

# INS and OUTS of INSURANCE

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## What do other high school students know about insurance?

We asked high school students about what they think about insurance.

“Insurance is something that will pay for medical help. It’s money for any medical problems you will have **now or in the future.**”

Junior, Mississippi

“There are different types of insurance to insure different things like your house or car, and then there is life insurance which will help your family if you die.”

Sophomore, Florida

“I know women pay less for insurance and you get a discount if you take drivers education.”

Junior, Oklahoma

“Everyone needs life insurance, which some people also call ‘death insurance.’”

Senior, Missouri

“Insurance covers liability and protects you. It provides cash for accidental occurrences.”

Senior, Florida

## LEARNING OUTCOMES

Explain why insurance is an essential part of a healthy financial plan.

Identify and describe the seven basic types of insurance coverage needed.

Understand the importance of disability insurance.

Evaluate the reasons why life insurance is not an investment.

Differentiate between term and cash value life insurance.

List types of insurances to avoid.

## KEY TERMS

Cash Value Insurance  
Collision  
Comprehensive  
Disability Insurance  
Health Insurance  
Renter’s Insurance  
Term Insurance



# BEFORE YOU BEGIN

## What do you know about insurance?

Answer the following questions before you watch Dave's lesson. Decide whether each statement is true or false. Then provide a short explanation for why you think a statement is false.

TRUE FALSE

Insurance rates can vary depending on the company, and I can save money if I shop around.

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.....

TRUE FALSE

I always have to have collision insurance on my automobile, even if it is an old car that's not worth much.

.....  
.....

TRUE FALSE

If an employer offers me health insurance but requires me to pay part of the premium, it is not a good deal and I shouldn't get it.

.....  
.....

TRUE FALSE

I only need to have renter's insurance if I have a lot of valuable items.

.....  
.....

TRUE FALSE

Everyone should have life insurance.

.....  
.....

## Understanding Insurance

Insurance is an essential financial planning tool.

The purpose of insurance is to \_\_\_\_\_ risk.

Without proper insurance, certain losses can \_\_\_\_\_ you. Conventional wisdom says that you should transfer risk.

## Basic Types of Coverage Needed

1. Homeowner's or Renter's Insurance
2. Auto Insurance
3. Health Insurance
4. Disability Insurance
5. Long-Term Care Insurance
6. Identity Theft Protection
7. Life Insurance

## ! STUPID TAX

"My boyfriend bought a car and then wrecked it. Now he has to walk, but he is still paying for that car."

Senior, Alabama

"I bought an expensive CD player for my car and threw the receipt away. I found out that the CD player would not work in my car—it wasn't adaptable."

Senior, New Mexico

"I bought an expensive phone and lost it the next week. It was a big waste of money because I didn't have insurance on it."

Senior, Alabama

“It is unwise to hope for the best without preparing for the worst.”

Anonymous

## Types of Insurance

### Homeowner’s and Auto Insurance

If you have a full emergency fund, raise your \_\_\_\_\_.

Carry adequate liability.

Consider dropping your \_\_\_\_\_ on older cars.

END OF VIDEO PART 1

Homeowner’s insurance should be “guaranteed \_\_\_\_\_ cost.”

\_\_\_\_\_ liability policies are a good buy once you have some assets.

### REAL LIFE

Auto insurance is an important part of owning a vehicle and being a responsible driver. But there are a few things you should know to help you find the right insurer, get the most out of your coverage, and protect your interests when filing a claim.

Money Magazine

#### Top Things to Know About Auto Insurance

- 1. You’re a statistic.** To an insurer, you’re not a person—you’re a set of risks. An insurer bases its decisions on your “risk factors,” including some things that may seem unrelated to driving a car.
- 2. Insurers differ.** Prices can vary from company to company. You can save money by comparison shopping.
- 3. Don’t just look at price.** A low price is no bargain if an insurer takes forever to service your claim. Research the insurer’s record for claims service, as well as its financial stability.
- 4. Go beyond the basics.** Although most states require only a minimum of liability coverage, you should look for a minimum coverage of \$500,000.
- 5. Demand discounts.** Insurers provide discounts to reward behavior that reduces risk. However, Americans waste \$300 billion a year because they forget to ask for discounts!
- 6. At claims time, your insurer isn’t necessarily your friend.** Your idea of fair compensation may not match that of your insurer. Your insurer’s job is to restore you financially. Your job is to prove your losses so that you get what you need.
- 7. Prepare before you have to file a claim.** Keep your policy updated and reread it before you file a claim, so there are no surprises.

## MONEY FACTS

Most auto insurance providers offer up to **25% discounts** for students that maintain a “B” average or better with their grades.

Various companies

**47 million**

Americans do not have health insurance.

National Coalition on Health Care

Young adults (age 18–24) are the **least likely** of any age group to have health insurance.

National Coalition on Health Care

Medical bills and illness are the **number one** cause of bankruptcy in the U.S.

Harvard Study

## Health Insurance

Keys to saving on your health premiums:

Increase your \_\_\_\_\_ and/or coinsurance amount.

Increase your \_\_\_\_\_ - \_\_\_\_\_, but never decrease your maximum pay.

See if an \_\_\_\_\_, a Health Savings Account, would make sense for your situation.

The HSA is a \_\_\_\_\_ - \_\_\_\_\_ savings account for medical expenses that works with a high deductible insurance policy.

END OF VIDEO PART 2

## Disability Insurance

Disability insurance is designed to replace \_\_\_\_\_ lost due to a short-term or permanent disability.

Try to buy disability insurance that pays if you cannot perform the job that you were educated or \_\_\_\_\_ to do.

That is called \_\_\_\_\_, or “own occ,” disability. Many times, this is only available for two years.

Beware of \_\_\_\_\_ - term policies covering less than \_\_\_\_\_ years.

## REAL LIFE

### Things to Remember About Disability Insurance

Disability insurance is a long-term solution. Your short-term needs should be covered by a full emergency fund of three to six months of expenses.

Buy disability with after-tax dollars. If you become disabled and you bought disability insurance with pre-tax dollars, your disability income will be taxable.

Your coverage should be for \_\_\_\_\_% of your current income.

The \_\_\_\_\_ period is the time between the disabling event and when the payments actually begin.

A \_\_\_\_\_ elimination period will \_\_\_\_\_ your premium cost.

END OF VIDEO PART 3

## Long-Term Care Insurance

Long-term care insurance is for \_\_\_\_\_ home, assisted living facilities or in-home care.

\_\_\_\_\_ % of people over the age of 65 will require long-term care at some point in their lives.

## Identity Theft Protection

Don't buy identity theft protection that only provides credit report \_\_\_\_\_.

Good protection includes \_\_\_\_\_ services that assign a \_\_\_\_\_ to clean up the mess.

END OF VIDEO PART 4

## Life Insurance

Life insurance is to replace lost income due to \_\_\_\_\_.

Most people have no \_\_\_\_\_ what kind of life insurance they \_\_\_\_\_.

## WISE GUYS

Human beings have a 100% mortality rate—we're all going to die someday. If people depend on your income, it is your responsibility to make sure they'll be taken care of if something were to happen to you.

### Two Types of Life Insurance

1. \_\_\_\_\_ insurance is for a specified period, is substantially cheaper, and has no savings plan built into it.
2. \_\_\_\_\_ insurance is normally for life and is more expensive because it funds a savings plan.

**“My car was recently totaled, but I had full coverage insurance. The problem is the bank is asking for \$3,000 in 30 days because I did not have gap insurance. What is gap insurance? I thought I would finally be done with these car payments because the insurance would take care of everything, but now I have this bill. What can I do?”**

**DAVE'S ANSWER:** Gap insurance covers the difference between what you owe on a car and what the insurance company says it is worth. That is what happened to you. Your full coverage policy paid for the current value of the car, but that is less than what you owe the bank. Since you no longer have the car as collateral, the bank is calling their note.

Gap insurance can be pretty expensive, which is another reason not to buy a new car on credit. The minute you drive off the car lot with a new car, it loses value and if you get into an accident, there will be a gap that you are responsible for unless you have this gap insurance. All you can do right now is pay the bank what you owe and move on, lesson learned.





## “What is your opinion on having life insurance on small children?”

**DAVE’S ANSWER:** I think it’s a total waste of money. The only exception may be a small rider on your term insurance policy—just enough to take care of a child’s funeral expenses—in the event that something awful happens. I did that for years, just a little \$15,000 rider, before I decided to self-insure on that issue.

People usually buy life insurance on kids for two reasons: as an investment and for some misplaced peace of mind. Number one, they should never be used as an investment. They’re garbage as investment vehicles. The second reason most people buy life insurance on kids is because they’re scared the child may get really sick later on and become uninsurable. The likelihood of that happening is almost zero. That’s why it’s so inexpensive.

The people with a real need for life insurance are those who have others depending on them for their livelihood. These people should carry about 10 times their annual income on a good, 20-year level term life insurance policy.

The most common insurance myth is that the need for life insurance is a \_\_\_\_\_ situation.

Twenty years from today, when the children are grown and gone, you are debt-free (including the 15-year mortgage), and you have investments that have grown to a substantial amount, you will have become self-\_\_\_\_\_.

### Why Not Life Insurance as an Investment?

1. Returns are historically \_\_\_\_\_.

2. When you die with cash value, the insurance company \_\_\_\_\_ the cash value.
3. The \_\_\_\_\_ deducted from your return are extremely \_\_\_\_\_.

### Cash Value vs. Term + Roth IRA

Cash value life insurance is a bad investment. Consider this:

For \$145 a month, you could have \$125,000 in cash value insurance. Or, for that same \$145, you could pay \$10 for \$400,000 in 20-year term insurance and invest \$135 into a Roth IRA. If you start at age 30 your investment will be worth...

Age	\$125,000 Cash Value GUARANTEED	\$135/mo in Roth 12% RETURN
50	\$27,500	\$133,000
70	\$66,000	\$1,500,000

### Before You Cancel Your Cash Value Policy...

Make sure that you already have a new term policy in place! If, for some reason, you cannot be approved for a new term policy, it is better to hang on to a bad cash value policy than to have nothing at all—until you become self-insured.

## REAL LIFE

Some companies will do anything to make a buck—including insurance companies. Here are a few bizarre examples of actual insurance plans available:

- Alien abduction insurance
- Pet insurance
- Wedding insurance
- Body part insurance

## What to Remember When Purchasing Life Insurance

1. Buy only low-cost level \_\_\_\_\_.

2. Do not forget your \_\_\_\_\_. **END OF VIDEO PART 5**

3. Stay away from fancy \_\_\_\_\_.

4. Children only need enough for \_\_\_\_\_ expenses.

5. You need about \_\_\_\_\_ times your income. Invested at 10-12%, the annual interest would replace your lost income.

## Insurance to Avoid

1. \_\_\_\_\_ life and disability

2. Credit \_\_\_\_\_ protection

3. \_\_\_\_\_ and hospital indemnity

4. Accidental \_\_\_\_\_

5. Any insurance with \_\_\_\_\_, investments or refunds

6. Pre-paid \_\_\_\_\_ policies

7. \_\_\_\_\_ life insurance

8. Any kind of \_\_\_\_\_ coverage

END OF VIDEO PART 6

## MORE INFO

Cafeteria plan is an employee benefit arrangement allowed by IRS Code Section 125, under which employees are allowed to pay for certain employee benefits on a pretax, rather than an after-tax, basis. Cafeteria plans, also known as Section 125 plans (because of the section of the IRS code that covers them), and flexible benefit plans allow employees to have some choice in designing his or her own benefit package. Cafeteria plans typically have core benefits such as medical and life insurance, sick leave and sometimes disability benefits. Optional benefits may include anything from dental insurance and elder care to vision coverage. They can't, however, include transportation assistance, tuition assistance or, unless part of a 401(k) plan, retirement benefits.

## Recap and Review

Insurance is not an investment. Its only function is to transfer risk.

You must have auto insurance if you have a car.

Renter's insurance is essential for renters, including when you live in a dorm at college.

Health insurance is important, even if you have to pay more than you would like.

Raising your deductible can save money on your premiums.

Identity theft is on the rise. Guard your personal information at all times and buy identity theft protection that includes restoration services.

# CHAPTER 11: MONEY IN REVIEW

## Vocabulary

Auto Insurance  
Beneficiary  
Break-Even Analysis  
Cash Value Insurance  
Claim  
Collision  
Comprehensive  
Co-Pay  
Coverage  
Deductible  
Elimination Period  
Extended Replacement Cost  
Guaranteed Replacement Cost  
HSA  
Health Insurance  
Homeowner's Insurance  
Level Term  
Liability  
Life Insurance  
Long-Term Care Insurance  
Long-Term Disability  
Maximum Payment  
Mortgage Insurance  
Occupational Disability  
Out of Pocket  
Permanent Disability  
Policy  
Premiums  
Renter's Insurance  
Restoration Services  
Self-Insured  
Short-Term Disability  
Stop-Loss  
Term Insurance  
Umbrella  
Universal Life  
Variable Life  
Whole Life Insurance

## Matching

- a. comprehensive
  - b. collision
  - c. 10
  - d. 20
  - e. premium
  - f. out of pocket
- \_\_\_ 1. The amount you pay for an insurance policy
- \_\_\_ 2. Costs that insurance doesn't cover; amount you pay
- \_\_\_ 3. The amount of life insurance you should have is \_\_\_ times your income
- \_\_\_ 4. Covers damage to a car if there is an accident
- \_\_\_ 5. Covers damage to a car if a tree falls on it

## True or False

- \_\_\_ 6. The deductible on any insurance is the portion you have to pay before insurance covers any expenses.
- \_\_\_ 7. If you have an older car, you can consider dropping liability.
- \_\_\_ 8. The purpose of insurance is to transfer risk.
- \_\_\_ 9. Cash value insurance is a good way to invest since it has a savings plan inside it.
- \_\_\_ 10. Neither accidental death nor cancer insurance are good insurance policies to carry.
- \_\_\_ 11. Short-term disability is covered by your emergency fund, so only buy long-term disability.

- \_\_\_ 12. The best type of identity theft insurance only provides credit report monitoring.

### Multiple Choice

13. The time between the disabling event and the beginning of payments:
- a. deductible
  - b. out of pocket
  - c. elimination period
  - d. stop gap
14. Life insurance policy for a specific period of time:
- a. term
  - b. whole life
  - c. universal
  - d. level
15. What can you do to decrease the cost of insurance policies?
- a. raise the deductible
  - b. shop around for rates
  - c. take advantage of applicable discounts
  - d. all of the above

### Name the Type of Insurance

16. \_\_\_\_\_ Covers restoration and monitoring services
17. \_\_\_\_\_ Covers damage to a vehicle
18. \_\_\_\_\_ Covers the contents of an apartment
19. \_\_\_\_\_ Designed to replace income lost if you cannot perform your job
20. \_\_\_\_\_ Covers assisted living, in-home or nursing home care
21. \_\_\_\_\_ Designed to replace income lost due to death

### Short Answer

22. Explain at least two ways you can save on auto insurance.
23. Why do you need renter's insurance if you don't own valuable items?
24. Explain why life insurance is not a good savings plan.
25. When do you need renter's insurance?

### Case Studies

26. Sarah's brother sold her a \$100,000 whole life insurance policy and she is paying \$115 per month in premiums. She is single and has been listening to Dave Ramsey, so she knows that term life insurance would be a better buy. She wants to change but is not sure what to tell her brother. What should she say to him?
27. Bill and Christy have two young children ages two and four, and they are not covered under any life insurance policy. Christy is a full-time mom and has no income. Bill makes \$50,000 a year. They are on a budget but with only one income, they do not have any extra money at the end of the month. Life insurance does not seem like a pressing issue at this time. What would you suggest Bill and Christy do when it comes to life insurance coverage?

28. Mark has an older car worth about \$5,000. He thinks he is paying too much for auto insurance and wants to find out how he can save. After listening to Dave, Mark decides to look into raising his deductible from \$250 to \$1,000. By doing this, he can save \$65 per year. Is this worth the risk? How long does he have to go without an automobile accident to break even?