



UNIT 7

Making Major Financial Decisions

Topic

Understanding Insurance

LEARNING OBJECTIVE(S)

Students will:

- **identify** different types of insurance.
- **explain** factors that influence the price people pay for insurance.
- **develop** a logical argument for having insurance.

Title

Insurance, Risk, and Costs

Overview

What is insurance and what influences the amount you pay for it? After discussing the reasons people buy insurance, students complete an activity to approximate the cost of auto insurance given nine different factors. In groups, they then research what influences the cost of other types of insurance. Students discuss whether or not they think insurance is worth the price they must pay for it and ways they can reduce their future insurance costs.

Financial Literacy Theme

Making Major Financial Decisions

21st Century Skill(s)

Critical Thinking

Key Terms

Insurance, auto insurance, homeowners insurance, renters insurance, health insurance, life insurance, claim, policy, risk, deductible

Materials

- **Dice**—one per student or students can use an online dice roller such as <https://www.random.org/dice/>
- **Roll Your Risk Student Handout**—one copy per student
- **Factors Influencing Insurance Prices Student Handout**—one copy per group of 3–5 students
- **Internet access**—at least one device with Internet access per group

Pathway to Financial Success

In Schools

Connect

How does this connect to the student?

Students will face many insurance decisions in the future. While students may be most familiar with auto insurance, they should also become knowledgeable about other types of insurance including renters, homeowners, health, disability, and life insurance.

How does this connect to careers?

Insurance Sales Agent: Helping people to select insurance policies and understand what each policy covers is the primary responsibility of an insurance sales agent.

Actuary: Deciding how much insurance companies should charge for an insurance policy is the primary work of actuaries. They evaluate the potential for specific risks. This job requires strong math skills to pass a

How does this connect to the world?

Insurance is an issue that generates considerable debate amongst policymakers and average citizens across the globe. For example, people have very different beliefs about the role government plays in providing, paying for, or requiring insurance. Students should understand how insurance works in order to form opinions and be informed citizens and voters.

Prepare

Background: Insurance is a topic some people don't like to think about. Situations that could require an insurance claim such as fires, car accidents, and illness are often unpleasant to consider. Nonetheless, when disaster strikes, insurance plays a vital role in helping people avoid financial ruin. Insurance can also be a large expense for many households - worthy of understanding and careful consideration. Students should know that, by paying for insurance, they are transferring their financial risk to the insurance company. The insurance company uses the payments or premiums collected from all of its customers to help compensate those customers who file claims. Insurance is often priced according to a person's risk—the higher the risk, the more expensive the coverage. Young people, for example, have higher rates of car accidents, so they pay more for auto insurance. On the other hand, they tend to be healthier, so they often pay less for health insurance. The type of insurance coverage selected can also influence the price, including the amount of the deductible and the extent and type of coverage.

Engage

- Ask students if they know why people buy insurance. Challenge students to identify examples of how insurance helps people and the type of **insurance** that covers each situation. Examples include a family that loses its home in a fire and needs to rebuild (**homeowners or renters insurance**); a person in a car accident who needs his or her car repaired or replaced (**auto insurance**); a person who gets sick and needs expensive medical treatment (**health insurance**); a person dies and their family needs money to pay bills (**life insurance**). Some insurance may also be required by a company or government, such as auto and homeowners insurance. If possible, make connections to recent events in the news such as a hurricane, flood, earthquake, wildfire, or other natural disaster.
- Ask students to explain what they know about how insurance companies work. Explain that people pay an insurance company a predetermined amount of money on a schedule (once a month, twice a year, or annually)—called a **premium**. Discuss situations that might cause someone to file an auto insurance claim (accident, damage, theft, etc.)

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Teach

1. Ask students how much they think a family's auto insurance rates increase when they add a teen driver. Explain that doing so can sometimes double insurance costs. Challenge students to explain why teen drivers cost more to insure (less experience driving, have higher rates of accidents, etc.).
2. Discuss the role **risk** plays in pricing auto insurance. What factors besides age might influence how much a person pays for auto insurance?
3. Distribute a copy of **Roll Your Risk Student Handout** to each student. Inform students that they will simulate the cost of auto insurance by rolling a die. For each factor, they should circle the description and price that matches their roll. After totaling their insurance costs, students should compare results with others near them. Who had the lowest amount? Highest? Remind students that the amounts used in the activity are just examples and that actual rates will vary.
4. Challenge students to identify reasons behind the variations in each factor. Use the information below as a reference.
 - **Age and gender:** Younger people have less driving experience and one in five 16-year-olds has an accident in the first year of driving⁴. Teenage girls tend to have fewer accidents than boys their same age.
 - **Where you live:** Rural areas typically have less traffic and fewer break-ins than urban areas.
 - **Credit score:** How a person handles his or her finances has been correlated to the number of car accidents he or she has. The better a person's credit score, the lower the risk of an insurance claim.
 - **Profession:** If someone uses a vehicle for work, it can increase the cost of insurance.
 - **Vehicle safety rating:** Vehicles with more safety features can reduce the risk of injury in accidents.
 - **Vehicle type:** Larger vehicles usually have less damage in accidents than smaller ones. Sports cars and others that are built for high speeds can cost more to insure.
 - **Vehicle age:** New cars will cost more to replace and can be more expensive to insure. However, this may be offset by safety features built into newer models.
 - **Driving history:** How long a person has been driving can influence his or her ability to prevent accidents and be safe in challenging driving situations.
 - **Driving activity:** Insurance companies usually ask how much the vehicle will be driven, where it will be driven, and how many miles it will be driven in one year. A long commute or frequent trips will increase the cost.
 - **Policy:** People who choose a higher **deductible** pay more out-of-pocket if they have an accident or make a claim, but it can reduce how much they pay for their premiums. Insurance policies with higher amounts of **coverage** will cost more than those with less coverage. For example, auto insurance liability coverage can vary widely from the minimum permitted by law to full coverage. Most people also add collision and comprehensive coverage to their policies to cover damage for accidents, vandalism, and theft, but this adds to the cost.
5. Let students know that the state in which you live can also make a difference. For example, Hawaii does not allow insurance companies to charge young people more for auto insurance. Some states have similar laws for using age and credit scores to price auto insurance.
6. Ask students if other types of insurance such as homeowners, renters, health, and life would be influenced by the same factors or different ones.
7. Direct students to form small groups. For each group, distribute a copy of **Factors Influencing Insurance Prices**

⁴http://www.insureonline.org/auto_teen_driving_infographic.pdf

Pathway to Financial Success

In Schools

Student Handout and assign a type of insurance to investigate: health, homeowners, renters, or life. It is okay if more than one group has the same type of insurance to research.

- Encourage groups to brainstorm the factors they think will influence the price of their assigned insurance type and then conduct research to validate their assumptions. On the handout, they should list each factor and the reason it influences the costs. Inform students that they will be asked to briefly summarize their findings to the class.
- While students work, make a chart on the board similar to the one below.

Auto	Health	Homeowners/Renters	Life
Age Gender Where you live Credit score Profession Vehicle safety rating Vehicle type Vehicle age Driving history Driving activity Policy: deductible and coverage			

- Invite groups to share what they learned. As students present, fill in the chart with what influences the other types of insurance. Challenge students to explain why certain factors might influence prices. For example: Why does a building’s construction material influence the amount you would pay for homeowners or renters insurance? (Brick and concrete have a lower fire risk than wood.) Why would a person’s occupation impact how much he or she would pay for life insurance? (Some jobs are more stressful and/or have more risk). Who likely would pay more: a teacher or a police officer? Why? Did any factors surprise them? Once all groups have presented, discuss similarities and differences between each list.

Auto	Health	Homeowners/Renters	Life
Age Gender Where you live Credit score Profession Vehicle safety rating Vehicle type	Age Location Tobacco use Individual versus family coverage Policy: deductible and coverage (Note: Federal health insurance policy)	Location (Is area prone to natural disasters?) Neighborhood crime Condition, size, and age of home Type of dog you own Fire safeguards (distance to fire)	Age Health history (your own and your family history) Current health Weight Gender Occupation Tobacco use

Auto	Health	Homeowners/Renters	Life
Vehicle age Driving history Driving activity Policy: deductible and coverage	has changed how some factors such as gender and pre-existing conditions influence the cost of health insurance.)	station and/or hydrant) Having a pool, hot tub, or trampoline Material used to build the home/building Having a home security system Credit score Previous claims Policy: deductible and coverage	Alcohol use Hobbies such as skydiving and rock climbing Policy: term and coverage

11. Ask students to consider what would happen if tragedy strikes and they don't have insurance. What kind of expenses might they have? Examples include replacement of belongings, medical bills, and costs associated with injury they do to another person in an accident. In 2016, the average auto insurance premium was \$889.01, while the average amount paid out for a liability claim was \$16,110 (bodily injury) and \$3,683 (property damage). Meanwhile, the average collision claim was \$3,435 and comprehensive claim was \$1,748⁵. Based on that information and their own experiences, do students think paying for insurance is worth the cost?
12. Remind students that they can reduce their insurance costs. Direct students to identify the factors they might be able to control from the table and circle them.
13. Challenge students to write down three ways they can reduce the cost of insurance in the future and submit them as an exit ticket. Examples include maintaining a healthy lifestyle, taking drivers education courses, and paying attention to the types of insurance coverage they purchase, and shopping around for policies with lower costs.

Extend

- **Guest Speaker:** Invite several insurance agents to speak to your class as part of a panel presentation or by rotating groups to each speaker. Ask them to share information about policies of interest to young people. Direct students to compare the products described and decide which they prefer.
- **Family:** Encourage students to discuss insurance with their families. Have they ever had to make a claim? What was the process like? Do they ever re-evaluate their insurance needs? Is their coverage for the actual cash value or replacement cost?

Standards Correlation

[National Standards for Financial Literacy](#) from the [Council for Economic Education](#)

4. In addition to assessing a person's credit risk, credit reports and scores may be requested and used by employers in hiring decisions, landlords in deciding whether to rent apartments, and insurance companies in charging premiums.

⁵<https://www.iii.org/fact-statistic/facts-statistics-auto-insurance>

- 6. Insurance is a product that allows people to pay a fee (called a premium) now to transfer the costs of a potential loss to a third party
- 6. Insurance companies analyze the outcomes of individuals who face similar types of risks to create insurance contracts (policies). By collecting a relatively small amount of money, called a premium, from each policyholder on a regular basis, the company creates a pool of funds to compensate those individuals who experience a large loss.
- 6. Insurance policies that guarantee higher levels of payment in the event of a loss (coverage) have higher prices.
- 6. Insurance companies charge higher premiums to cover higher-risk individuals and events because the risk of monetary loss is greater for these individuals and events.
- 6. Individuals can choose to accept some risk, to take steps to avoid or reduce risk, or to transfer risk to others through the purchase of insurance. Each option has different costs and benefits.
- 6. People choose different amounts of insurance coverage based on their willingness to accept risk, as well as their occupation, lifestyle, age, financial profile, and the price of insurance.
- 6. People can lower insurance premiums by behaving in ways that show they pose a lower risk.
- 6. Health insurance provides funds to pay for health care in the event of illness and may also pay for the cost of preventive care. Large health insurance companies can often negotiate with doctors, hospitals, and other health care providers to obtain lower health care prices for their policyholders.
- 6. Property and casualty insurance (including renters insurance) pays for damage or loss to the insured's property and often includes liability coverage for actions of the insured that cause harm to other people or their property.
- 6. Life insurance benefits are paid to the insured's beneficiaries in the event of the policyholder's death. These payments can be used to replace wages lost when the insured person dies.

Roll Your Risk

Directions: Companies consider many factors when deciding how much to charge you for an auto insurance policy. Roll a die once for each the nine factors listed. Circle the column that matches your roll and fill in the cost you would pay. Total your costs to determine the total annual premium..

					Your Cost
Age & Gender	28 Years Old Female \$100	28 Years Old Male \$200	16 Years Old Female \$300	16 Years Old Male \$500	
Where You Live	Rural area \$100	Small Town \$200	Small Town \$200 Suburban area with high crime \$300	Urban area \$300	
Credit Score	Excellent \$100	Good \$200	Fair \$300	Poor \$500	
Profession	Student with Good Grades \$50	Graphic Designer \$50	Student with Poor Grades \$200	Pizza Delivery \$400	
Vehicle Safety Rating	Excellent \$100	Good \$200	Fair \$300	Poor \$500	
Vehicle Type & Age	New SUV \$100	New Sedan \$200	Used Minivan \$300	Used Sports Car \$400	
Driving History	No Accidents \$100	One Traffic Violation \$200	Two Speeding Tickets \$300	Major Accident \$400	
Driving Activity	Infrequent \$100	Short Commute \$200	Frequent Trips \$300	Long Commute \$400	
Policy	High Deductible Low Coverage \$100	High Deductible Medium Coverage \$200	Low Deductible Medium Coverage \$300	Low Deductible Full Coverage \$400	
TOTAL COST = TOTAL ANNUAL PREMIUM					
COST PER MONTH (TOTAL ANNUAL PREMIUM ÷ 12)					

Factors Influencing Insurance Prices

Directions: Brainstorm factors that influence the cost of your assigned insurance.

Insurance Type (circle one): Health Homeowners Renters Life

What do you think will influence the price?

What does your research say will influence the price? Why?

Factor	Reason