



MODULE
06

INSURANCE:

Protect What You Have

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NEFE HIGH SCHOOL FINANCIAL PLANNING PROGRAM

About the NEFE High School Financial Planning Program Series

By picking up this booklet, you are on your way to making your dreams come true and headed down the path to financial independence. This program series includes six topic modules to introduce you to the fundamentals of mindful money management behaviors. Use what you learn in each module to develop sensible habits to confidently manage your money and adapt to unexpected events.

Program Modules

- 1. MONEY MANAGEMENT: Control Your Cash Flow:** goal setting – decision making – spending plan & budget – money management tips
- 2. BORROWING: Use—Don't Abuse:** application process – loans – credit cards – costs – credit score – debt – rights & responsibilities
- 3. EARNING POWER: More Than a Paycheck:** earning potential – career plan – life stages – employee benefits – take-home pay – lifestyle
- 4. INVESTING: Money Working for You:** savings – investing – goals – options – risks & rewards – time value of money – diversification – plan
- 5. FINANCIAL SERVICES: Care for Your Cash:** account types – fees – service options – transaction tracking – automation – identity protection
- 6. INSURANCE: Protect What You Have:** risk management – costs – claims – insurance types – coverage decisions – insurability factors

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Use the tips and strategies in this guide to do the following:

- » Discover the importance of being insured.
- » Investigate how insurance works.
- » Choose insurance for your specific needs and situations.
- » Examine automobile insurance features and processes.
- » Plan ahead to minimize the cost of insurance and unexpected events.

MEET AARON AND KATIE

Aaron's interviewing for a job at a local Italian restaurant. The manager says that as long as the high school senior can "be bonded," he can start work next Monday. Not wanting to look clueless, Aaron nods and says that won't be a problem. He makes a mental note to ask his parents about it when he gets home.

But his dad jumps on him as soon as he walks in the door. Apparently, he just got the car insurance bill and realized that his son's slacking off last semester cost him a good-student discount.

"C'mon, dad. It can't have been that much money," Aaron says. His dad shows him the bill—and points out that the total is for six months only. "Before we added you to our policy, we paid less than half that amount," his dad says before storming out of the room.



Katie is a forward on the soccer team but she's sidelined for the rest of the season because of a torn ligament in her knee. She's had so many doctor and physical therapy appointments that the receptionists recognize her and greet her by name.

Her jaw drops as she glances at a medical bill one day. "They charge that much for 30 minutes of rehab?" she asks.

Her mom nods and explains that, thankfully, health insurance covers most of it, so they pay only \$30 each time. "You should see the bill for your first appointment with the orthopedist—when you had all those tests!"

Katie asks what would happen if they didn't have insurance. "We'd end up going into a lot of debt, I guess," her mom says. "What else could we do?"

If you created a spending plan in *Module 1: Money Management*, you know all about setting aside money for rainy days. This guide is about preparing for the days when the light showers become a torrential downpour, or even a tsunami—when unexpected costs are huge.

For those days, it's going to take a lot more than an emergency savings account to bring the sunshine back.



Recall a situation when you or a family member had property damaged, were in an accident, or were a victim of theft. What were the costs, if any, to fix the damage or replace the property?

Everyone thinks the odds of something bad happening are small—until something bad happens. It's not just a matter of chance, either. Actions and choices you're making right now will affect your ability to protect yourself and your dreams in the future.

So, join Aaron and Katie as we learn how to protect your health, your money, and your property.

IT'S ALL RISKY BUSINESS

Life is one big adventure, with many positive and negative events along the way. Some are fun, like visiting a new city. Some aren't, like having your new jacket stolen. Being prepared for the not-so-fun occurrences will go a long way toward smoothing out any rough spots in your journey through life.

“ An inconvenience is an adventure wrongly considered. ”

~ English writer G.K. Chesterton

In *Module 4: Investing*, we talk about **risk** as the uncertainty of achieving a desired result, and that it's woven into virtually everything we do. The downside of risk is the potential for loss. You can lose money, a relationship, your pride, your health, your ability to work, or most anything you value.

U.S. CRIME COUNTDOWN¹

Every 14 seconds, one house is burglarized.

Every 44 seconds, one vehicle is stolen.



¹“2011 Crime Clock Statistics,” Federal Bureau of Investigation, www.fbi.gov/about-us/cjis/ucr/crime-in-the-u.s/2011/crime-in-the-u.s.-2011/offenses-known-to-law-enforcement/standard-links/national-data

4 STRATEGIES TO MANAGE RISK

The more valuable something is to you, the more its loss will hurt—and the more important it is to minimize the odds of losing it. Because you can't wave a magic wand that zaps all the risks from your life, get some help by applying the four risk management strategies in Figure 6.1.

Figure 6.1: Mission—Manage the Risk of Financial Loss If Your Laptop Is Stolen

Strategy	Explanation	Example
Avoid	Avoid taking on the risk at all.	If you don't buy a laptop, you won't have one that can be stolen.
Reduce	Take action to reduce the possibility of a negative impact due to the risk.	Keep your laptop in a secure place so it isn't an easy target for thieves.
Accept	Accept the potential or actual negative consequences of risk.	No big deal—if it happens, you will replace it with your own money.
Share	Share financial resources with someone else to prepare for the possible need to cover a loss.	Your parents agree to split the cost of a new laptop with you if yours is stolen.



Of the options listed in Figure 6.1, which risk management strategy would you choose and why? What are other examples of each strategy for this situation?

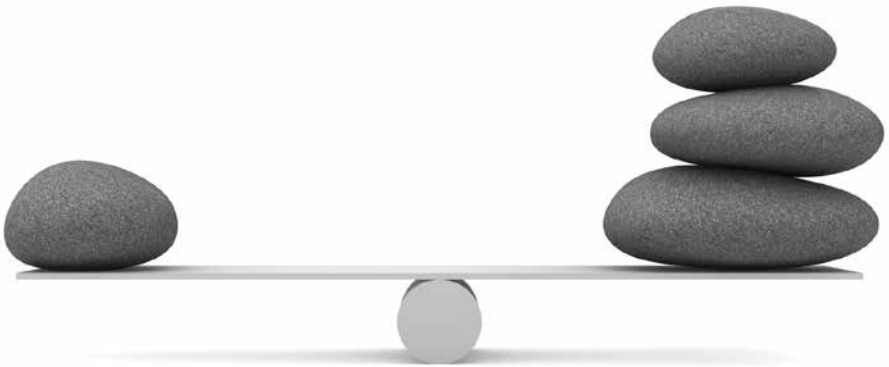
Actually, there is another option for the last strategy in Figure 6.1. Your parents may not always agree to share the risk with you. That's why the most popular way to share risk is through **insurance**.

SHARE THE RIDE (AND THE COST!)

Insurance reimburses you for unexpected losses or damages caused by a specific set of hazards (such as illness or fire) to a specific thing (such as a car or your life)—for a fee, of course. But that fee (aka **premium**) is only a fraction of the potential payout.

For example, renters' insurance to protect \$20,000 worth of your possessions may cost you just \$200 a year. How can insurers afford to do this?

Insurance companies are numbers ninjas. They know the exact odds of each and every customer's need for an insurance payout during the year. And they pool small payments from millions of customers to cover the big payouts that only a few will need.



Insurers are on the ball. They know that if they pay 100 percent of each loss, some customers will call about every ding on their car. And more customers would try to fake thefts, disabilities, and car accidents, or even burn down their houses to get new ones.

So, insurers make sure that you share in the financial burden by requiring you to pay a relatively small fraction of the loss, called a **deductible**, before they pay out a dime.

DID YOU KNOW?

- » For 18- to 24-year-olds, health care expenses run an average of \$1,800 a year, rising to \$2,700 a year between ages 25 and 44.²
- » 28 percent of 19- to 25-year-olds did not have health insurance in 2011.³
- » Wearing your seat belt slashes in half the risk of accident injuries ranging from moderate to fatal.⁴



Activity 6.1: Teens At Risk

What hazards do you and other teens face each day? Think about your daily routine, and list at least three different ways you are open to risk of injury, property loss or damage, or other events that might result in unexpected costs. Recommend a strategy to reduce or avoid each risk you list.

Teen Risk

Strategy to Avoid or Reduce the Risk

Teen Risk	Strategy to Avoid or Reduce the Risk
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Can Katie insure the saxophone she rents from the school for jazz band in case she accidentally puts a ding in the instrument?

Can Aaron's dad purchase insurance to recover the cruise fees he has paid in advance if it turns out the family is unable to go on the trip they planned for next summer?

Read on to check your answers.

²Health Care Costs: Key Information on Health Care Costs and Their Impact, Kaiser Family Foundation, May 2012

³Number includes public and private insurance. *Health Insurance Coverage of Young Adults Aged 19 to 25: 2008, 2009, and 2011*, U.S. Census Bureau, September 2012, www.census.gov/prod/2012pubs/acsbr11-11.pdf

⁴"Traffic Safety Facts: 2010 Data," National Highway Transportation Safety Administration, August 2012, www.nhtsa.gov/nhtsa/2012ciot/stats.html



INSURANCE

IDENTIFY THE INSURE-ABLE

You'd be surprised at some of the things you can get insurance for, but you can't insure every possible misfortune. The risk in question must have certain qualities to be INSURE-able:

- » **Insurable interest**—There must be the potential for you to have direct financial loss if something happens to the insured item or person. Aaron's dad can insure the family car he owns but not the company truck he uses at work.
- » **Numerous**—Many people must have a similar risk. This spreads the risk of loss over a large pool of policyholders.
- » **Specific loss**—Any potential loss must have a definite time, place, and cause. This means being able to show evidence of the loss. Examples: a police report for a car accident or a doctor's bill for medical care.
- » **Unintentional and unexpected**—You can't buy flood insurance as the hurricane approaches or purposely smash your own car to collect insurance money.
- » **Reasonable cost**—Risks that are too high, too trivial, or too frequent would cost a fortune to insure.
- » **Estimatable**—Must be able to calculate both the probability and dollar value of your loss. That rules out getting money for an item's sentimental value.

3 REASONS NOT TO IGNORE INSURANCE

Insurance may not be on your top-10 list of things to buy, but quite often it's a necessity. Here's why:

- 1 The unexpected does happen.** Without insurance, you're stuck paying the full cost of accidents and loss from thefts, illnesses, injuries, lawsuits, and other disasters. This can have a negative impact on your spending plan, drain your savings, or cause you to owe money.
- 2 It is mandated by law.** All but one state can ticket you for driving without auto insurance. And as of 2014, any Americans who don't have health insurance must pay a penalty, unless they meet special exceptions.
- 3 The lender says so.** Your car or home can be seized by a lender for repayment of your loan. Lenders don't want to lose their investment, so they insist on certain levels of coverage.

“ Life is like a box of chocolates—you never know what you're going to get. ”

~ Movie character Forrest Gump

Suppose you're unable to get to work because you can't afford to fix your car after an accident or you become too sick to work. With a leaner paycheck and greater expenses, could you afford to pay your bills? In fact, mountains of medical bills are a top cause for bankruptcy. Insurance basically protects your dreams and everything you're working to achieve.



Brainstorm a list of recent local, state, or national disasters. Do you recall hearing the estimated costs associated with any of these disasters?

WHO PAYS FOR THE UNINSURED? YOU DO!

Most hospitals are required by law to treat everyone who seeks medical care at an emergency room, whether the person has health insurance or not. Every year, the public at large ends up shouldering more than \$57 billion in unpaid medical bills for the uninsured, through taxes and price hikes for health care services.⁵

It's the same with auto insurance. Your insurance company has to pick up the tab for your repairs and injuries if an uninsured or underinsured driver hits you, even if it isn't your fault. You may have to pay the deductible, too.

Because premiums don't offset all of the paid-out costs, insurance companies end up hiking everyone's insurance rates to make up the difference. In short, insured drivers bear the brunt of uninsured drivers' accidents, to the tune of nearly \$11 billion a year.⁶

Challenge 6-A: Case for Insurance

Create a 30-second ad to convince your peers of the value of purposefully managing potential risks to minimize unexpected costs later.

⁵*The Uninsured: A Primer*, Kaiser Family Foundation, October 2012, www.kff.org/uninsured/upload/7451-08.pdf

⁶"Recession Marked by Bump in Uninsured Motorists," Insurance Research Council, April 20, 2011, www.insurance-research.org/sites/default/files/downloads/IRCUM2011_042111.pdf

LEARNING THE LINGO

Before heading home after a rehab appointment, Katie and her mom stop at the wireless store. Katie tells the clerk that she needs to get a new smartphone because hers was stolen. He punches Katie's information into the computer and says she still has a year left on her wireless contract. So, she'll have to pay full price of \$349 for a new phone.

Shocked, Katie shakes her head. "No, we pay \$7 each month for cellphone insurance, so the replacement should be free."

The clerk explains, "Our insurance doesn't cover theft or loss—only accidental damage. The salesperson should have explained that before you bought it."

"Well, I don't think she did. So, the only way to get a new phone is to pay \$349 for it?" Katie asks. He nods.

"Yeah, right," Katie says. Her mom tells the clerk they'll talk it over at home and come back another day. As Katie walks to the car, she tells her mom, "Next time, I'm going to read the information for myself."

THE ODDS

- » 30–40 percent of all thefts nationwide involve cellphones.⁷
- » 45 percent of cellphone users 18–24 years old say they've had a cellphone that was lost or stolen.⁸

⁷"Announcement of New Initiatives to Combat Smartphone and Data Theft," Federal Communications Commission, April 10, 2012, www.fcc.gov/document/announcement-new-initiatives-combat-smartphone-and-data-theft

⁸*Privacy and Data Management on Mobile Devices*, Pew Internet & American Life Project, Sept 5, 2012, pewinternet.org/Reports/2012/Mobile-Privacy.aspx

Before you can be a savvy insurance consumer, you need to crack the code on a few common terms.

- » An **insurance policy** is a legal contract between an insurance company and the **policyholder** buying the insurance. It details what is covered and what is excluded, as well as any conditions for coverage.
- » The **coverage limit** is the maximum amount the insurer will pay for losses, which is described in the policy. Any loss above the covered amount is your responsibility.
- » The **conditions** spell out what the insurer won't pay for. Examples: A health insurer might not pay for certain cosmetic medical procedures, such as a nose job or tattoo removal. Conditions also spell out what you must do to get payment for a loss. For example, you may have to notify your health insurance company in advance about an upcoming, scheduled hospital stay.

Get Covered

You submit an application for insurance coverage.



If approved, the insurance company sets specific coverage limits and conditions.



You make regular premium payments on time to keep coverage.



Activity 6.2a: Read the Fine Print

Read an insurance policy to highlight and summarize what is covered, the coverage limit, and two or three conditions for coverage.

INSURING TREASURES

If you own high-value items such as jewelry, collections, or music equipment, you can buy **riders** along with your basic policy. A rider is additional coverage for specific items.

Don't guess the value of your treasures. Get an **appraisal**, a professional opinion on the value of your property. An insurance appraisal is used by the insurer to determine the coverage amount for high-value items, such as valuables, land, or a home.



MORE LINGO

As Aaron approaches his car in the grocery store parking lot, he is stunned to discover a smashed front fender and headlight. He looks around but doesn't see anyone in the area.

Recalling his dad's advice, he calls his insurance agent who tells him to notify the police so there is an accident report on record. The agent then tells Aaron to get a written estimate for the repair costs so he can file the claim online.

A few days after filing the claim, Aaron's dad receives a check for the estimate amount minus the deductible. Aaron immediately calls for an appointment to have the damage repaired.

Know the lingo when it's time to use your insurance coverage to recover losses.

- » A **claim** is a formal request from the policyholder to have the insurance company make payment for a loss.
- » To support a claim, the insurer might require an **estimate** of the cost to repair or replace damaged or stolen property. In Aaron's situation, an auto mechanic prepared a detailed list of what it will cost to repair his car.
- » An insurance **claims adjuster** investigates a claim. After reviewing the claim evidence, the adjuster will decide if the insurance company must pay a claim, and if so, how much. In some cases, an adjuster might conduct interviews or inspect property to confirm facts.
- » When an insurance company determines a claim is valid, the **insurance settlement** is paid according to the policy terms.

Cover a Loss

You file a claim form to describe details of a qualifying event.



An insurance claims adjuster will investigate to determine if the claim is payable.



If the claim is approved, the insurance company will settle the claim with a check.



Activity 6.2b: Read the Fine Print

Aaron is grateful that his dad and agent walked him through what to do in his situation. Read an insurance policy to find out what to do to file a claim for that policy.

INSULATE YOURSELF FROM LIFE'S STORMS

You have many life changes ahead of you. Along the way you're going to need different kinds of insurance protection for yourself, your loved ones, and your property.

PROTECT YOUR PROPERTY

- ▶ **Auto insurance** is probably the biggest concern for most teens. It covers you in case of a vehicle accident, a break-in, or theft. It also covers your passengers and anyone you hit with your car—even if that person is walking or on a bike.
- ▶ **Property insurance** replaces your personal assets when they're stolen and sometimes when they're destroyed. Like most people, you probably can afford to replace an inexpensive item on your own, but not all your valuables at once.

Two popular types of property insurance are homeowners' and renters' insurance.

- » **Homeowners' insurance** covers your possessions inside the house, as well as damage to the house itself.
- » **Renters' insurance** covers only your possessions. Your landlord's insurance would cover damage to the building.

“ Adventure isn't hanging on a rope off the side of a mountain. Adventure is an attitude that we must apply to the day-to-day obstacles of life. ”

~ Mountain climber John Amatt



Activity 6.3: From Memory

Imagine that your home was destroyed today and your insurance agent asked for a list all of your belongings kept in your room. From memory, create a list of the items in your room. Take the list home, and add to it anything you missed.

DOES IT MATTER?

Insurers will cover property for either the current worth (aka **actual cash value**) or the **replacement cost**, which is the amount to buy a new replacement for what was lost. It's the difference between getting what your old stolen bike can be sold for at a resale shop and getting reimbursed enough money to buy a new bike.



Good luck getting the insurance company to replace items if you don't have proof that you owned them.

That's why it makes sense to keep receipts for big-ticket items and have photographs or videos of your belongings. Better yet, store copies in a safe place, away from your home.

Challenge 6-B: Take an Inventory

Put the finishing touches on your personal property inventory. For any item you would want to replace, write a description (including the make, model, and serial number if applicable), the year you got the item, and the cost. Create a system to easily maintain your inventory and any evidence you might need to prove ownership when filing an insurance claim.

EXTENDED WARRANTY VS. INSURANCE

Extended warranties or “protection plans” are not insurance. Key differences:

	Insurance	Extended Warranty
Kicks in when...	<i>Someone or something else damages your item</i>	Item breaks down <i>on its own</i> after the original product warranty expires
Benefits paid as...	Repair, replacement, or cash	Repair or replacement only
Damage covered if you cause it?	Maybe	No

PROTECT OTHERS

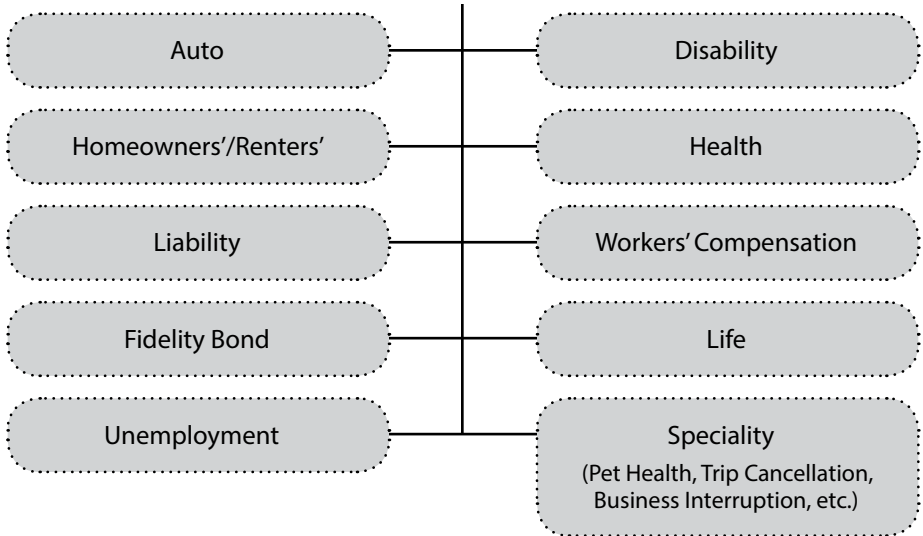
- ▶ **Liability insurance** comes into play when you unintentionally hurt someone or damage another person’s property. Auto, homeowners’, and renters’ insurance all include some liability coverage for incidents involving your car or around your home. It covers your legal defense costs, the victim’s medical and property repair bills, and any court-ordered payments, up to your policy limits. After that, any costs are your responsibility and will come out of your own pocket.
- ▶ **Fidelity bonds.** When Aaron’s interviewer mentioned “being bonded,” he was talking about fidelity bonds (aka employee dishonesty insurance). Some employers require that you be bonded for jobs that involve handling cash or property of value. To become bonded you may have to undergo a thorough criminal, civil, and financial background check.

Once you’re bonded, the bonding company will reimburse your employer for losses caused by you. In turn, the bonding company will take legal action against you to recover their payment.

DID YOU KNOW?

» 33 percent of all business bankruptcies are due to employee theft.⁹

Types of Insurance



PROTECT YOUR INCOME

- ▶ **Unemployment insurance.** Many states require employers to pay into an unemployment insurance fund. Full-time employees who are laid off can then apply to receive unemployment checks for a set period of time while looking for a new job. Your employer's approval for coverage is required. But it's usually granted if you weren't fired for wrongdoing or you didn't quit.
- ▶ **Disability insurance.** Although it's often overlooked, disability insurance protects your most valuable asset—your income. It pays you a percentage of your total income when a health issue prevents you from working for more than six weeks.

⁹"Employee Theft Statistics," Statistic Brain, Sept. 18, 2012, www.statisticbrain.com/employee-theft-statistics

THE ODDS

- » One in four of today's 20-year-olds will miss work sometime during their career due to a disabling physical or mental illness, off-the-job injury, or pregnancy.¹⁰
- » One in five filers of new long-term disability claims for medical conditions are in their 20s and 30s.¹¹

Katie and her mom run an errand for Aunt Linda, who is having pregnancy complications and must stay in bed for the next three months. They go pick up a letter for her aunt at the doctor's office. Katie asks what the letter is for.

"It's for the insurance company," her mom says. "To make a short-term disability claim, Linda needs to provide proof that her medical condition prevents her from working."

"But she isn't disabled," Katie says. "She's just pregnant."

Her mom explains that, to the insurance company, "disabled" means unable to work because of a physical or mental illness. In this case, it's because of the pregnancy complications. "After Aunt Linda uses up all her vacation time and sick leave, she won't get a paycheck until she starts working again. Disability insurance gives her checks for a percentage of her salary while she's not working due to the disability."

"Why don't they pay her whole salary?" Katie asks.

Her mom laughs and says, "If disability insurance paid the whole thing, no one would ever go back to work!"

¹⁰"Fact Sheet," Social Security Administration, March 18, 2011, via www.disabilitycanhappen.org/chances_disability/disability_stats.asp

¹¹The 2012 Council for Disability Awareness Long-Term Disability Claims Review, www.disabilitycanhappen.org/research/CDA_LTD_Claims_Survey_2012.asp

PROTECT YOURSELF AND FAMILY

- ▶ **Health insurance** helps pay your medical bills. Coverage is important because costs of treatment for even routine checkups and illnesses can run several hundred dollars. Because at some point in a lifetime everyone will need health care, insurance is an important consideration.
- ▶ **Workers' compensation** combines disability and health insurance for employees who get injured on the job. It'll cover injury-related medical bills and part of your income while you're recuperating.



If you are injured while working, immediately report the injury to your employer so you are eligible for any coverage/compensation.

- ▶ **Life insurance** ensures that any of your dependents can maintain their same standard of living by replacing your income or covering final expenses after you die. You probably don't need life insurance if you have saved to pay final expenses and no one is financially dependent on you.



Activity 6.4: A Lifetime of Insurance

From what you have learned about types of insurance, write down insurance types that are suitable during each life stage shown below. (Hint: You can list insurance types more than once.)

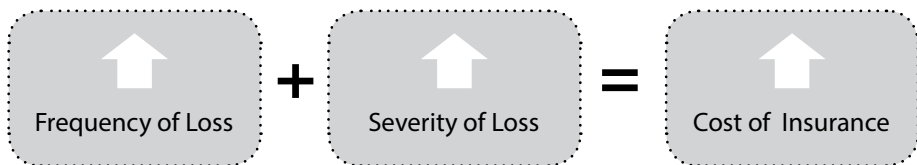
Teen Years ▶	Working and Single Years ▶	Working and Family Years ▶	Retirement
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SOLVE THE PRICING PUZZLE

Insurance companies don't just come up with a pricing number out of thin air. They crunch a mind-bending databank of statistics about other customers just like you to answer the all-important question:

How much are you likely to cost them?

The more expensive they think you'll be, the more they'll charge you for coverage.



Who do you think pays more for each type of insurance coverage listed in the chart below?

Assuming all else is equal, who pays more for...	Teens or Adults 20+?	City or Country Residents?	Girls or Guys?	Smokers or Nonsmokers?
Auto				(N/A)
Health				
Homeowners' or Renters'	(N/A)		(N/A)	

Obviously, you can't change your age. But you can change whether you smoke, stay healthy, and have safe-driving habits. So, you do have some impact on your insurance rates. And making good choices today will save your parents—and eventually you—some cash.



Activity 6.5: It's in the Numbers

Survey 20 of your peers to determine the percentage of individuals who have experienced the same type of costly event. Pick an event that might potentially involve an insurance claim. Examples: orthodontic work, sports injury, or lost cellphone.

Use data from an online search or survey responses to estimate an average cost per event. Then calculate an estimate for your entire survey group.

THE LAW AND ORDER OF INSURANCE

Insurance is a contract between you and the insurer. As with any contract, both parties must keep up their end of the deal.

Among other things, you agree to:

- » Give complete and accurate information when you apply. If you don't, the insurer can void your policy from the start date and refund your premium.
- » Follow the insurer's procedures and file claims promptly to receive benefits. This includes being honest about what happened. Lying can land you in jail for insurance fraud, or your insurance company might drop you or charge high premiums.
- » Pay your premiums on time. If you don't, the insurer can drop you or decide not to renew your policy.

On the other side, the insurance company must:

- » Disclose upfront all the details about what your coverage does and doesn't include.
- » Keep you fully informed about your policy and any changes.
- » Process your claims fairly and promptly, explain why a claim is denied, and inform you of how to file an appeal.
- » Resolve complaints in a timely manner.
- » Safeguard your privacy.

SHARING THE COST OF FRAUD

Insurance fraud costs insurance companies more than \$80 billion a year. That's enough to buy a new car for nearly 3 million licensed drivers or fund cancer research for the next 13 years.¹² Fraud costs can result in increased premiums for all insurance customers.

THE QUEST FOR COVERAGE

You'll have to invest a little time to get quotes from at least three insurance companies. But because each insurer rates risks differently, you may be able to save hundreds or even thousands of dollars a year on the exact same coverage from different companies. Wouldn't you rather have that money to spend on something much more fun and exciting?

The National Association of Insurance Commissioners (NAIC) education website, Insure U—Get Smart About Insurance (www.insurance.ansureuonline.org), is a good place to start your search. This is where you can find unbiased consumer-directed help and also get connected to your state's insurance department.

Before you shop for insurance, think about these things:

- » What types of coverage you need
- » How much you can afford each month in premiums
- » Whether you want to pay your premiums once a year, twice a year, or monthly
- » What deductible you can comfortably afford
- » The reputation and credibility of the insurance agent and company

¹²Coalition Against Insurance Fraud, www.insurancefraud.org/fraud-why-worry.htm#.UL6NYodrprM

Challenge 6-C: Cellphone Insurance? YOU Decide!

Should you insure your cellphone?

- 1 Find out how much it would cost to replace your phone.
- 2 Check with your phone service provider to find out the cost of insurance, terms of what is covered, any deductible, and conditions for coverage.

What's your verdict on cellphone insurance? Are there better alternatives?

SMOOTH SAILING WITH AUTO INSURANCE

While driving home, Aaron's making a mental to-do list when he's startled by a rock hitting his windshield. He notices a small crack in the glass.

The next morning, his dad questions him about the big crack in the windshield. "Big?" Aaron asks. Looking outside, he sees that the crack has tripled in size overnight.

"Oh, great—how much is a new windshield going to cost me?" His dad says that without insurance, it would run about \$275. But all Aaron will need to pay is the amount of the deductible for their comprehensive auto coverage, which is \$100. "Just call the insurance agent and get the claim filed," his dad says.

"OK, then do I need to get an estimate for the windshield repair costs?" Aaron asks.

"No. Our agent will help set up an appointment with a glass repair company. Someone will come right to the house to do the repair work. You'll write a \$100 check to the glass company to cover the deductible. Then our insurance company will pay the difference—\$175—to the glass company," his dad explains.

Aaron asks if this will affect their insurance rates. "It shouldn't," his dad says.

"Windshield cracks are pretty common. But we did have that recent claim for the fender and headlight. Of course, it still would be good if you'd get your grades back up so we can get that good-student discount again."

THE AUTO POLICY BREAKOUT

There are six main types of auto insurance coverage. Each one represents an important set of risks involved in driving a vehicle, and each gets priced separately.

Figure 6.2: Auto Insurance Coverage

Type of Auto Insurance Coverage	What It Pays For...
Required by All States	
Bodily and Property Damage Liability	Repairs and medical bills from damage you caused to other people's property and their bodies; also pays the legal bills if someone you injure in an accident sues you
Required by Some States	
Uninsured Motorist	Repairs to your car when an uninsured or hit-and-run driver damages it
Underinsured Motorist	Repairs and medical expenses when the other driver is at fault but doesn't have enough insurance to fully cover your loss
Medical Payments/ Personal Injury Protection	Medical bills for you and your passengers no matter who caused the accident
Required by Auto Lenders	
Collision	Repairs for any damage you cause to your car, whether you hit another car or an object such as a tree or a building
Comprehensive	Repairs for damage to your vehicle caused by anything that isn't a collision, including fire, vandalism, theft, hail, and natural disasters

Popular policy rider add-on insurance includes coverage for towing expenses after a breakdown and for renting a car while yours is being repaired.



Activity 6.6: Auto Insurance Coverage

Scan the **declarations** page of an auto insurance policy, a one-page summary of the coverage amounts. (Use the sample provided by your teacher, or download a copy from www.hsfpp.org.) How do the coverage amounts and premium fees compare with those for your family's policy?

WHAT AUTO INSURANCE DOESN'T COVER

- » Stereos, CD players, and navigation systems installed after buying the car
- » Purses, cellphones, portable GPS units, or any other item left inside the car
- » Routine maintenance, such as oil changes, or internal damage resulting from lack of proper maintenance
- » Mechanical breakdowns or defects in the car



What do you have stored in your vehicle that isn't covered by your auto insurance? Think of a better way to protect these items from loss or damage.

NEED-TO-KNOW INFORMATION

When comparison shopping for auto insurance, to get an accurate price quote you'll need to provide the following information:

- » Number of years you've had a driver's license
- » Car make, model, year, and body style
- » Safety equipment, such as anti-theft systems and airbags
- » Vehicle identification number (VIN)
- » Speeding tickets and other moving violations you've had in recent years
- » Previous auto insurance claims you have filed, if any, and whether they were for occurrences that were your fault
- » Details of insurance coverage you have now and what you're seeking, including types, limits, deductibles, and riders
- » Social Security number (SSN), used by the insurer to check your credit history

THE ODDS

- » Drivers who are text messaging are 23 times more likely to be involved in an accident than non-texting drivers.¹³
- » Teens are four times more likely than adults to get into a cellphone-related crash or near-crash.¹⁴

THE HIGH PRICE OF BEING A TEEN

Be extra nice to your parents if they add you to their auto insurance policy when you start to drive. Adding a teen driver boosts premiums about 50 percent, an average of \$621 a year.¹⁵

But it would cost you nearly *five times* that amount (more than \$2,200 a year) to get your own auto insurance policy with the exact same coverage.¹⁶ Insurance companies know that without potential oversight by your parents to keep you in check, you're less likely to be a responsible driver.

And no, that's not age discrimination. Statistics show that 16- to 19-year-olds have four times as many accidents per mile as other drivers.¹⁷ And accidents are expensive, especially if a victim sues you afterward. So, insurers have to charge more for teen drivers to compensate for the much higher risk of insuring them.

^{13, 14}“New Data from Virginia Tech Transportation Institute Provides Insight into Cellphone Use and Driving Distraction,” *Virginia Tech News*, July 29, 2009

^{15, 17}“Adding a Teen to My Car Insurance Policy Costs How Much?” *Insurance.com*, Oct. 21, 2010, www.insurance.com/auto-insurance/saving-money/adding-a-teen-to-my-car-insurance-policy-costs-how-much.aspx

¹⁶Policy coverage includes all liability coverage levels. “Adding a Teen to My Car Insurance Policy Costs How Much?”, *Insurance.com*, Oct. 21, 2010

Age is just one of many factors that affect the cost of your auto insurance premium. Here are a few other factors that impact the premium cost:

Ingredients of Auto Premiums	
Driving record	Traffic violations in the last one to three years will drive your premium up.
Where you park	Street parking is riskier than parking in a garage.
How much you drive	The more miles you drive in a year, the greater the odds you'll have an accident.
What you drive	Repairs and thefts of newer, bigger, and more-expensive cars cost insurers more.
Credit-based insurance score	In many states, insurers calculate a special score using your credit history. The higher this score, the less likely you are to file an insurance claim.
Prior claim record	More past claims mean higher premiums. Switching companies won't help you dodge your record. Most insurers report claims to private, nationwide claims databases such as the Comprehensive Loss Underwriting Exchange (CLUE).
Prior insurance coverage	Letting your insurance expire results in higher premiums when you buy it again.

Each insurance company has its own private system for gauging risk and pricing premiums. For example, one company may charge more for a past speeding ticket, while another may charge more for driving a certain type of car.



What are three ways a teen driver can lower auto insurance costs or help keep them from going up?

IN CASE OF ACCIDENT ...

A cracked windshield, a break-in, a collision—at some point, you'll be very glad you've paid your auto insurance premiums. Here's a short checklist of steps to follow before you leave the scene of an accident:

- » Safety first—call 911 if anyone is injured.
- » Get the contact, license plate, and insurance information for any other drivers involved.
- » Get contact information for any passengers and witnesses.
- » Call the police to file a report. Later, get the police report number or a copy of the report.
- » After sharing insurance information, avoid making statements to anyone but the police and your insurance agent.
- » Take pictures or draw diagrams of the scene and any accident damage, if possible.
- » Call your insurance company and report the accident.

Be totally honest about what happened. Accident investigators can use sophisticated forensics to determine exactly what occurred and who is liable for an accident. Any lies you tell will likely be exposed and may lead to charges of insurance fraud.



Activity 6.7: Whoops! There's Been an Accident

Participate in a role-play to demonstrate what to do immediately after being involved in or witnessing an auto accident. Your teacher will provide scenarios for this activity.

SURFING THE SEAS OF HEALTH INSURANCE

Aaron's older brother Jamie is offered health insurance at his new job. He's only 23 and doesn't have any health issues. He needs to decide by the end of the month if he'll enroll in the company health plan—which means having \$200 deducted from his paycheck every month for his premium. He can't make up his mind and misses the deadline to sign up.

Six months later, Jamie is training for a marathon and doubles over after finishing a long run. His chest feels as if an elephant is sitting on it. He winces at the pain and struggles to catch his breath between coughs.

He waves off his friend's concerns. But when Jamie's lips start turning blue, his friend rushes him to the hospital. The ER nurse admits Jamie to the hospital for treatment for a severe asthma attack. Two days and \$5,400 later, the hospital discharges him. Also, Jamie needs to fill three prescriptions for medicine that will help prevent and manage future attacks.

THE ODDS

- » One in six young adults in their 20s wind up as an emergency room patient at some point during their working years.¹⁸
- » One in seven adults 18 to 29 years old has at least one chronic disease, such as arthritis, asthma, cancer, diabetes, heart disease, and high blood pressure.¹⁹

¹⁸ *Health Insurance Coverage of Young Adults: Issues and Broader Considerations*, The Urban Institute, June 2008, www.urban.org/publications/411691.html

¹⁹ *Young, Uninsured, and in Debt*, The Commonwealth Fund, June 2012, www.commonwealthfund.org/publications/issue-briefs/2012/jun/young-adults-2012.aspx

Now Jamie's stressed, wondering how he's going to pay for it all. He ends up filling the one prescription for the inhaler to stop the attacks. But he skips buying the preventive medications. Not surprisingly, he continues to have asthma attacks after long runs, although his inhaler helps stop them.

Jamie tries to join the health insurance plan at work, but he missed the initial deadline. He now has to wait six months until the next **open enrollment period** when his employer gives him the option to sign up for insurance coverage. Of course, the future coverage won't help with his past hospital bills.

A few months later, the hospital's collection department starts calling for the money that's owed. Jamie ducks the calls, but soon after he applies for a car loan, he's turned down. The reason? The outstanding hospital debt.

If Jamie had signed up for health insurance during the initial annual enrollment period, he would only have had to pay a \$100 deductible and \$540 for the hospitalization. And instead of \$400 a month for his prescription medications, the tab would have been \$90 monthly.



Activity 6.8: Jamie Learns a Lesson

Calculate how much Jamie will pay for medical costs during his first year on the job. Compare this to what he would have paid had he signed up for insurance.

Description of Expenses	Jamie's Costs Without Insurance Coverage	Jamie's Costs With Insurance Coverage
Hospital fee (two-day stay)		
Prescriptions (six months)		
Premium (12 months)		
Total		

HEALTH CARE FOR ALL AMERICANS

As of 2014, all Americans are expected to have health insurance. With few exceptions, people who aren't insured will pay a penalty. And they take on risk for unexpected medical care fees. Paying expensive costs—such as ambulance service or x-rays—can make a mess of anyone's spending plan.

If you can't get insurance through an employer-based plan, shop for insurance options at the health care marketplace (aka exchange). Find out more about the Patient Protection and Affordable Care Act at www.healthcare.gov.

Going without health insurance is like playing Russian roulette with your health, your bank account, and your life:

- » Skipping checkups means you're more likely to miss early detection of diseases like depression, diabetes, or scoliosis.
- » Delaying doctor visits when you're sick allows simple ailments to morph into something serious. And serious diseases can quickly become advanced before you're diagnosed. The sicker you are, the more days of school and work you'll miss. This can add financial strain.
- » Unexpected mishaps—like Katie's torn ligament or Jamie's asthma—can put your finances into a tailspin, piling onto your already stressful situation.



Your body and mind have to last the rest of your life.
Don't gamble with your health!

LEARNING THE LINGO OF HEALTH INSURANCE

Health insurance is simple to understand once you know the jargon.

As you know, a **deductible** is the amount you pay before insurance kicks in. You may have one deductible for all your medical expenses or one for different parts of your health plan—for routine care, hospitalizations, and prescription drugs, for example.

You have to pay the deductible amounts every year; there's no carry-over from one year to the next. Typically, you will pay lower premiums for plans with higher deductible limits.

Your health insurance company will split the bills with you.

- » **Co-pays** mean you pay a set dollar amount upfront for a health care service, such as \$15 for each office visit with a doctor.
- » **Co-insurance** means you pay a set percentage of the charge. For example, 70/30 means the insurance company pays 70 percent and you pay 30 percent.

For insurance purposes, everything you pay for medical care aside from the insurance premium is an **out-of-pocket expense**. Luckily for policyholders most plans cap out-of-pocket expenses with an **out-of-pocket maximum** for the year.

Let's say your maximum is \$3,000, and you've already spent \$1,800 out of pocket this year as shown in Figure 6.3. If you then got a medical bill for \$10,000, the most you'd have to pay is \$1,200. The insurance company would take care of the rest.

Figure 6.3: Example of a Policyholder's Out-of-Pocket Responsibilities





Katie's knee problems continue and her doctor says surgery may be necessary. It will cost \$15,000. Her family's health plan has:

- » \$100 deductible for each hospitalization
- » 70/30 co-insurance
- » \$3,000 out-of-pocket maximum

What would her out-of-pocket expenses be if her family has already spent \$1,950 for the year?

HEALTH CARE OPTIONS

Not sure where to begin your search for affordable health care coverage? Here are five possible sources.

- ▶ **Employer-based health plans.** If you work for a company that offers health care benefits to workers, you may be given a choice of plans. Look for lower-cost coverage through managed care plans such as preferred provider organizations (PPOs) or health maintenance organizations (HMOs). Another way you may be able to lower annual health care costs is with a high-deductible health insurance plan. Some high-deductible plans can be linked to tax-advantaged health savings accounts (HSAs).



If you're enrolled in a high-deductible health insurance plan, you can sock away money in a health savings account (HSA). It's a way to have money on hand when you need it for medical expenses. Apply the "pay yourself first" strategy to make regular HSA fund deposits part of your monthly spending plan.

There's a triple bonus: HSA deposits are tax deductible, withdrawals used to pay for health care expenses are tax free, and high-deductible plans typically have reduced premiums.

- ▶ **A parent's health plan, if you're under age 26.** According to the Affordable Care Act (ACA), a parent may add or keep a child on a parent's health insurance policy until the child turns 26.
- ▶ **Individual health plan.** You can purchase an individual health plan or family health plan directly from an insurance company. If you've been unable to qualify for a private health plan because of a pre-existing medical condition, be sure to check out the Pre-Existing Condition Insurance Plan (PCIP) available in your state under the ACA. The ACA prohibits insurance companies from refusing to sell coverage or renew policies because of an individual's pre-existing medical condition.
- ▶ **Medicaid.** Lower-income individuals, families and children, seniors, and people with disabilities may qualify for coverage through the Medicaid program offered in their state.
- ▶ **Children's Health Insurance Program (CHIP).** This program provides low-cost health insurance coverage to children in lower-income families with earnings above the limit to qualify them for Medicaid.

IT'S TIME TO PROTECT WHAT YOU HAVE

How you get covered depends on what you're buying. You're on your own for finding auto insurance and property insurance, such as renters' coverage. But you may be able to buy health, life, and disability insurance through your employer.

BENEFIT FROM EMPLOYERS

After yet another rehab appointment one day, Katie asks her mom how much health insurance costs. When her mom says that she pays about \$350 a month to insure their family, Katie's jaw drops. "Isn't that a lot?" she asks.

“No, not really. That amount is what I pay, but my company pays a larger share of the actual cost. And the actual cost would be a lot higher if I had to buy insurance for all of us somewhere else.” Her mom explains that employers get lower prices because they’re buying for a group of people.

“Think about your soccer team. You and Tameka both have serious injuries. A few girls have had minor sprains. But the rest have been healthy.” Katie nods.

“Insurance companies know that groups are always like that,” her mom explains. “A couple people will end up needing a lot of health care. And some will barely need it. That spreads out the risk to the insurance company—which is why it can charge lower premiums for groups.”

DRIVE DOWN COSTS

Although insurance is a bargain compared with the disaster alternative, it can take a bite out of your wallet. Here are a few general cost-cutting strategies:

- » **Aim high.** The higher your deductible is, the smaller your premium will be. Just make sure you realistically can afford the deductible you select.
- » **Be like Goldilocks.** Given how much everything costs these days, the minimum level of coverage may not be enough. But you probably don’t need the highest level, either. Find what’s “just right” for you.
- » **Ask for a discount.** Most auto insurers offer discounts if you have a clean driving record for the past few years, an anti-theft device, and good grades while you’re a student. Bundling two or more types of policies with one insurer may earn you across-the-board discounts.
- » **Get proactive.** Driving responsibly—avoiding tickets and accidents—is the single biggest thing you can do to reduce your auto insurance premium. Giving up smoking and participating in wellness programs may lower your health insurance premium. Ask your insurer what you can start doing now to save money at policy renewal time.

PLAN FOR SUCCESS

Once you get insurance, add the premiums to your spending plan. Estimate your out-of-pocket costs and work those in, too. Even if you're healthy, you'll still have certain expenses for services, such as co-pays for any doctor visits. Make an effort now to build up savings to cover your deductibles so that you're not scrambling for the money later.

Give your insurance a regular checkup. After all, your needs and priorities will shift over time. Tell your insurer if you move, switch jobs, get married, or make other life changes—those changes may score you a lower premium.

It pays to shop around for insurance every year or two. Changes in the industry, your insurer, the laws, and your situation may make coverage elsewhere a better deal for you.



Activity 6.9: That's How Much a Month?

Katie's parents have health and disability insurance premiums automatically deducted from their paychecks. But they are responsible for paying the premiums for their life (\$700 per year), auto (\$1,250 every six months, \$250 deductible), and homeowners' insurance (\$230 a year, \$100 deductible).

How much should they include in their monthly spending plan as insurance expense so they have funds set aside to cover premium payments when they are due?

\$ _ _ _ _ _ a month

WHAT TO KEEP WHERE

In Your Files:

- Current and past insurance policies
- Premium statements
- Medical bills you've paid
- Up-to-date inventory of your personal assets
- Documentation for any claims you've filed

With You:

- Auto and health insurance identification cards
- Driver's license or other photo ID

ADDING IT UP

You have big dreams and hopes. But everything you've worked for can vanish in a snap if you aren't protected from the occasional bad turn of events. Insurance is a convenient and affordable way to get that protection. It's meant to return you to the financial condition you were in before you had a loss.

Maybe you don't have to worry about buying your own insurance right now. But as you have learned, along with Katie and Aaron, the things you do today—whether you take care of your health, drive responsibly, and manage your money well—affect how much your parents pay to cover you on their insurance.

More importantly, your actions now will affect whether you'll be able to get insurance for yourself, and how much you'll pay for it, when you're on your own.

Challenge 6-D: Your Risk Management Plan

Devise a plan to minimize your current and near-future insurance costs. Include risk management strategies to avoid, reduce, accept, or share the potential risks of financial loss due to lost, stolen, or damaged property or to medical issues.

Estimate what you will need to set aside each month when you take on the responsibilities for auto insurance, health insurance, and homeowners' or renters' insurance.

APPENDIX – MONEY MANAGEMENT AIDS

SMART Goal Guide

Goal Setting

S**Specific****M****Measurable****A****Attainable****R****Relevant****T****Time-Bound**

Stop, Drop, and Think Before You Buy Test

- » Do I need this or do I want it?
- » If I don't need it, why do I want it?
- » Exactly when will I use (or wear) it?
- » Can I find it for less somewhere else?
- » What will I have to give up or put off by buying this now?

DECIDE Steps

- 1 Define what you want to achieve.
- 2 Establish your must-have and nice-to-have criteria.
- 3 Choose a few options that match your criteria.
- 4 Identify and compare the pros and cons of each option.
- 5 Decide the most logical option for your situation.
- 6 Evaluate the results and make adjustments for next time.

Financial Planning Process

Analyze your values, money management habits, and your financial situation.



Set SMART financial goals.



Plan what needs to be done with checkpoints and plan strategies to cope with unexpected events.



Carry out your plan and track your progress using systems that work for you.



Monitor and reflect on your progress; adjust your plan as your situation changes.

Additional NEFE Resources for Teens and Young Adults

Entering the Real World

www.onyourown.org

Just starting out on your own? This blog can help! From lessons learned with real people to money tips, strategies, and options, On Your Own supports you on your path to financial independence.

Prep for College or Workplace

www.cashcourse.org

CashCourse is a website that can help you prepare financially for college or the workforce. It includes worksheets, calculators, and an easy-to-use Budget Wizard to help you manage your money.

Spending Habits

www.spendster.org

Spendster is a YouTube™-like website that showcases people's stories of impulse buying, overspending, or just plain wasting money on stuff they don't need. Watch their video confessions, and then submit your own spending story.

Money Management Tips

www.smartaboutmoney.org/40moneytips

What are the *40 Money Management Tips Every College Student Should Know?*

Find out by downloading this booklet and learning how to stretch your financial resources, whether you're just starting out on your own or heading off to college.





HIGH SCHOOL FINANCIAL PLANNING PROGRAM

"I'm now looking at a lot of different kinds of insurance."

Student ~ 2009

This **NEFE** program will equip students in Grades 8-12 with fundamental personal finance skills to prepare them for financial independence and mindful money management decisions and behaviors.

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