

Lesson 17: Insurance

Pre-Lesson Vocabulary Practice

Study the terms and their meanings throughout the lesson. Next take turns with a partner choosing a term and then giving the meaning. Finally, practice using the terms in sentences.

loss – the opposite of gain; not having money one expects to have
Example: *I experienced a financial loss.*

out-of-pocket – direct, immediate costs
Example: *Out-of-pocket expenses are not covered by insurance.*

comprehensive – including many aspects
Example: *People should buy comprehensive insurance for their new car.*

uninsured motorist – a driver who has no insurance
Example: *Uninsured motorists are often sued in court for damages.*

lawsuits – legal action taken against a person or business
Example: *Insurance protects against lawsuits.*

disasters – bad events such as floods, hurricanes, tornados, fires
Example: *Insurance does not cover all disasters.*

national health plan – government-provided healthcare
Example: *There is no national health plan in the United States.*

resources – assets, a way to pay for something
Example: *Medicaid is available for people without sufficient resources.*

group/individual health plans – health insurance for numbers of people/for one person
Example: *HMOs are a type of group health plan.*

co-payment – the amount paid by the insured person
Example: *Co-payments are extra payments in addition to insurance.*

disability – not being able to work due to illness or accident
Example: *Some people receive disability assistance after an accident.*

skilled nursing – professional care given to someone disabled, sick, or elderly
Example: *Insurance may provide skilled nursing and housekeeping care.*

severe financial hardship – great difficulty having enough money to pay for necessities
Example: *Families may experience severe financial hardship after an accident.*



Lesson 17

Insurance

Insurance is protection against financial loss. An insurance **policy** is an agreement between the consumer (the **insured** or the **policyholder**) who pays for the policy and the company (the **insurer**) that offers the insurance. An insurance policy is a detailed document that describes the **coverage** (the dollar amounts and limits) that the insurer will pay in case of a financial loss.

Lawyers call the insured the **first party**, and they call the insurer the **second party**. Insurance policies offer protection for the cost of an injury to a **third party**. A third party could be a carpenter working on a homeowner's roof or the driver of the other car in a crash. Insurance has many specialized terms and expressions. This lesson will explain the most common insurance terms.

Automobile insurance protects a policyholder from the costs that result from accidents, vandalism, or theft. **Homeowner's insurance** and **renter's insurance** protect against loss from fire, theft, wind, and water damage as well as the costs that result from injuries that occur on the property to a third party. **Health insurance** protects against the high costs of treating illnesses and injuries. **Life insurance** protects a family against the loss of income that results from the policyholder's death.

The price a customer pays for insurance is the **premium**. When a policyholder makes a **claim** (a request for payment), he often has to pay a **deductible**. A deductible is the amount that the policy owner must pay on a claim. For most insurance policies, higher deductibles mean lower premiums. When shopping for insurance, a consumer should consider what out-of-pocket expenses he or she can comfortably afford.

Example 1 During a storm, a tree branch fell on the Suarez's house. The cost to repair the roof was \$690. Their homeowner's policy has a property deductible of \$250. How much will the insurer pay to repair the Suarez's roof?

Solution Subtract the deductible from the cost of the repair.

$$\$690 - \$250 = \$440$$

Automobile insurance offers several kinds of protection.

First-party coverage is for the policy owner and the passengers in his car.

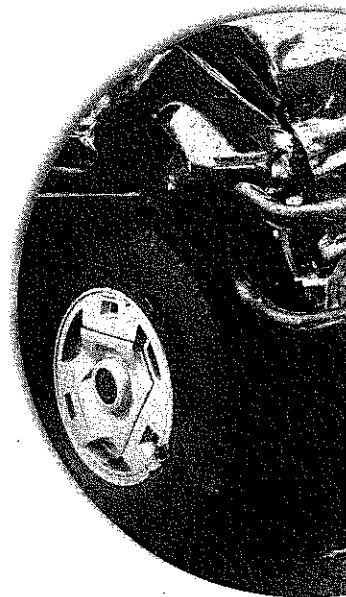
Third-party coverage is for damage that a policy owner causes to another person or to another person's property.

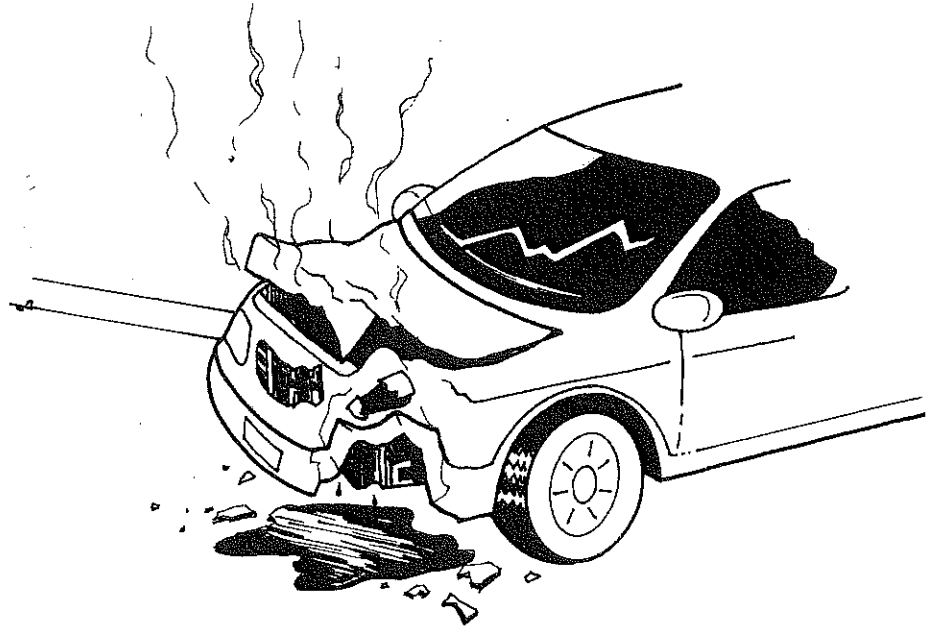
Liability refers to a legal obligation. Liability insurance is for medical payments or for property damage to a third party. Most states require automobile owners to have liability insurance.

Collision refers to a crash. Collision insurance is for the policyholder's car. There is usually a deductible for collision insurance.

Comprehensive insurance covers the cost of damage or loss of the policy owner's car caused by something other than a collision. Comprehensive insurance includes damage or loss from fire, floods, earthquakes, and theft. There is usually a deductible for comprehensive insurance.

Uninsured or underinsured motorist protection covers costs to the policy owner from accidents caused by a driver with inadequate insurance.





Towing insurance covers the cost of moving the policy owner's car in case of an accident or a breakdown.

No-fault insurance pays for each driver's injuries regardless of who caused the accident.

The cost of automobile insurance varies according to the age of the driver, the age of the car, the driver's sex, the number of miles the driver normally drives in a year, the main purpose of most of the driving (work or leisure), and the driving record of the driver. In the last lesson you learned that the value of a car depreciates quickly. But depreciation does not mean that car insurance premiums drop as a car gets older.

One way to lower an insurance premium is to purchase more than one kind of coverage from the same company. Many insurance companies offer discounts if you buy car insurance, homeowner's insurance, and life insurance.

Example 2 The yearly premium for Mike's automobile insurance is \$762. Since he also has a homeowner's policy with the company, he gets a 7.5% discount on his car insurance premium. How much can he save on his car insurance?

Solution Find 7.5% of \$762.

$$0.075 \times \$762 = \$57.15$$

Mike can save \$57.15.

Homeowner's insurance covers the replacement cost of a house and its contents. Any homeowner with a mortgage is usually required by the lending institution to carry homeowner's insurance.

Homeowner's insurance includes liability insurance. This protects the owner against the costs associated with injury to anyone who is on the property. If a worker gets injured repairing a roof, the owner's insurance protects against lawsuits from the injured worker.

Example 3 Mei-ling and David's homeowner's insurance premium is 0.65% of the value of their house. If their house is worth \$122,000, what is their yearly insurance premium?

Solution Find 0.65% of \$122,000.

$$0.0065 \times \$122,000 = \$793.00$$

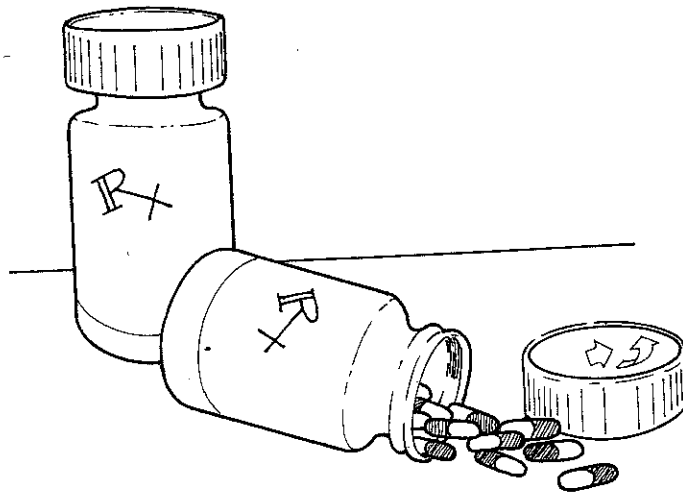
Homeowner's insurance does not cover all disasters. To protect a home from loss by an earthquake or a flood, a homeowner usually has to purchase additional insurance coverage—called a **rider**.

Health insurance is controversial. The U.S. is one of the few developed countries with no national health plan. For people 65 and older, the federal government offers **Medicare**, which pays partial healthcare costs. For people without sufficient income or resources, there is **Medicaid**. Everyone else is dependent on group or individual health plans. By some estimates, 15% of Americans have no health coverage. For some age groups, this percentage is much higher.

Employers often provide health insurance to their employees and their employees' families. There are two basic structures to health plans.

Fee-for-service plans allow patients to see doctors of their choice.

Managed care plans provide health care at a discount to members of the insured group. Health maintenance organizations (HMOs) are popular forms of managed care.



Health insurance policies often have a **co-payment** schedule. This is similar to the deductibles in car insurance and homeowner's insurance policies. For example, each visit to a doctor's office may require a co-payment from the insured of \$10 to \$20. Prescription drugs also require a co-payment. The high cost of prescription drugs is a serious issue for many people in the United States.

Disability insurance provides income if the policy owner is not able to work because of illness or injury. Some employers' health insurance policies include coverage for disability.

Long-term care insurance provides skilled nursing and housekeeping care to a patient in a nursing home or in his or her own house.

Life insurance is protection for the policy owner's loved ones in case of death. If the insured dies, the insurer will make a payment, called the **benefit**, to the person whom the insured has chosen—the **beneficiary**. There are two basic types of life insurance.

Term life insurance is for a fixed number of years. Term life insurance may be renewable annually, which means that each year's premium goes up. Or it may be at a level premium, which means that the price does not change. Life insurance is especially important for young families who could experience severe financial hardship if the main wage earners were to die.

Whole life insurance requires that premiums are paid for the insured's entire life.

To solve the problems in the next exercise, review:

- adding and subtracting decimals, page 230
- finding a percent of a number, page 237
- finding what percent one number is of another, page 238

Exercise 17

Part A

Use the following information to answer problems 1 to 3.

SITUATION

Holly has renter's insurance for her apartment. The premium is \$165 a year or \$16.75 a month. The policy deductible is \$250.

- 1 How much will Holly pay in a year if she pays by the month?
- 2 The water from a broken pipe in Holly's upstairs neighbor's apartment destroyed Holly's computer. If the replacement cost of the computer is \$1,200, how much can Holly expect from her insurance company?
- 3 The yearly premium for Holly's renter's insurance will rise 4% next year. What will be the yearly premium if Holly makes just one payment?

Part B

- 4 The premium for Mr. and Mrs. Garcia's homeowner's insurance is 0.72% of the market value of their house. The Garcias' house is worth \$133,500. How much is their yearly home insurance premium?
- 5 Since Mr. and Mrs. Garcia in the last problem have an automobile insurance policy with the same company that provides their home insurance, they will get a 6% discount on their home insurance premium. What is the discounted yearly home insurance premium?
- 6 Jim's automobile insurance premium is \$847 this year. His insurance agent says that the premium is likely to rise 9% for next year. What will be next year's premium?
- 7 Mrs. Gillette's homeowner's insurance premium was \$721 two years ago. Last year the premium was \$784. By what percent did the premium rise?
- 8 In 1990, the average cost per hospital stay in the U.S. was \$4,947. In 2000, the average cost per hospital stay was \$6,649. By about what percent did the cost of the average hospital stay rise in ten years?

- 9 Per person health care expenditures include the cost of health insurance, out-of-pocket payments for medical services, and the cost of drugs and medical supplies. In 1990, the average expenditure per person for health care was \$1,480. In 2000, the average expenditure per person was \$2,066. By about what percent did the average expenditure rise in ten years?

Part C

The following table describes the coverage, limits, and premiums for Joaquin's car insurance. Use the table to answer problems 10 to 12.

		premium
Liability	\$500,000/accident	\$ 224
Medical	\$10,000/person	\$ 4
Comprehensive	\$200 deductible	\$ 110
Collision	\$200 deductible	\$ 169
Underinsured Motorists	\$500,000/accident	\$ 96
Personal Injury Protection	\$125,000	\$ 102
Towing	\$50 limit	\$ 6

- 10 What is the total yearly premium for Joaquin's car insurance?
- 11 If a tree falls on Joaquin's car and causes \$430 in damage, how much will the insurer have to pay to make the repair?
- 12 The premium for liability is about what percent of the total cost of Joaquin's car insurance?

Part D

The following table tells the required co-payments for Francesca's health insurance. Use the table to answer problems 13 to 15.

Co-payment Schedule	
Office Visits	
Primary Care Provider Office Visit	\$15 co-pay
Specialist Office Visit	\$15 co-pay
Routine Eye Exam	\$15 co-pay
Hospital Services	
Inpatient Services	\$240 co-pay*
Outpatient Services with Referral	No co-pay
Emergency Services	No co-pay
Other Services	
Laboratory Services	No co-pay
Diagnostic Services incl. X-ray	\$15 co-pay

*\$240 co-payment is limited to two per member per calendar year per continuous hospital confinement.

- 13 Find the total co-payments for two visits to Francesca's primary care provider and a three-day hospital stay for minor surgery.
- 14 In June, Francesca went to her doctor for a routine checkup. The doctor asked her to go to another facility the following week for blood tests and an X-ray. What total co-payments did Francesca make for these examinations and procedures?
- 15 Francesca paid \$2,976.80 for her health insurance policy. If the premium rises 8.5%, what will be her health insurance premium next year?