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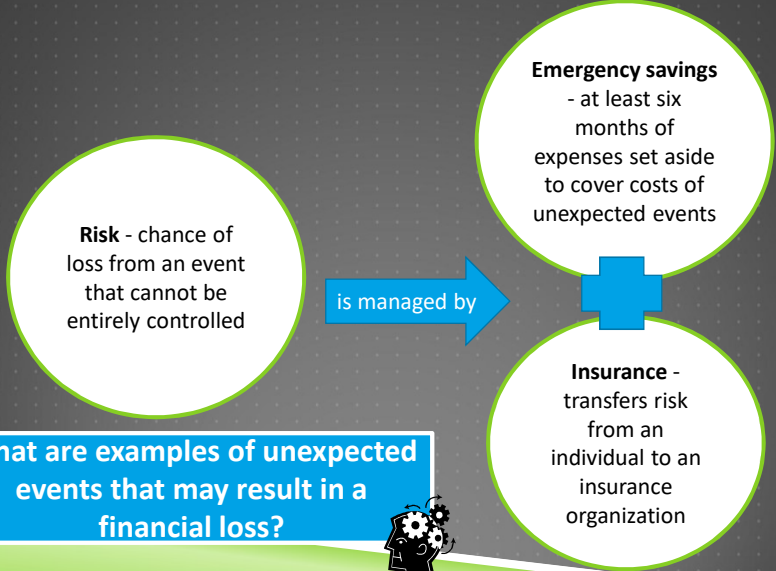
# TYPES OF INSURANCE

“Take Charge of Your Finances”  
Advanced Level



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## WHY IS IT IMPORTANT TO HAVE INSURANCE?




**Risk** - chance of loss from an event that cannot be entirely controlled

is managed by



**Emergency savings**  
- at least six months of expenses set aside to cover costs of unexpected events

**Insurance** - transfers risk from an individual to an insurance organization

**What are examples of unexpected events that may result in a financial loss?**



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## INSURANCE POLICY

- Policy** - A contract that specifies what risks are covered and how much will be paid for losses
- Coverage** - The risks covered and amount of money paid for losses under an insurance policy
- Policyholder** - Person who owns the policy
- Premium** - Money paid to purchase the policy

Experts say that buying insurance is buying financial security. Do you think this is true? Why or why not?





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## AN ILLUSTRATION OF HOW INSURANCE WORKS

Suppose there are 100 people in a group



With a 1% chance that any one of them could get sick and require \$10,000 in medical care





But, no one knows who will get sick

If each person pays \$100 into a "pool" they will collectively have \$10,000 to cover the medical costs of the person who gets sick

So, everyone gives up \$100, but nobody loses more than \$100

99 people do not collect anything, but they gain peace of mind and important protection against a large loss

**Insurance shifts the risk of big loss from the individual to the insurance company**

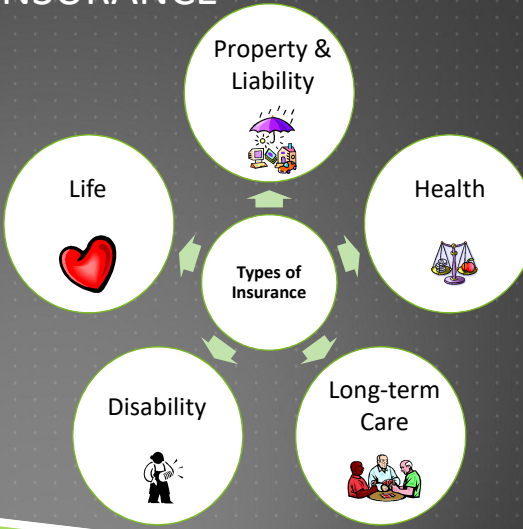

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## THE BENEFITS OF INSURANCE


- ▶ Payments received from an insurance policy can far exceed the premiums paid
- ▶ Provides financial security and peace of mind

Why is the best outcome to have insurance but never collect on it?



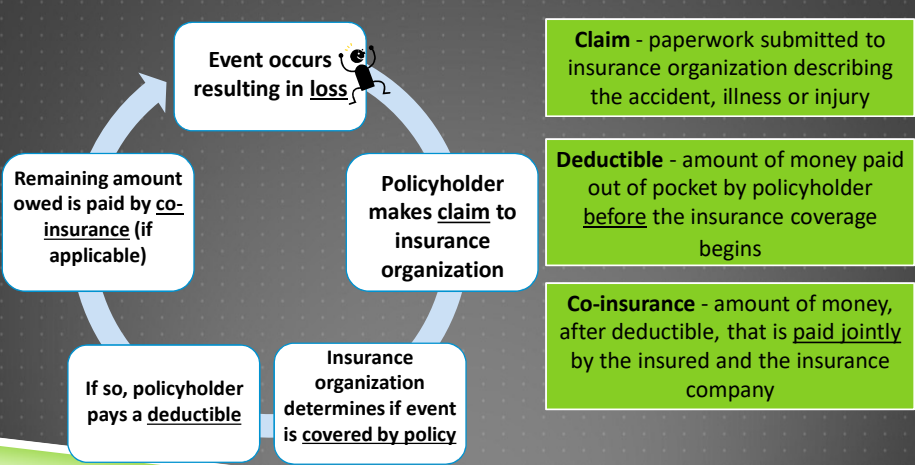


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## THE INSURANCE PROCESS



**Claim** - paperwork submitted to insurance organization describing the accident, illness or injury

**Deductible** - amount of money paid out of pocket by policyholder before the insurance coverage begins

**Co-insurance** - amount of money, after deductible, that is paid jointly by the insured and the insurance company


**Event occurs resulting in loss**

**Policyholder makes claim to insurance organization**


**Insurance organization determines if event is covered by policy**

**If so, policyholder pays a deductible**

**Remaining amount owed is paid by co-insurance (if applicable)**



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## LOUISE'S ACCIDENT

Louise has a health insurance policy with a \$500 deductible and 20% co-insurance

→ this means →

Louise pays the first \$500 of any covered medical care plus 20% of the remaining costs

Even with insurance Louise still needs funds to pay the deductible and co-insurance


what if... →

Louise is in an accident resulting in a \$5,000 medical procedure that is covered by insurance


→ then →

Louise pays \$500 + 20% of the remaining \$4,500 for a total of \$1,400  
The insurance company pays \$3,600

What would Louise's options have been if she did not have insurance?



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## YOU DO THE MATH!

Carlos was involved in an automobile accident that resulted in \$3,788 worth of damage to his car.  
*How much does Carlos pay and how much does the insurance organization pay?*


Carlos has a property and liability insurance policy with a \$500 deductible and 0% co-insurance

How much does Carlos pay? →


\$500

How much does his insurance organization pay?

\$3,288



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## WHICH INSURANCE POLICY WOULD YOU CHOOSE?

Janet wants to make sure she has the best health insurance policy. She shopped around and received multiple quotes. *What are the pros and cons of each policy?*

	Current Policy	New Policy
<b>Premium amount/month</b>	\$300	\$200
<b>Deductible amount</b>	\$200	\$2000
<b>Co-insurance amount</b>	20% owed by policyholder 80% owed by insurance organization	0% owed by policyholder 100% owed by insurance organization



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## WHY DO INSURANCE POLICIES INCLUDE DEDUCTIBLES AND CO-INSURANCE?

### Reduce the problem of moral hazard

- When the act of insuring an event increases the likelihood it will occur
- Deductibles and co-insurance place some of the loss on the policyholder

### For example...

- Not locking a car or parking it in a theft-prone area in hopes it will be stolen and automobile insurance will pay for a new vehicle

Dollars paid from an insurance policy are not intended to make a person better off than before the loss happened



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## SOURCES OF INSURANCE

In most cases, individuals acquire insurance from a combination of sources

Individual

- Long-term care, property and liability insurance

Employer

Health, disability, and occasionally life insurance

Government

Special programs for those who qualify and during catastrophes

If an employer does not provide insurance, it may be acquired individually

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## EMPLOYER PROVIDED INSURANCE

Employee benefits - products or services that add extra value for employees beyond wages

Insurance premiums paid by...

Employer

Employee

In-kind income – the provision of a product or service rather than cash

Payroll deduction

- Policies may be available to the employee’s family members (usually for additional fees)
- No income taxes are paid on the in-kind income

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## GOVERNMENT PROGRAMS

- ▶ Provide basic insurance as a part of the social safety net to protect citizens from economic hardship
  - ▶ Social Security, Medicare, Medicaid
- ▶ Many programs require a work history and employer provided participation to be eligible
  - ▶ Unemployment insurance, worker’s compensation
- ▶ Can address specific catastrophes
  - ▶ Natural Disaster – Hurricane Michael


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## HEALTH INSURANCE

**Health insurance - provides**  
money to

d by

Employer

Government

**If dollars are limited, health insurance is extremely important to protect against high medical bills**

Risks Covered

Doctors' visits

Hospital bills

Mental health treatment



Preventative care

Prescription drugs

Medical procedures

Vision care

Dental care


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## WHAT IF A PERSON CANNOT WORK OR LIVE INDEPENDENTLY?

**Why are both disability and long-term care insurance important?**

- Disability insurance**
  - Payment to replace earnings during times when workers cannot work due to illness or injury
  - Provided by employers, individuals, and/or government
- Long-term care insurance**
  - Payment for extended care when a person cannot live independently (but doesn't need to be hospitalized)
  - Provided by individuals

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## PROPERTY & LIABILITY INSURANCE

**Two parts**

- Property insurance** - payment to insured person if his/her property is damaged or destroyed by an accident
  - Pays for loss to insured person
- Liability insurance** - payment to others if a member of the insured household accidentally causes harm to other people or property
  - Pays for injury or loss to others


**Provided by individuals**

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## TYPES OF PROPERTY & LIABILITY INSURANCE



**Automobile insurance** - payment for liability and property insurance on a vehicle



**Homeowners insurance** - payment to cover liability losses and damage/loss of home and its contents





**Renters insurance** - payment for damage/loss of property in a rental unit in addition to liability losses


If a person drives an automobile, automobile liability insurance is required by law


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## LIFE INSURANCE

**Life insurance**- payment to beneficiaries if an insured person dies



**Beneficiary**- someone who receives insurance money if the insured person dies




**Dependent** - someone who relies on someone else for money income and care



Provided by employers and/or individuals

May cover paid and unpaid work formerly done by the individual

**Household production**- unpaid work, such as child care or meal preparation

When would it be necessary to purchase life insurance?




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## IN REVIEW...

**Insurance is an important part of a financial plan**

**Insurance is not intended to make an individual better off than before the event**

**Insurance may be acquired from multiple sources**

**Even with insurance, an individual should still have funds to pay the deductible and co-insurance**

**There are several types of insurance for specific purposes**



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## WHAT COVERS THIS RISK?

**You are having a baby and need medical care**

**Health Insurance**



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## WHAT COVERS THIS RISK?

You are unable to work for six months and need help paying your expenses while you're out of work

Disability Insurance



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## WHAT COVERS THIS RISK?

You are elderly and need assistance from medical professionals to continue living at home

Long-term Care Insurance



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## WHAT COVERS THIS RISK?

Your home is destroyed by a tornado and you need to rebuild

Property Insurance  
Specifically Homeowners



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## WHAT COVERS THIS RISK?

The car you are driving causes an accident that injures someone else

Liability Insurance  
Specifically Automobile



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## WHAT COVERS THIS RISK?

A sudden death of a family member results in loss of income

Life Insurance



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## CALCULATING COSTS

- ▶ Step One: Determine the total cost incurred from the event.
  - ▶ Example: Fire damage to your home costs \$30,000 worth of damage.
- ▶ Step Two: Know your deductible. Subtract this from the total cost.
  - ▶ Example: Your property insurance has a deductible of \$1,000 for all claims



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## CALCULATING COSTS

- ▶ Step Three: Determine if your policy involves co-insurance. If so, what percentage are you responsible for?
  - ▶ Example: Your insurance does involve co-insurance, requiring you to pay 15% of any costs of the claim, after the deductible.
- ▶ Step Four: Add deductible and any co-insurance payments to determine total cost to policyholder.



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## CALCULATING COSTS

- ▶ Example Overview: Your house incurred damage from a fire accident, resulting in \$30,000 worth of repairs needed. You are responsible for a \$1,000 deductible and 15% of all costs after the deductible.
  - ▶  $\$30,000 - \$1,000 = \$29,000$
  - ▶ 15% of \$29,000 ( $29,000 \times .15$ ) = \$4,350
  - ▶  $\$1,000 + \$4,350 = \$5,350$  total cost to policyholder



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## CALCULATING COSTS

- ▶ \$5,350 sure is a lot of money but it sure is cheaper and easier to recover from than \$30,000 worth of debt!
- ▶ Know that all policies are unique and will have differing costs. This is a basic outline of how insurance can cost the policyholder.
- ▶ As we continue to learn about the varying forms of insurance and policies we will see the different ways costs can be calculated!