Ins and Outs of Insurance



_____ is a way to deal with severe financial loss by pooling the risk over a large number of people. Insurance payments are pooled and used to provide funds to those who have purchased the insurance and experienced a loss. Therefore, the more people that purchase

insurance for lower the things that will increased risk

such as age of drivers, security features, house, health of persons insured, etc. insurance are both required by lenders for protect the lender from catastrophic losses. insurance is not incorporated into the common with homeowner insurance.



the same type of loss, the insurance rates. Other affect rates involve to the insurance company construction materials for a Homeowner and automobile the period of the loan to However, automobile monthly payment like is

An ________ defines the exact coverage and limitations. Amounts specified in the insurance policy are called the _______ of the policy. The ______ is the amount paid to receive the coverage defined in the insurance policy. The money paid to the insured party by the insurer when a loss occurs is called the ______. Insurance requirements are specified by state commissions and therefore vary from state to state.

Texas law requires all drivers to be insured. The minimum coverage required by law is 20/40/15 coverage. This means \$20,000 bodily injury per person, \$40,000 bodily injury per accident, and \$15,000 property damage per accident ______ pays for the other vehicle. It will not pay for your own vehicle. The table below shows sample of possible base annual premiums for various coverage options. The territories commonly define where the insured lives such as urban, suburban, rural, etc. Both "Bodily Injury" and "Property Damage" liability insurance must be purchased in the state of Texas.

Base Annual Premium for Automobile Liability (Bodily Injury)						
Bodily Injury Coverage	Territory A	Territory B	Territory C			
*20./40	\$88	\$98	\$123			
25/40	\$90	\$101	\$128			
25/50	\$93	\$105	\$133			
50/50	\$95	\$109	\$136			
50/100	\$98	\$111	\$139			
100/100	\$100	\$116	\$140			
100/200	\$103	\$118	\$144			
Base Annual Premium for Automobile Liability (Property Damage)						
Property Coverage	Territory A	Territory B	Territory C			
*15,000	\$84	\$98	\$103			
25,000	\$86	\$101	\$108			
40,000	\$88	\$103	\$113			
50,000	\$91	\$106	\$116			
100,000	\$93	\$110	\$119			

^{*}Minimum liability insurance required for Texas

Ins and Outs of Insurance

Persons at higher risk will be required to pay above the base amount. The table below gives the factors by which the base amount will be multiplied depending on age of driver and distances driven.

Automobile Premium Multiples by Risk Factors					
Type/Age of Drivers		One way trip to	One way trip to	One way trip to	Business
		work < 3 mi.	work 3< mi.<9	work 10+ mi.	vehicle
Young Female	Age 16	1.41	1.51	1.81	1.91
	Age 20	1.06	1.16	1.46	1.56
	Age 16	1.61	1.71	2.02	2.10
Young Male	Age 20	1.46	1.56	1.86	1.96
(married)	Age 21	1.41	1.52	1.82	1.92
	Age 24	1.11	1.22	1.52	1.61
Young Male	Age 16	2.05	2.17	2.45	2.55
(unmarried not	Age 20	1.61	1.71	2.00	2.12
principal owner	Age 21	1.56	1.66	1.98	2.04
of vehicle)	Age 24	1.11	1.22	1.48	1.61
	Age 16	2.70	2.82	3.12	3.20
Young Male	Age 20	2.55	2.66	2.99	3.05
(unmarried	Age 21	2.52	2.61	2.93	3.00
and owner of	Age 24	1.92	2.02	2.32	2.42
vehicle)	Age 26	1.56	1.61	1.92	2.02
	Age 29	1.12	1.22	1.55	1.62
Mature adults	All other ages	1.00	1.10	1.38	1.51

Sample Problem 1

James is a married 21 year old male that lives in Territory B. He drives 12 miles one way to work.

- a. What does 25/50/25 mean?
- b. Determine the annual premium of 25/50/25 liability insurance using the three tables.
- c. If James still lives and works in the same places when he turns 25, how much will he save on liability insurance each year?

<u>Sample Problem 2</u> (Use previous information for James from Sample Problem 1, as necessary.) James ran a stop sign and struck another motorist causing \$28,000 in property damage. The motorist and her passenger also sued for \$45,000 each in bodily injury. The judge awarded the motorist \$26,000, but he only awarded the passenger \$10,000 in bodily injury.

- a. How much will the insurance agency pay?
- b. How much will be James responsibility?

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Ins and Outs of Insurance

Two other types of automobile	insurance are comprehensive and coll	ision.
	covers the insured automobile from fir	re, theft, vandalism, etc.
	pays for damages to the insured's ve	hicle when the insured is either
at fault or those at fault do not o	cover the damages. The rates for each	n of these types of insurance are
affected by type and age of veh	nicles	is also available to cover bodily
injury that occurs in an acciden	t where the other driver is not insured.	•

In the table below, the letters indicate the model of car with less expensive cars corresponding to the beginning letters of the alphabet. As in liability insurance, these premiums must also be multiplied by the Automobile Premium Multiples by Risk Factors.

Base Annual Premium for Automobile Comprehensive and Collision					
Car Model	Age of Car	Comprehensive	\$250 Deductible	\$500 Deductible	
	Years	Complehensive	Collision	Collision	
	1	58	85	78	
A – G	2, 3	55	79	75	
	4	50	75	69	
	1	64	113	105	
H – K	2, 3	60	106	99	
	4	55	96	88	
	1	72	125	115	
L – N	2, 3	69	126	109	
	4	59	105	96	
O – Q	1	77	142	128	
	2, 3	71	135	119	
	4	65	120	109	

Sample Problem 3

Stephen Waddell is 24 years old, unmarried, and lives in Territory C. He owns his own vehicle, which he uses for business. His vehicle is a 2-year old truck that is considered a Model M automobile. Stephen is taking out 50/100/50 liability insurance coverage on his vehicle. He is also taking out full comprehensive insurance coverage and \$500 deductible collision insurance coverage. Use the tables to calculate his total annual premium.

Stephen is at fault in an accident that causes \$2,500 damage to his vehicle and \$12,500 damage to the other vehicle. A court suit awards \$53,250 in bodily injury damages to the other motorist.

- a. How much will the insurance agency pay?
- b. How much will be James responsibility?

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Ins and Outs of Insurance

Practice Problems

- 1. Susie is 30 years old and drives 12 miles to work one way. She lives in Territory A. What will it cost her per year to purchase 50/50/25 liability coverage, full comprehensive, and \$250 deductible collision on a 1 year old Model C automobile?
- 2. Abraham and his twin sister Anna just turned sixteen and their parents purchased each of them a 4 year old model H car for their birthdays. They live in Territory C and will drive two miles one way to school each day. Since Abraham and his twin sister, Anna, will be the principal drivers of the cars, their parents are going to insure each car with the minimum liability coverage for Texas, full comprehensive, and \$500 deductible collision.
 - a. What will be the annual insurance premium for each teenager?
 - b. How much more will their parents have to pay to insure Abraham?
- 3. Hillary Glover was at fault in an accident in which two people were injured. She was insured with 50/100/25 liability and \$250 deductible collision insurance. The property damage to the other vehicle was \$4,800. The property damage to Hillary's car was \$6,500. The court awarded one of the injured people \$30,000 and the other person \$60,000.
 - a. How much will the insurance company pay?
 - b. How much will be the responsibility of Hillary?