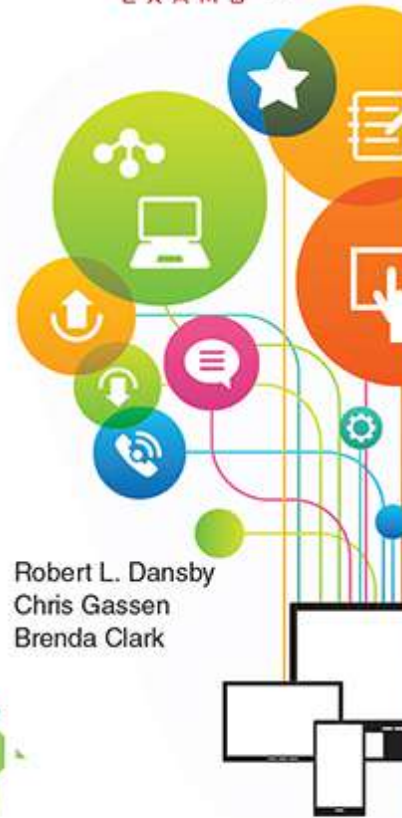


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Principles of Business, Marketing, and Finance

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Insurance

Section 20.1

Health and Life Insurance

Objectives

- **Describe** personal risks and how they can be managed.
- **Identify** health insurance coverage options.
- **Differentiate** life insurance coverage options.

Key Terms

- coinsurance
- exclusion
- preexisting condition
- preauthorization
- utilization review
- regular medical insurance
- inpatient
- major medical insurance
- comprehensive medical insurance
- dental insurance
- vision care insurance
- managed care plan
- copayment
- beneficiary
- term life insurance
- whole life insurance
- endowment insurance



Essential Question

How do health and life insurance help manage personal risk?

Personal Risk

- *Risk* is the possibility of loss, damage, or injury
 - *Personal risks* are those that affect a person directly, such as illness or disability
 - *Property risks* are those that affect personal or real property
 - *Liability risks* result from the possibility of losing money or other property as a result of legal proceedings

Personal Risk

- *Risk management* is the process of measuring risk and finding ways to minimize or manage loss
 - *Avoid* risk by taking steps to eliminate the risk
 - *Reduce* risk with a strategy of minimizing risks that cannot always be avoided
 - *Transfer* risk by shifting the risk to someone else
 - *Assume* risk by assessing the risk and making financial preparations for possible future loss

Personal Risk

- Insurance protects against loss
 - The *insurer* receives money from the *insured*
 - *Premium* is amount of money regularly paid to an insurance company for a policy
- Types of insurance:
 - Health
 - Disability
 - Life
 - Home
 - Automobile

Health Insurance

- Health insurance covers specific medical expenses created by illness, injury, and disability
 - *Group health insurance* policy
 - Individual insurance plans
- *Deductible* is the amount paid toward medical expenses before insurance company begins to pay
- **Coinsurance** is a percentage of the service costs that patients pay

Health Insurance

- **Exclusion** is a medical service that is not covered in an insurance plan
 - **Preexisting condition** is an illness or an injury a person has before signing up for health insurance
- **Preauthorization** is approval from the plan before receiving certain procedures and treatments
 - **Utilization review** is an insurance company's examination of requests for medical treatments and procedures to make sure they are covered and needed

Health Insurance

- **Regular medical insurance** coverage includes prescriptions, hospital stays, and inpatient tests
 - **Inpatient** is a person whose care requires a stay in a hospital
- **Major medical insurance** typically covers costs of serious illnesses, injuries, and high-cost procedures
- **Comprehensive medical insurance** combines basic and major medical protection in one policy
- **Dental insurance** covers specified dental services
- **Vision care insurance** covers specified eye care services

Health Insurance

- **Managed care plan** is a type of health-care plan in which the insurance company contracts with doctors, hospitals, and healthcare providers to deliver medical services and care to members at reduced cost
 - *Health maintenance organizations (HMO)*
 - *Preferred provider organizations (PPO)*
 - *Point-of-service (POS) plans*
- **Copayment** is a flat fee the patient must pay for medical services

Health Insurance

- Health coverage for young adults
 - Patient Protection and Affordable Care Act; children to age 26 can remain on family insurance policy
 - Colleges offer student medical insurance
- Government-sponsored health insurance
 - *Medicare* for eligible citizens age 65 and older
 - *Medicaid* for eligible low-income persons and those with certain disabilities
 - *Children's Health Insurance Program (CHIP)* gives federal funds to states to provide health coverage for those 18 and younger

Health Insurance

- Disability insurance pays a portion of income lost to worker unable to work due to nonwork related illness or injury
- Workers' compensation insurance covers medical care and a portion of lost wages to those with work-related illness or injury

Life Insurance

- Life insurance protects dependents from loss of income and helps pay expenses after death of insured person
 - *Face value* is the amount for which the policy is written
 - **Beneficiary** is person or organization named by policyholder to receive death benefit of insurance policy after policyholder's death
- Traditional types of life insurance:
 - Term life
 - Whole life
 - Endowment

Life Insurance

- **Term life insurance** provides protection only for a specific period of time
 - Protection ends when term ends
- **Whole life insurance** provides basic lifetime protection; *straight life insurance*
 - Limited payment policies: Require premium payments over a stated period of time
 - Variable life: Premiums are fixed; combined with investment feature
 - Adjustable life: Policy may be revised to meet needs
 - Universal life: Policy may be revised to meet needs; offers cash value

Life Insurance

- **Endowment insurance** pays the face value of the policy to beneficiaries if the insured dies before the endowment period ends
 - Pays face value to insured if he or she lives longer than endowment period

Section 20.1 Review

1. Identify three types of risk.

Personal risks, property risks, and liability risks.

2. List four methods of risk management.

Four common methods of risk management include avoiding, reducing, assuming, and transferring.

3. List examples of health insurance plans.

Health insurance plans include regular medical insurance, major medical insurance, comprehensive medical insurance, dental insurance, and vision care insurance.

Section 20.1 Review

4. Name three forms of managed care plans.

Three forms of managed care are health maintenance organizations (HMOs), preferred provider organizations (PPOs), and point-of-service (POS) plans.

5. What are the three traditional types of life insurance policies?

The three traditional types of life insurance policies are term life, whole life, and endowment.

Section 20.2

Personal Property Insurance

Objectives

- **Explain** the importance of property insurance.
- **Describe** types of auto insurance coverage.
- **Identify** the options to consider when buying insurance.

Key Terms

- umbrella policy
- depreciation
- endorsement
- bodily injury liability
- property damage liability
- no-fault auto insurance



Essential Question

What should an individual consider when buying insurance for personal property?

Property Insurance

- Personal property should be insured against loss
- Homeowners insurance covers liability and damage to property
 - *Property coverage* insures against financial loss due to damage to or loss of a dwelling, personal property, and possessions
 - *Homeowners liability coverage* protects homeowner if others are injured on the policyholder's property
 - **Umbrella policy** covers loss amounts that are higher than those covered by primary policies; *extended liability policy*

Property Insurance

- **Depreciation** is a decrease in the value of property as a result of age or wear and tear
- *Replacement value* covers the cost of replacing what is lost without deducting depreciation
- *Actual cash value* is the replacement cost minus depreciation
- Renter's insurance covers damage or loss of renter's personal items
- **Endorsement** is an attachment to existing insurance policy to provide coverage for items not included on the original policy

Auto Insurance

- Auto insurance covers liability and property damage; may include several types of coverage
- **Bodily injury liability** protects a person who is responsible for an auto accident that results in the injury or death of other parties
- **Property damage liability** protects a person who is responsible for an auto accident that results in damage to property of others

Auto Insurance

- *Medical payments coverage* pays medical expenses resulting from an accident in the insured car, regardless of who is at fault
- *Collision* coverage pays insured for damage to his or her car due to an auto accident or collision with another object
- *Comprehensive physical damage coverage* pays the insured for loss or damage to his or her car resulting from specific events
- *Uninsured motorist* coverage pays the insured for injuries caused by an uninsured or hit-and-run driver

Auto Insurance

- *Underinsured motorist* coverage protects the insured for losses caused by a driver whose insurance will not cover all the damages incurred
- *Roadside assistance* and *rental reimbursement* coverage may be purchased to cover certain expenses
- **No-fault auto insurance** is a type of insurance plan that eliminates the fault-finding process in settling claims
 - Each company pays its own policyholder

Buying Insurance

- Evaluate policy benefits and options
- Compare premiums charged by different companies
- Insurance agent is key to quality of service

Buying Insurance

- Factors that affect cost of auto insurance
 - Driver classification: Age, gender, marital status of driver
 - Rating territory: Claim statistics in an area
 - Discount eligibility: Discounts for certain drivers
 - Type of vehicle: Vehicle model and age
 - Deductible amount: Higher deductible usually means lower premium
 - Coverage amount: Amount of protection purchased

Buying Insurance

- Factors that affect the cost of protecting a home and personal possessions
 - Type and amount of coverage: Higher amount of protection purchased means premium will be higher
 - Size of the deductible: Higher deductible usually means lower premium
 - Risk factors of neighborhood: Type of home and location
 - Insurance company: Premiums vary from company to company
 - Opportunity for discounts: Various discounts offered to policyholders

Section 20.2 Review

1. List two basic types of coverage provided by a homeowners insurance policy.

The two basic types of coverage are property protection and liability protection.

2. Why is renters insurance a good idea?

To cover their personal items, it is a good idea for renters to purchase a renters insurance policy. The property owner only carries coverage on the dwelling itself.

Section 20.2 Review

3. Name five types of auto insurance coverage that pay the insured.

Five types of auto insurance coverage that pay the insured are (any five) medical payments or personal injury protection (PIP), collision, comprehensive physical damage, uninsured and underinsured motorist, roadside assistance, and rental reimbursement.

Section 20.2 Review

4. What factors are used when determining the cost of auto insurance?

The cost of auto insurance depends on driver classification, rating territory, discount eligibility, type of vehicle, deductible amount, and coverage amount.

5. What factors are used when determining the cost of protecting a home and personal possessions?

The cost of protecting a home and personal possessions depends primarily on the type and amount of coverage, size of the deductible, risk factors of the neighborhood, the insurance company, and opportunities for discounts.