example, nonsmokers often get health and life insurance discounts. Drivers who take safe-driving courses may also receive a discount.

NAME \_\_\_\_\_

# Insurance: Is It Worth It?

Like auto insurance, medical or health insurance is a way for people to protect themselves from catastrophic financial losses. By paying policy premiums, which may cost hundreds or thousands of dollars, it helps to safeguard against medical costs that could be tens or hundreds of thousands of dollars or more.

**DIRECTIONS** Read the following story of Taylor's experience with health insurance and health care costs. Review the data, and calculate the cost of Taylor's injury and how much Taylor saves by having health insurance.

Taylor is a recent college graduate who works at a start-up tech company. The company offers health insurance as part of its benefits package. Here are the facts about the company's plan:

- A policy for single employees costs \$570 per month. The company pays 2/3 of the premium and the employee pays the rest.
- 100% of hospital charges for inpatient charges are covered.
- Policy holders have a 20% copayment for physician bills and outpatient charges.
- Ambulance costs are covered at 50%.

During a company softball game after work, Taylor suffered torn ligaments on a close play at the plate. Taylor was taken to a local hospital by ambulance and had to have surgery. Here is a summary of Taylor's bills:

Ambulance	\$1,200
Hospital inpatient	\$10,400
Dr. A. (Surgeon)	\$3,500
Dr. B. (Radiologist)	\$650
Dr. C. (Anesthesiologist)	\$900
Dr. D. (Emergency Room)	\$450
Outpatient physical therapy	\$2,700

1. What is the annual premium cost of Taylor's health insurance?

2. How much is Taylor's share annually for health insurance?

3. What are the total medical charges for Taylor's injury?

4. What was Taylor's share of the medical charges?

**Discussion** Did having a health insurance policy help Taylor? How? What would have been the cost if Taylor hadn't had insurance?



# Talking About Insurance

## Dear Student,

You've been learning about how different types of insurance work and how managing risk through insurance is a part of financial planning. Now discuss these topics at home with your family. Ask your parents to share some of their experiences dealing with financial matters, and come up with a response together to the insurance scenarios outlined below.

### Scenario 1

Avery recently finished college and just landed a job with a web start-up company. The company doesn't offer health insurance, but Avery has shopped around and found a policy that covers all hospital costs and 80% of other health care costs for \$450 per month. Avery is in good health and would rather use the money to lease a very nice car. Avery's parents advise that this is a risky decision. What would you recommend to Avery?

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### Scenario 2

While looking through the mail, Dakota notices an advertisement for accidental injury health insurance. For only \$100 per month, all emergency room costs are covered. Dakota already has health insurance that covers all types of illnesses and injuries, but figures a little more coverage couldn't hurt. What would you advise Dakota to do?

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Scenario 1: Although Avery perceives the premium to be high (\$450 per month, or \$5,400 per year), it is low compared with the costs arising from a major illness.  
Scenario 2: Although insurance is an important part of anyone's financial plan, not all insurance is a good buy. If Dakota is already covered for emergency room visits, then an additional \$100 for the new policy does not add any benefit.



# Hablemos sobre seguros

## Estimado(a) estudiante:

Has estado aprendiendo sobre cómo funcionan los diferentes tipos de seguro y que la manera de abordar el riesgo a través del seguro forma parte de la planificación financiera. Ahora dialoga sobre estos temas en casa con tu familia. Pídeles a tus padres que compartan algunas de sus experiencias sobre cómo tratan los asuntos financieros y armen una respuesta juntos para los escenarios de seguro descritos a continuación.

### Escenario 1

Avery recientemente terminó la universidad y obtuvo un empleo en una nueva compañía de Internet. La compañía no ofrece seguro de salud, pero Avery ha comparado precios y encontró una póliza que, por \$450 al mes, cubre todos los costos hospitalarios y el 80% de otros costos de atención médica. Avery goza de buena salud y preferiría usar el dinero en el arrendamiento con opción de compra de un automóvil muy bonito. Los padres de Avery le aconsejan que es una decisión riesgosa. ¿Qué le recomendarías tú a Avery?

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### Escenario 2

Mientras revisa el correo postal, Dakota ve una publicidad de un seguro de salud por lesiones accidentales. Por solo \$100 al mes, todos los costos de la sala de emergencia están cubiertos. Dakota ya tiene un seguro de salud que cubre todo tipo de enfermedades y lesiones, pero considera que un poco más de cobertura no le vendría mal. ¿Qué le aconsejarías a Dakota que haga?

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Escenario 1: Aunque a Avery la prima puede resultarle alta (\$450 por mes o \$5,400 por año), es baja en comparación con los costos que ocurren una enfermedad grave.  
Escenario 2: Aunque el seguro es una parte importante del plan financiero de toda persona, no todos los seguros son una buena compra. Si Dakota ya está cubierta para las visitas a la sala de emergencia, \$100 adicionales por la nueva póliza no suman ningún beneficio.