

Section 20.1

Health and Life Insurance



How do health and life insurance help manage personal risk?

Objectives

After completing this section, you will be able to:

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

Section 20.1 Review

Check Your Understanding

1. Identify three types of risk.

Answer: Personal risks, property risks, and liability risks.

2. List four methods of risk management.

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

3. List examples of health insurance plans.

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

4. Name three forms of managed care plans.

Answer: 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?

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

Build Your Vocabulary

As you progress through this course, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add it to your personal glossary.

coinsurance

Answer: Percentage of the service costs that patients pay.

exclusion

Answer: Medical service that is not covered in an insurance plan.

preexisting condition

Answer: Illness or injury a person has before signing up for health insurance.

preauthorization

Answer: Approval from the plan before receiving certain procedures and treatments.

utilization review

Answer: Insurance company's examination of requests for medical treatments and procedures to make sure they are covered and the patient truly needs them.

regular medical insurance

Answer: Cover includes prescriptions, hospital stays, and inpatient tests.

inpatient

Answer: Person whose care requires a stay in a hospital.

major medical insurance

Answer: Typically covers the costs of serious illnesses and injuries, as well as high-cost procedures.

comprehensive medical insurance

Answer: Combines basic and major medical protection in one policy.

dental insurance

Answer: Covers specified dental services, such as exams and teeth cleaning.

vision care insurance

Answer: Covers specified eye care services, such as eye exams, glasses, and contact lenses.

managed care plan

Answer: Health-care plan in which the insurance company contracts with specific doctors, hospitals, and other health-care providers to deliver medical services and preventive care to members at reduced cost.

copayment

Answer: Flat fee the patient must pay for medical services.

beneficiary

Answer: Person or organization named by a policyholder to receive the death benefit of an insurance policy after the policyholder's death.

term life insurance

Answer: Insurance that provides protection for a specific period of time.

whole life insurance

Answer: Insurance that provides basic lifetime protection, as long as premiums are paid. Also known as *straight life insurance*.

endowment insurance

Answer: Insurance that pays the face value of the policy to beneficiaries if the insured dies before the endowment period ends.

Section 20.2

Personal Property Insurance



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

Objectives

After completing this section, you will be able to:

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

Section 20.2 Review

Check Your Understanding

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

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

2. Why is renters insurance a good idea?

Answer: 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.

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

Answer: 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.

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

Answer: 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?

Answer: 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.

Build Your Vocabulary

As you progress through this course, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add it to your personal glossary.

umbrella policy

Answer: Insurance policy that covers loss amounts that are higher than those covered by primary policies; also known as an extended liability policy.

depreciation

Answer: Decrease in the value of property as a result of age or wear and tear.

endorsement

Answer: Attachment to an existing insurance policy to provide coverage for items not included on the original policy.

bodily injury liability

Answer: Insurance coverage that protects a person who is responsible for an auto accident that results in the injury or death of other parties.

property damage liability

Answer: Insurance coverage that protects a person who is responsible for an auto accident that results in damage to the property of others.

no-fault auto insurance

Answer: Insurance plan that eliminates the faultfinding process in settling claims.

Chapter Summary

Section 20.1 Health and Life Insurance

- Risk is unavoidable. Some risks are predictable and others are unpredictable. Examples of risk include personal, property, and liability risks. Risk management is a key aspect of minimizing or managing loss. It includes avoiding, reducing, assuming, and transferring risk. Buying insurance is a common way of transferring risk.
- Health insurance offers protection by covering specific medical expenses created by illness, injury, and disability. Health insurance plans can include regular medical, major medical, comprehensive, dental, and vision care insurance. Plans can be purchased privately, through government-sponsored programs, or may be available through an employer.
- Life insurance protects dependents from loss of income and helps pay expenses after the death of the insured person. There are three traditional types of life insurance policies: term life, whole life, and endowment. Each type has different features regarding premiums, value, and investment options.

Section 20.2 Personal Property Insurance

- Property insurance covers the personal property of an insured. Policies are available for both homeowners and renters. Homeowners insurance provides coverage for liability and damage to property under certain conditions. Renters insurance covers a renter against losses due to damage or loss of personal property and possessions. The owner of the rental property only carries coverage on the dwelling itself, not on property of the residents.

- Auto insurance covers the policyholder for liability and property damage in the event of an accident. Coverage can include bodily injury liability, property damage liability, medical payments, collision insurance, comprehensive physical damage, uninsured and underinsured motorists, roadside assistance, and rental reimbursement.
- When purchasing insurance for a home or vehicle, it is important to research the insurance company, the insurance agents who work for that company, and the types of policies offered. The cost of auto insurance depends on driver classification, rating territory, discount eligibility, type of vehicle, deductible amount, and coverage amount. Similarly, the cost of property insurance depends on the type and amount of coverage, size of the policy deductible, risk factors of the neighborhood, the insurance company, and discounts.

Review Your Knowledge

1. Explain different types of risk that an individual might encounter.

Answer: Personal risks are those that affect a person directly. 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.

2. What factors of a person's life must be considered when selecting the type and amount of insurance needed?

Answer: The type and amount of insurance needed depends on the risks being covered, the amount available to pay for losses, and the financial obligations of the insured persons.

3. What is the difference among HMOs, PPOs, and POS plans?

Answer: Health maintenance organizations (HMOs) provide a list of participating physicians from which the insured selects a primary care doctor, who coordinates the patient's health care, carries out routine exams and treatments, and makes referrals to specialists. Preferred provider organizations (PPOs) arrange with specific doctors, hospitals, and other caregivers to provide services at reduced costs to plan members. Point-of-service (POS) plans connect the insured with a primary care doctor who participates in the plan and supervises patient care and makes referrals.

4. List and describe three examples of government-sponsored health insurance.

Answer: Medicare covers specific health-care expenses for eligible citizens age 65 and older. Medicaid is a health insurance program for low-income persons and those with certain disabilities. Children's Health Insurance Program (CHIP) gives federal funds to states to provide health insurance coverage for children ages 18 and younger.

5. Explain the different types of whole life insurance policies that are available.

Answer: Limited payment policies offer lifetime protection and require premium payments over a stated period of time or until a certain age is reached. Variable life insurance premiums are fixed and the insurance is combined with an investment feature; the policy guarantees a minimum death benefit, but the benefit may be higher than the guarantee. Adjustable life insurance allows the policyholder to revise the policy as his or her needs change. Universal life insurance allows premiums, face value, and level of protection to be adjusted and also offers an investment feature.

6. Explain the purpose of homeowners insurance.

Answer: Homeowners insurance provides coverage for liability and damage to property under certain conditions. Depending on the protection, the insurance covers the policyholder against financial loss due to damage to or loss of a dwelling, personal property and possessions and may also pay for additional living expenses if the policyholder should need to move out because of damage to the property. Insurance could also protect a homeowner if others are injured on the policyholder's property.

7. How does the insured benefit from uninsured and underinsured motorist coverage?

Answer: Uninsured and underinsured motorist coverage pays the insured for injuries caused by an uninsured driver, hit-and-run driver, or a driver whose insurance will not cover all the damage incurred. It covers insured persons while they are driving, riding, or walking. It also covers passengers in the insured person's car.

8. Explain how claims are handled with a no-fault auto insurance plan.

Answer: No-fault auto insurance eliminates the fault-finding process in settling claims by allowing each policyholder to make a claim to his or her own insurance company. Each company will pay its own policyholder regardless of who is at fault.

9. What qualities should an individual look for in an insurance agent?

Answer: An agent should be chosen who can clearly explain the different types of coverage and benefits available. A good agent advises clients honestly about the type and amount of coverage needed. He or she helps policyholders evaluate coverage needs and financial charges. A responsible agent also handles policy revisions and claims promptly.

10. How does driver classification affect the cost of auto insurance?

Answer: Driver classification is determined by the age, gender, and marital status of the driver. Driving record and habits are also considered. Young, single males are involved in more serious accidents than other classes of drivers. Therefore, they tend to pay the highest insurance premiums. Rates for women, single and married, are lower than rates for males. A poor driving record tends to increase premiums, as does a record of previous claims and costly settlements.

Apply Your Knowledge

1. Think about specific risks in your life right now. Make a list of the risks for which you would be willing to assume financial responsibility. Explain your plan for assuming these risks.

Answer: Student answers will vary. Evaluate each response individually.

2. For the risks you are not willing to assume, explain how you can avoid, reduce, or transfer them. Use this information to develop a personal risk management plan.

Answer: Student answers will vary. Evaluate each response individually.

3. Write a summary of the factors that would be important to you when choosing a health insurance plan.

Answer: Student answers will vary. Evaluate each response individually.

4. Identify possible hazards that pose the greatest threat of property loss or damage in the area in which you live. Explain the types of insurance policies that cover these hazards and the specific types of property covered.

Answer: Student answers will vary. Evaluate each response individually.

5. Workers' compensation insurance provides benefits for workers with work-related illnesses or injuries. Think of a large business in your area. List some of the potential work-related illnesses or injuries associated with the business.

Answer: Student answers will vary. Evaluate each response individually.



You Do the Math

Problem Solving and Reasoning

Insurance is a financial service used to protect against loss. The insurance company charges its customers to assume their risk. The charge is called a *premium*. When a claim is made, the policyholder is responsible to pay a certain amount toward the loss before the insurance company begins to pay. This amount is called a *deductible*. Once the deductible is met, the insurance company begins to pay for covered losses above the deductible amount.

Solve the following problems.

1. Scott's auto insurance has a deductible of \$500. Scott is in an accident that affects only his car and requires \$3,000 worth of repairs. How much will both he and the insurance company pay toward the repairs?

Answer: Scott's deductible is \$500, so he is responsible for that amount.

Total cost – deductible = total insurance payment

$$\$3,000 - \$500 = \$2,500$$

The insurance will pay \$2,500.

2. Angela's auto insurance premium is \$1,500 annually. She wants to increase her property damage coverage limit from \$100,000 to \$150,000. Her insurance agent says this will raise her premium by 6 percent. How much more will Angela pay each month with her new premium?

Answer: $\$1,500 \div 12 = \125

$$\$1,500 \times .06 = \$90$$

$$\$1,500 + \$90 = \$1,590$$

$$\$1,590 \div 12 = \$132.50$$

$$\$132.50 - \$125 = \$7.50$$

Angela will pay \$7.50 more each month.

3. Ahmed's car insurance premium is \$1,889.50. He is eligible for a 15% discount. After the discount is applied, how much will Ahmed's premium be?

Answer: $\$1,889.50 \times .15 = \283.43

$$\$1,889.50 - \$283.43 = \$1,606.07$$

Ahmed's new premium will be \$1,606.07