

LESSON  
**3**

# Understanding Insurance

Take some of the mystery out of insurance, and show how it works in real life with relatable examples.

## OBJECTIVES

Students will:

- identify common risks
- provide rationale for using insurance
- find a percent of a quantity

## TIME

40 minutes

## MATERIALS

- Pencils and paper
- What's the Best Policy? activity sheet
- Teaching Kids About Health Insurance family activity sheet

## ADDITIONAL RESOURCES

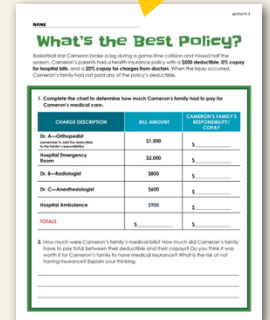
- You and Your Money (Section 2) and Monthly Family Budget Activity (p. 26)  
[Middle School Instructor Guide](#)
- Lessons 2 and 10,  
[Middle School Toolkit](#)

## STANDARDS

- Common Core State Standards, Math Content 6.RP.A.3.C
- Council for Economic Education: Protecting and Insuring 1–3
- Jump\$tart Financial Literacy Standards: Risk and Insurance 1c

## DIRECTIONS

1. Ask your class: Have you ever had a pipe burst at home that leaked water everywhere? Or has a rock shattered your mom's car windshield? Or do you know a neighbor whose home got damaged by a storm? Discuss how these situations can cost the owners money (for example, auto and home damage costs might include pricey repairs or the purchase price of replacing appliances or buying new parts). These losses could add up to thousands or, in situations like disasters such as fires or floods, hundreds of thousands of dollars.
2. Then ask students if they can think of ways to cover these losses other than by having the person pay them. Answers might include insurance benefits, or help from government organizations (e.g., FEMA in the case of natural disasters) and charitable relief organizations.
3. Ask what the class thinks **insurance** is. Explain that insurance exists to spread the costs of covering unexpected or very expensive losses among a group of people, called a pool, so that one individual does not have to cover the costs alone. Each person in the pool pays an insurance company money (an amount that's set by the insurance company) called a **premium**. The company collects and invests the premiums. When members of the pool suffer losses, they file **claims** (formal requests for coverage). The insurance company covers the losses according to the **policy**, a document that outlines the terms of the insurance coverage. The insurance company uses the premiums from all members of the pool to pay claims to members who suffer losses.
4. Note that the policy specifies the circumstances and amounts the insurance company will pay. In addition to limits, many insurance policies have the following:
  - **deductible:** an amount that the individual pays before the insurance company starts to pay
  - **copayments:** usually expressed as a percentage of a bill that is the responsibility of the policy holder
  - **copays:** typically a flat dollar amount for a specific service. The copay—for example, \$15 for a doctor's office visit—doesn't cover the whole charge, but it shifts some of the financial responsibility to the covered person.
5. Write the following examples on the board to help further illustrate:
  - a. Suppose an auto policy has a \$500 deductible. If there are \$2,000 in damages, the insurance company won't pay until the auto owner pays the \$500 deductible.
  - b. A copayment is usually expressed as a percentage. For example, if a medical policy has a 20% copayment, and an insurance company agrees to pay a





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radiologist's bill of \$400, the patient pays \$80 (20% of \$400) and the insurance company pays \$320.

5. Hand out the What's the Best Policy? activity sheet and ask students to work individually or in pairs. Review activity sheet answers as a class.
6. Hand out the Teaching Kids About Health Insurance family activity sheet. Ask students to take it home and complete it with their parents.

### ANSWER KEY FOR STUDENT ACTIVITY SHEET

Dr. A: \$700 (\$500 deductible plus 20% of the remaining \$1,000)

Hospital Emergency Room: \$0

Dr. B: \$160 (20% of \$800)

Dr C: \$120 (20% of \$600)

Hospital Ambulance: \$0

Total Billed Amount = \$5,800

Cameron's Family's Responsibility = \$980

### EXTENSION

Have students research other types of insurance (life, automobile, disability, renters, etc.) and the pros and cons of each. For example, they might investigate pet insurance for a dog or cat. Students can investigate what pet insurance covers, and whether it's worth it or not to secure coverage for a healthy or sick pet. Students can present their findings to the class.

### ASSESSMENT QUESTIONS

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

1. Buying health insurance means paying premiums, deductibles, and copayments. It can get super expensive. Is it really worth it?

*Key points:* The costs of a serious illness without insurance will use up all the financial resources most people have. It's better to pay something for health insurance to avoid paying everything for large medical bills.

2. Suppose a health insurance policy has a \$500 deductible and a 20% copayment for outpatient care. Which could end up costing the patient more, the deductible or the copayment?

*Key points:* The deductible is a one-time annual cost limited, in this example, to \$500. In the case of the 20% copayment, there is no limit in this example, so the copayment could be higher than the deductible. However, many policies do have a maximum "out of pocket" cost (what the patient pays).

NAME \_\_\_\_\_

# What's the Best Policy?

Basketball star Cameron broke a leg during a game-time collision and missed half the season. Cameron's parents had a health insurance policy with a **\$500 deductible**, a **0% copayment for hospital bills**, and a **20% copayment for charges from doctors**. When the injury occurred, Cameron's family had not paid any of the policy's deductible.

1. Complete the chart to determine how much Cameron's family had to pay for Cameron's medical care.

CHARGE DESCRIPTION	BILL AMOUNT	CAMERON'S FAMILY'S RESPONSIBILITY
Dr. A—Orthopedist (remember to add the deductible to the family's responsibility)	\$1,500	\$ _____
Hospital Emergency Room	\$2,000	\$ _____
Dr. B—Radiologist	\$800	\$ _____
Dr. C—Anesthesiologist	\$600	\$ _____
Hospital Ambulance	\$900	\$ _____
<b>TOTALS</b>	\$ _____	\$ _____

2. **How much were Cameron's family's medical bills?** What is the difference between the cost of the medical bills and Cameron's family's cost with insurance? Do you think it was worth it for Cameron's family to have medical insurance? What is the risk of not having insurance? Explain your thinking.

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# Teaching Kids About HEALTH INSURANCE

## Dear Parents,

Health insurance can be tricky to understand. Help make it easier for your child by completing this exercise together. Before discussing the two plans below with your child, explain that the monthly premium is what individuals pay for insurance coverage. Discuss the advantages and disadvantages of each plan outlined below, and decide together which plan your family would choose: A or B?

POLICY FEATURE	HEALTH INSURANCE PLAN A	HEALTH INSURANCE PLAN B
Monthly premium	\$300	\$600
Hospital charge copayment	10%	0%
Annual deductible	\$1,000	\$500
Outpatient charge copayment	30%	20%
Includes eyeglasses	NO	YES

To evaluate the plans, add up the premiums for a given year and determine costs that might affect your family, such as whether anyone has an illness that requires medical care or whether anyone wears glasses. Have your child explain their thinking and explain yours as well.

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**Which plan is “better”?** There is no one right answer. Plan A charges half the premium charged by Plan B for a savings of \$3,600 per year. However, Plan B has less of a copayment for individuals. Choosing a plan depends on such things as an individual's personal medical needs as well as how much risk they are willing to take.

# Enseñémosles a los (las) niños(as) acerca del **SEGURO DE SALUD**

## Estimados padres:

El seguro de salud puede ser un tema difícil de comprender. Ayude a que sea más fácil para su hijo(a) al realizar este ejercicio juntos. Antes de hablar con su hijo(a) acerca de los dos planes que se detallan a continuación, explíquele que la prima mensual es lo que las personas pagan por la cobertura de seguro. Analicen las ventajas y desventajas de cada plan que se describe a continuación y decidan juntos qué plan elegiría su familia: ¿póliza A o póliza B?

CARACTERÍSTICA DE LA PÓLIZA	SEGURO DE SALUD PLAN A	SEGURO DE SALUD PLAN B
Prima mensual	\$300	\$600
Copago por cargos del hospital	10%	0%
Deducible anual	\$1,000	\$500
Copago por cargos para pacientes ambulatorios	30%	20%
Incluye anteojos	NO	YES

Para evaluar los planes, sumen las primas de un año en particular y determinen los costos que podrían afectar a su familia, como, por ejemplo, si alguien tiene una enfermedad que requiere atención médica o si alguien usa anteojos. Haga que su hijo(a) explique su razonamiento y también explique el suyo.

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**¿Qué plan es “mejor”?** No hay una sola respuesta correcta. El Plan A cobra la mitad de la prima que cobra el Plan B y se ahorran \$3,600 por año. Sin embargo, el Plan B tiene menor copago para las personas. Elegir una póliza depende de factores como las necesidades médicas personales de un individuo y de cuánto riesgo está dispuesto a asumir.