FRE | FEDERAL RESERVE EDUCATION

Is Insurance Worth Buying?

The opinion expressed are those of the presenter and not necessarily those of the Federal Reserve Bank of Atlanta or the Federal Reserve System.


Why Is
Insurance
Important?
Insurance can protect you and
your financial well-being.

What Is Insurance?

Insurance is protection from a specified loss in return for a fee. It allows someone to transfer the risk of loss to another party, such as an insurance company.


Insurance Lingo
An insurance policy is a written contract that transfers risk from a person to a company.
A premium is the fee paid for insurance protection.
Coverage is the amount of risk or liability protected by an insurance policy.
A deductible is the portion of a loss that the insured must pay. The deductible amount is specified in the insurance policy.


Health Insurance
Transfers the risk of liability for medical expenses related to an injury or illness from a person to an insurance company.

Health Insurance

- The **co-pay** is the amount you will have to pay for each office visit to a doctor. The insurance company will pay the rest.
- The **hospitalization percentage** is the amount of the bill the insurance company will pay if you are hospitalized.

Disability Insurance

- Each unit of **coverage** will pay a certain amount per month in the event of a long-term injury or illness.


Property Insurance
Transfers the risk of loss from the owner or occupant of a dwelling to an insurance company.
The loss of a dwelling or its contents can come from fire, theft, storms, and other causes.

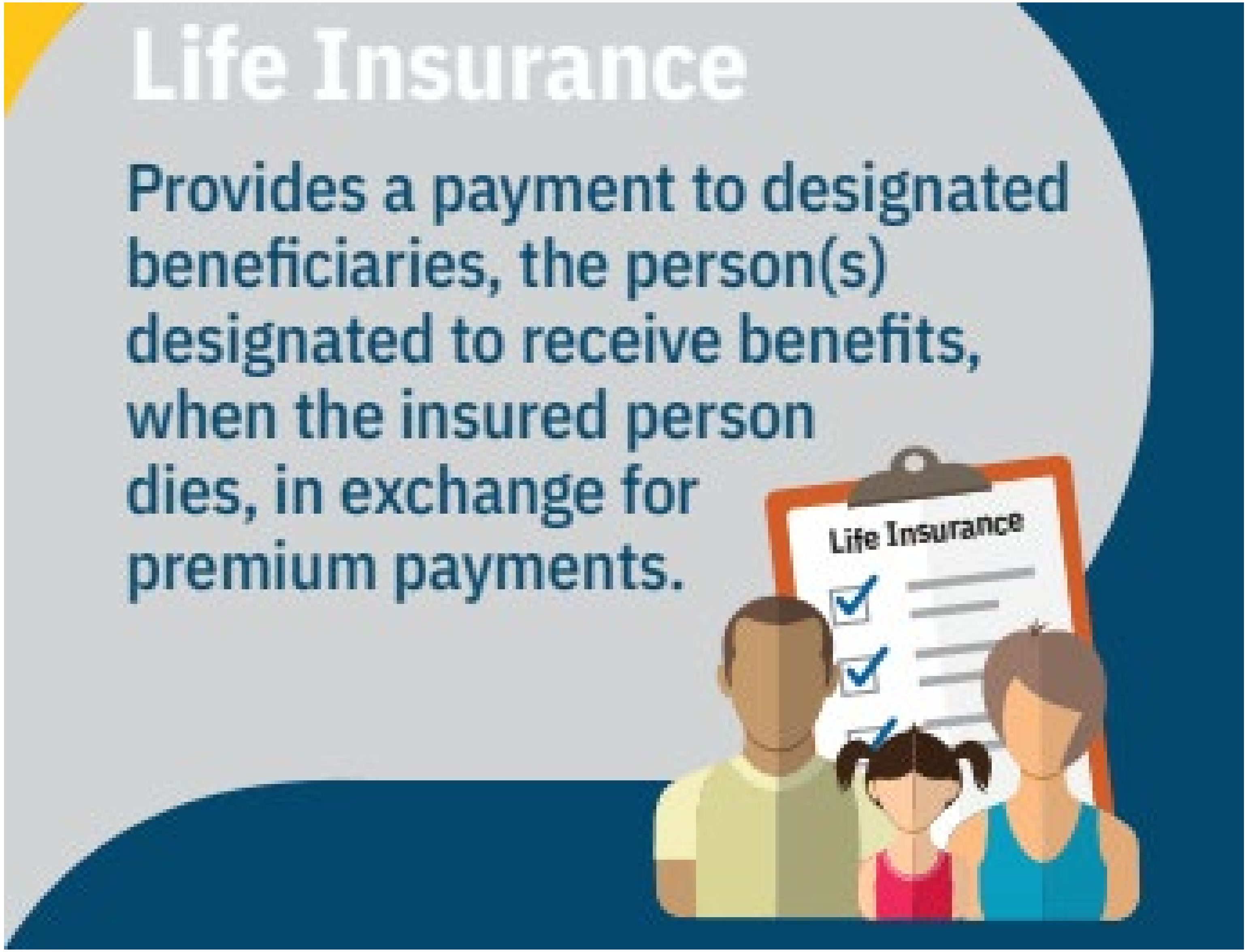
Renters Insurance

- The **deductible** is the amount you will have to pay in the event of a loss. The insurance company will then cover—pay—up to the amount shown. Anything above that limit will be your responsibility.


Auto Insurance
Transfers the risk of loss when your car is damaged or when your car damages something else or injures someone else.

Automobile Insurance

- The **deductible** is the amount you will have to pay to repair your car if you have an accident. (Comprehensive and collision coverage are combined here for simplicity.) The insurance company will pay the cost above the deductible.
- **Liability coverage** protects you from having to pay for damage you cause if you have an accident. The insurance company will pay up to the given limit, and you will have to pay the rest.


Life Insurance
Provides a payment to designated beneficiaries, the person(s) designated to receive benefits, when the insured person dies, in exchange for premium payments.
Life Insurance

Life Insurance

- Each unit of coverage will pay your beneficiaries a specified amount if you die. That money could be used to cover funeral expenses, personal debts, or simply as income for your beneficiaries.


Protection Plan
Transfers the risk of loss of or damage to a specific product, such as a cell phone or computer, from the owner to an insurance company.
These plans go beyond standard product warranties.

Tips for Buying Insurance

- Plan and budget for insurance.
- Check your credit score. It can affect your eligibility and cost for insurance.
- Research different types of coverage.
- Lower your premium through loss-control programs and other discounts.
- Review your policy. Know your coverage limits and deductibles.

Sources: https://www.stlouisfed.org/education/glossary
https://content.naic.org/consumer_glossary#I

Handout 10B.1: Managing Risk (page 1 of 2)

Name:________________________________

Part A: My Insurance Coverage

Directions: When directed by the teacher, choose your desired level of coverage for each type of insurance. You may spend a total of $4,000.

Health Insurance (Office visits, hospitalization) ....$______________

Option 1: Premium: $3,600 annually
Coverage: $10 office visit co-pay, 100% hospitalization

Option 2: Premium: $2,800 annually
Coverage: $20 office visit co-pay, 80% hospitalization

Option 3: Premium: $2,100 annually
Coverage: 100% hospitalization only

Option 4: No coverage

Automobile Insurance (Collision and comprehensive [CC], liability) ....$______________

Option 1: Premium: $1,100 annually
Coverage: $250 deductible on CC, up to $100,000 liability

Option 2: Premium: $950 annually
Coverage: $500 deductible on CC, up to $75,000 liability

Option 3: Premium: $500 annually
Coverage: Up to $50,000 liability only

Option 4: No coverage

Renters Insurance (Fire, theft) ....$______________

Option 1: Premium: $350 annually
Coverage: $250 deductible on all losses up to $5,000

Option 2: Premium: $250 annually
Coverage: $500 deductible on all losses up to $3,000

Option 3: No coverage

Disability Insurance (Long-term injury, illness)..$______________

Option 1: Premium: $240 annually
Coverage = $1,500/month ($18,000/year)

Option 2: Premium: $160
Coverage: $1,000/month ($12,000/year)

Option 3: Premium: $80
Coverage: $500/month ($6,000/year)

Option 4: No coverage

Life Insurance (Death) ....$______________

Option 1: Premium: $180 annually
Coverage = $30,000 coverage

Option 2: Premium: $120 annually
Coverage = $20,000 coverage

Option 3: Premium: $60 annually
Coverage = $10,000 coverage

Option 4: No coverage

Total Annual Insurance Premiums ....$______________

Handout 10B.1: Managing Risk (page 2 of 2)

Name:________________________________

Part B: My Life Events

Year	Card	(1) Total annual insurance premiums	(2) Opportunity cost: Column (1) times 0.05	(3) Losses without insurance	(4) Losses with chosen insurance coverage
1					
2					
3					
4					
5					
6					
7					
8					
TOTALS					

Part C: Did Insurance Pay?

1. Add the totals for Columns (1), (2), and (4) to calculate your total costs with insurance. ....$______________
2. What was the total cost of losses without insurance? (Column 3)..$______________
3. Did insurance pay (lower your costs)?

After you choose coverage, record that total dollar for each year in column (1).

Multiply that amount by 0.05 to calculate the opportunity cost of the insurance premiums (e.g. $3850 X 0.05 = $192.50). Record that amount for each year in column (2).

Visual 10B.1: Risks

Health: Card and Event		Loss
2	1 office visit	$200
3	2 office visits	$400
4	5 office visits	$1,000
5	10 office visits	$2,000
6	15 office visits	$3,000
7	20 office visits	$4,000
8	10 office visits, 1 hospital stay	$2,000 + $6,000 = $8,000
9	15 office visits, 2 hospital stays	$3,000 + $15,000 = $18,000
10-10	20 office visits, major hospital stay	$4,000 + $76,000 = $80,000

Automobile: Card and Event		Loss	
A	Minor fender bender	Auto damage: $1,000	Liability: $0
J	Minor accident	Auto damage: $3,000	Liability: $0
J-J	Major accident	Auto damage: $6,000	Liability: $20,000
Q-Q	Major accident with injury	Auto damage: $15,000	Liability: $90,000

Renter: Card and Event		Loss
10	Theft of electronics	$1,000
K	Major fire	$4,000

Disability: Card and Event		Loss
Q	2 months of disability	$4,000
K-K	1 year of disability	$24,000

Death: Card and Event		Loss
A-A	Death	Financial commitments (burial expenses, debts, loss of income, etc.) $30,000

Questions?