

What can insurance do for me?

# Chapter 28

## Insurance

### Key Terms

*policy*  
*premium*  
*deductible*  
*health maintenance organization (HMO)*  
*preferred provider organization (PPO)*  
*life insurance*  
*dividend*  
*disability insurance*  
*property insurance*  
*insurance claim*

### Chapter Objectives

After studying this chapter, you will be able to

- **describe** types of automobile insurance coverage.
- **explain** the importance of health insurance as a fringe benefit of a job.
- **compare** and **contrast** the three forms of life insurance.
- **list** reasons for buying property insurance.
- **explain** how to file an insurance claim.

### Key Concepts

- Automobile, health, life, disability, and property insurance provide financial protection.
- An insurance claim must be filed to recover losses.

## Financial Protection

Determining your insurance needs should be part of your money management plan. Insurance provides you with financial protection. It is important to shop for insurance just as you would shop for a car. Compare the policies of many insurance companies. Then choose one that is right for you.

Insurance is purchased in the form of a policy. A **policy** is a legal contract. It describes your rights and responsibilities as well as those of the insurance company. As you read an insurance policy, you will see the terms *insured* and *insurer*. When you purchase insurance, you are the insured. The insurance company is the insurer. The amount of money you pay for insurance is called a **premium**.

To purchase insurance, you must complete a written application. Read the application carefully. Be sure you understand the questions before you complete and sign the form. If there is something you do not understand, ask questions. Get help by talking to an insurance agent, a person familiar with insurance, or a lawyer. Understand the policy's benefits. Don't wait until you need to file a claim. (Filing a claim is discussed later in this chapter.)

### policy

A legal contract describing the rights and responsibilities of a person purchasing insurance and those of the company offering it.

### premium

The amount of money paid for insurance.

## Automobile Insurance

Several types of coverage should be considered when purchasing automobile insurance. One type is liability insurance. *Liability insurance* protects you against the claims of other people. It also protects you if you give someone else permission to drive your car and that person has an accident. Liability insurance is required in most states, and it is very important to have.

Liability insurance is divided into two categories: bodily injury and property damage. *Bodily injury insurance* protects you against court actions or claims for injuries to other people. It protects you against lawsuits for accidents for which you are responsible.

*Property damage insurance* protects other people's property against damage that you cause. It covers the cost of repairs to the other driver's car if you are at fault in an accident. It also covers the cost of repairing telephone poles, traffic lights, and guardrails if you damage them in an accident. Property damage does not cover the costs of repairing your own car. See 28-1.

**28-1**

An insurance agent can help people decide what type of insurance coverage they need.

**deductible**

The amount a policyholder must pay before an insurance company will pay a claim.



## Community Connections

Search the Web site of a automobile insurance company to find out what information the site provides to entice new customers. Report your findings to the class. Explain whether it will be important in your future decisions for the automobile insurance company you choose to maintain a helpful Web site.

*Collision insurance* pays for repairs to your car even if you are at fault, 28-2. Collision insurance is often required if you finance a car. It protects the lien holder if the car is damaged. Usually, you must pay a certain amount of money for the repairs. The insurance company pays the rest. The amount you pay is called the **deductible**. It is usually \$200, \$500, \$1,000, or a percentage of the total cost. If your car is several years old, you may not need to purchase collision insurance. The car may not be worth the cost of the premiums and the deductible.

*Uninsured/underinsured motorist insurance* provides for recovery of damages for any injury received from an uninsured/underinsured driver. In the event of an accident involving an uninsured/underinsured driver, the insurance company pays the difference between what the uninsured/underinsured driver can pay and what the injured driver is entitled to receive. This coverage also protects you in a hit-and-run situation if a driver flees the scene of an accident without leaving sufficient identification information. This type of insurance is required in some states.

Car insurance premiums vary a great deal. They are determined by a rating system used by insurance companies. The rating system includes the following factors:

- driving record of the owner(s)
- age of the driver(s)
- home address

**28-2**

In many states, it is unlawful to drive without having insurance coverage.

- type of car driven
- whether the car is used for business or personal use
- number of miles traveled each year
- whether the car is kept in a garage or outdoors
- satisfactory completion of a driver education course (for new drivers)
- academic record and grades

The amount of deductible a driver is willing to pay also affects the cost of car insurance. The most important factor is probably your driving record. People with good driving records pay lower insurance premiums.

## Health Insurance

Health insurance helps people pay the costs of medical care. Some health insurance plans pay for all the costs. Most plans only provide for partial payments.

Health insurance usually covers hospital stays and examinations by physicians. Some also pay for prescription drugs, eyeglasses, and dental work. See 28-3.

Many employers usually provide a group insurance plan for full-time employees and pay a portion of it. Some

**28-3**

Members of a health insurance plan often have the option to buy dental and eye-care coverage for an extra fee.



employers allow employees to pay for coverage of family members. Getting group insurance through a company usually costs less than buying health insurance on your own. Company-sponsored health insurance is a valuable fringe benefit. When you begin a job, study the health care plan your employer offers. Find out what it covers.

Even if you have health insurance, some doctors require payment when you receive treatment. Other doctors will wait until the insurance company pays them. Then they will send you a bill for the balance due.

Some employers offer their employees membership in *managed health care plans*. Since managed care plans vary greatly in benefits and out-of-pocket expenses, it is important to review your health insurance choices wisely and try to find the best policy to fit your needs. HMOs and PPOs are examples of managed health care plans.

A **health maintenance organization (HMO)** covers most health care services. Set fees are paid in advance. Then when you need medical attention, you go to a doctor or hospital associated with the HMO. Depending on your policy, you receive care often with a *co-pay* (an additional charge).

**health maintenance organization (HMO)**

A managed health care plan insurance for which members pay a set fee and receive medical care, as needed, from a participating doctor or hospital.

Another form of health insurance is offered by a **preferred provider organization (PPO)**. A PPO is an organization of doctors or hospitals. They contract with an insurance company to provide health services. Like an HMO, if you use doctors in the PPO, a co-pay is often required. You can choose other doctors and hospitals, but the fees are higher and you will be responsible for paying the difference.

**preferred provider organization (PPO)**

A managed health care plan in which an organization of doctors or hospitals contract with an insurance company to provide health services.

## Life Insurance

**Life insurance** is designed to provide financial security to the family of the insured, if that person dies. To purchase life insurance, a person may have to take a physical examination. If a physical is not required, the insured may have a waiting period before a policy will go into full effect. Like health insurance, life insurance may be provided to full-time employees as a fringe benefit.

**life insurance**

Insurance designed to provide financial security to the family of the insured, if that person dies.

After the death of the insured, the face value of the policy is paid to the beneficiary. The policy owner names the beneficiary when he or she buys the policy. In most cases, the beneficiary is a spouse or family member.

Whole life insurance provides the insured with permanent coverage. The policy is in effect until the insured dies or the policy is cashed in. Premiums for most of these policies do not increase over the life of the policy.

*Whole life insurance* gains cash value over a period of years. This is because a portion of what you pay in premiums earns interest like the money in your savings account. Some whole life policies pay dividends. A **dividend** is a payout on money earned. Dividends are usually paid on an annual basis. The dividends can be left in the policy and accumulate interest, or they can be applied toward the purchase of additional insurance. As long as you keep the policy, the cash value grows. After a period of time, you can turn in your policy for its cash value. However, once you cash in your policy, you are no longer insured under that policy.

**dividend**

A payout, usually annual, on money earned on whole life insurance.

*Term life insurance* is purchased for a limited period of time, such as five or 10 years. At the end of this time, the policy may be renewed. The premiums for term life insurance are less than the premiums for whole life insurance. However, the premiums increase with each renewal. Term life policies do not gain cash value.

*Variable-rate life insurance* is another form. In many respects, a variable-rate insurance contract is similar to whole life insurance. The policy provides a guaranteed life benefit. This form of insurance is also an investment tool. You contribute a part of your premiums to investment options. The cash surrender value of this type of policy can greatly increase if your investments are successful. It can also decrease if your choices are unsuccessful. This form of policy is not for everyone. However, they do offer both the single and married person an option. The policy offers a guaranteed life benefit. It also builds cash that can later be withdrawn, similar to an annuity (discussed in Chapter 26).

Deciding how much life insurance to buy is not easy, 28-4. Each person has different financial needs. Generally, a single person has few financial responsibilities. Thus, he or she needs less life insurance than a married person with children.

#### disability insurance

Insurance that provides for people who become unable to work due to serious illness or injury. It allows disabled employees to receive a percentage of their incomes for an extended period of time.

## Disability Insurance

For many young workers, disability insurance is even more important than life insurance. *Disability insurance* provides for people who become unable to work due to serious illness or injury. It allows disabled employees to receive a percentage of their incomes for an extended period of time.

#### 28-4

Deciding which type and how much life insurance to buy depends on your financial responsibilities.



Employers often provide this type of coverage as part of their fringe benefit packages. However, policies vary greatly. If you have disability coverage through your employer, read the policy carefully. Evaluate the specific benefits and terms of the policy. Then decide whether you need to purchase additional coverage.

## Property Insurance

Whether you rent or own a home, you should insure your property. **Property insurance** protects your possessions against fire, theft, or other types of loss. Property insurance also provides liability coverage in the event that someone is injured in your home.

A home fire occurs at least once a minute. Home fires account for billions of dollars in property damage each year. Much more than that is lost each year in thefts and burglaries. Property insurance is a way to protect yourself against such losses.

Be certain the policy you purchase has the type of coverage you need. A renter's insurance policy should cover personal belongings, furniture, appliances, and some jewelry. A homeowner's insurance policy should cover all that and the building itself.

Needs for property insurance may be dictated by various situations. For instance, homeowners or renters may own very expensive jewelry or electronics. They may need an insurance rider to cover those items. An *insurance rider* is a separate mini-policy or clause that extends your homeowners policy to cover the extra value of items that may be excluded under contents insurance or may limit reimbursement to an amount far below the actual value of those items. People who live in areas prone to hurricanes may need hurricane insurance, while those in areas that may flood, may want flood insurance.

Standard property insurance covers your belongings for what they are worth at the time you file a claim. For instance, suppose your four-year-old television is stolen. Your insurance company may only give you about 60 percent of what you paid for it four years ago.

An option in property insurance that pays the full cost of new items is called *replacement value coverage*. This type of coverage costs more. However, you may find the extra cost worthwhile if you ever need to make a claim.

### property insurance

Insurance that protects your possessions against fire, theft, or other types of loss. Property insurance also provides liability coverage in the event that someone is injured in your home.





## Your Reading

How do you determine your insurance needs?

### insurance claim

Requesting payment from your insurance company for a covered loss.

### 28-5

A personal property inventory can help determine the amount of coverage needed.

An inventory, or list, of all of your possessions can help you decide how much property insurance to buy. An inventory also provides a record of your valuables. Such a record would help you file a claim if your valuables were stolen or destroyed in a fire. See 28-5. Photographs or a video of your possessions will help verify the condition and type of item lost if you have a claim. Update photos and/or videos and store them in a safe place other than your home.

## Filing a Claim

Filing an **insurance claim** means requesting payment from your insurance company for a covered loss. For instance, you would file a claim on your car insurance after an accident. You would file a claim on your property insurance after a fire.

Inventory of <u>LIVING ROOM</u> Item Description (Include brand name, model #, and/or serial # when possible)	Date of Purchase	Purchase Price and Tax	Place of Purchase
1. <u>SOFA</u> <u>THOMASVILLE, SINWP</u>	5-2-07	\$1,159.17	THE FURNITURE PLACE
2. <u>COFFEE TABLE</u> <u>BRASS/GLASS, 141F</u>	11-26-07	\$368.45	HOME DECORATORS
3. <u>CEILING FAN W/LIGHT FIXTURE</u> <u>OAK/BRASS, C781153</u>	1-7-08	\$297.65	FAN-TASIC
4. <u>BOOKCASE</u> <u>O'SULLIVAN, 121LLY</u>	2-1-08	\$425.00	FURNITURE MART
5. <u>FLOOR RUG</u> <u>HANDMADE, INDIAN, 5'7" X 8'4"</u>	6-11-08	\$856.93	RUGS TO RICHES
6. <u>SONY 42" FLAT SCREEN</u> <u>LCD HD TV MODEL UC 765489</u>	10-2-08	\$1,378.45	BIG J'S ELECTRONICS

Each insurance company may want you to file your claim a bit differently. You will need to provide a list of the valuables that were damaged or destroyed. Other types of information may be required. You may need to describe the details of the accident. Talk with your agent to find out what action you should take.

Make insurance claims wisely. If you file frequent claims or many small claims, your insurance rate may increase or your policy may be cancelled. If you file a false claim, you may be arrested and fined or imprisoned.



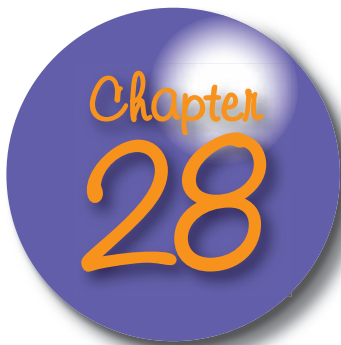
## Your Reading

What does it mean to file an insurance claim?



## Community Connections

Invite an insurance company representative to class to discuss the process for filing car insurance and property insurance claims. Ask the guest to highlight what you need to know to be able to file your first claim properly. In advance, prepare a list of questions to ask.

A circular graphic with a purple background and a white glow effect. The word "Chapter" is written in a light orange, cursive font at the top. Below it, the number "28" is written in a large, bold, orange font.

## Summary

You should shop for insurance to be sure you get the kind of financial protection you need. Read the policies. Know what they cover. Understand the benefits they offer.

Liability insurance is an important part of automobile insurance. It includes both bodily injury insurance and property damage insurance. You may also want to buy collision insurance to pay for repairs to your own car. Uninsured/underinsured motorist insurance is another type of automobile insurance that can protect you.

Health insurance helps pay the costs of medical care. Many employers provide some form of health insurance to full-time employees. It is a valuable fringe benefit.

Life insurance provides financial security to survivors after the death of the insured. Whole life insurance stays in effect until the insured dies or until the policy is turned in for its cash value. Term life insurance is for a limited period of time. When the time period is over, the insured is no longer protected. Variable-rate insurance provides you with an opportunity to determine your own rate of dividend return.

Property insurance protects personal possessions. It also protects the policyholder against liability. A renter's policy covers the contents of a home. A homeowner's policy protects the building as well as its contents.

When you need to file an insurance claim, contact your agent. Follow the steps necessary to receive benefits from your insurance policy.

## Reviewing Key Concepts

1. What is the name of the money a person pays for insurance?
2. What legal contract describes the rights and responsibilities of a person buying insurance and the insurance company?
3. What type of insurance would protect you if you caused a car accident that dented someone else's car and a guardrail?
4. What type of insurance would protect you if you caused a car accident in which people were hurt?
5. What type of insurance pays for repairs to a car you own?
6. What term identifies the amount paid to cover loss or damage before the insurance company pays the remainder?
7. What is paid to the beneficiary of a life insurance policy when the insured dies?
8. What is paid to the insured when a whole life policy is turned in before death?
9. What is permanent life insurance called?
10. What must you do to receive payment from an insurance company for a covered loss?

## Building Academic Skills

**History.** Examine the development of life insurance by answering the following questions: When and where were the first policies offered? Before life insurance companies existed, what generally provided financial security to the families of people who met untimely deaths? Provide a written or oral summary of your findings.

## Building Technology Skills

1. Conduct an online search using the term *financial protection*. List the categories of Web site hits found and the insurance companies listed. Report your findings to the class.
2. Research the work done by the Insurance Institute for Highway Safety by searching the Institute's Web site at [hwysafety.org](http://hwysafety.org). Examine the types of crash tests conducted by the Institute's Vehicle Research Center and summarize them in a brief report to share with the class.
3. Use a computer program to design a personal property inventory form similar to Figure 28-5. Try filling out the form by focusing just on the items in your bedroom. Share information regarding how far you progressed with the project and what lessons you learned. Were you able to complete the form and total the original purchase prices of items?

## Building Career Knowledge and Skills

1. Investigate the difference between buying a health insurance policy and becoming a member of an HMO. Which would you prefer? Why? Explain your answers in a written report.
2. Study several life insurance policies. Make a comparison chart of their costs and benefits.
3. Make an inventory of your possessions. Decide how much property insurance you would need to cover them in case of loss. Call an insurance company to find out how much the premium would cost.
4. Research the different needs for insurance as a homeowner and as a renter. Prepare a chart showing the differences between the two. Discuss this difference with your class.
5. Find out what you should do to file a claim when you are in a car accident.

## Building Workplace Skills

Talk to an automobile insurance agent about the cost of automobile coverage and the factors that affect premiums. Find out specific premium costs for the car of your choice for a person with a new driver's license and no driving experience. What can be done to reduce the premiums? Obtain information about premium costs from two other car insurers either via phone or the Internet. Use the same make and model of car throughout this exercise. Using a computer, create a chart comparing premiums. Where would you buy insurance for your imaginary car? Make a brief presentation to the class.