PFL Academy

Teacher Guide: Chapter 7.1 — Understanding and Managing Risk

OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet, Calculator	None

LESSON FLOW

5 min **THE CHALLENGE**
- Read Riley's car insurance scenario aloud.
- Discussion: "What factors would you consider when choosing insurance?"
- Brainstorm: List risks students face daily (driving, technology, health, etc.).

10 min **CORE CONCEPTS**
- Review the four risk management strategies with real-world examples.
- Clarify difference between premium (ongoing cost) and deductible (cost when you have a claim).
- Quick check: Ask students to categorize examples into the four risk types.

25 min **APPLY IT**
- **Part A (10 min):** Risk identification scenarios. Students work individually, then compare answers with a partner.
- **Part B (10 min):** Insurance analysis. Walk through the table as a class, then have students calculate independently.
- **Part C (5 min):** Personal risk assessment. Encourage honest reflection about their own situations.

10 min **CHECK YOUR UNDERSTANDING**
- Complete in class or assign as homework.
- Review Q3 calculation—common error is forgetting to annualize the premium.
- Q4 (Marcus basketball) is excellent for class discussion about balancing risk and reward.

DIFFERENTIATION

Support
- Create a visual chart of the four strategies with icons.
- Provide a mnemonic: "ARAT" (Avoid, Reduce, Accept, Transfer).
- Work through Part B calculations on the board together.
- Pair struggling students with peers for scenario analysis.

Extension
- Research actual auto insurance quotes online and compare.
- Calculate break-even point: How many years without accidents before Option A saves money?
- Explore how risk tolerance affects investment decisions (connect to future lessons).
- Research different types of insurance (life, disability, umbrella).

Part A: Risk Identification and Strategy Selection

Scenario 1 (Smartphone): Property risk. Accept reasonable answers: TRANSFER (buy protection plan) for high-use essential device, or REDUCE (use protective case) + ACCEPT (self-insure) if $1,000 is affordable to replace.

Scenario 2 (Ice Storm): Personal risk (injury) + Property risk (car damage). Best strategy: AVOID—don't drive. The potential loss (serious injury, car damage) far outweighs the benefit (taking exam on time). Contact professor about alternatives.

Scenario 3 (Dog): Liability risk (dog could injure someone). Pet deposit = ACCEPTANCE (you're accepting some financial responsibility). Insurance = TRANSFER (shifting major liability to insurance company).

Part B: Insurance Coverage Analysis

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5-Year Premium Totals:
• Option A: $900 × 5 = $4,500
• Option B: $1,320 × 5 = $6,600
• Option C: $1,800 × 5 = $9,000


Q4: If NO accidents, Option A costs least ($4,500)


Q5: If car totaled in Year 2:
Option A: 2 years × $900 = $1,800 + $12,000 (replace car) = $13,800
Option B: 2 years × $1,320 = $2,640 + $500 (deductible) = $3,140


Option B saves $10,660 if an accident occurs.
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Part C & Check Your Understanding

Q6: Accept any reasonable personal risks and appropriate strategies.

CYU 1: D (Risk Transfer)

CYU 2: Premium = amount paid regularly (monthly/yearly) to maintain coverage. Example: $100/month for car insurance. Deductible = amount you pay out-of-pocket before insurance kicks in. Example: $500 deductible means you pay first $500 of a claim.

CYU 3: Annual premium: $200 × 12 = $2,400. Plus $1,000 deductible. Total: **$3,400** (Insurance pays remaining $4,000 of the $5,000 loss)

CYU 4: Marcus could: REDUCE (proper training, warm-ups, protective gear), TRANSFER (sports insurance through school), AVOID during injury recovery. He might not choose complete avoidance because the benefits (health, enjoyment, teamwork, college opportunities) outweigh the managed risks.

> *CYU 5: Accept thoughtful responses that identify specific risks and appropriate strategies with reasoning.*

COMMON MISCONCEPTIONS

Misconception	Clarification
"Insurance is a waste if you never file a claim."	Insurance provides peace of mind and protection against catastrophic loss. It's like a seatbelt—you hope you never need it, but you're glad it's there if you do.
"The lowest premium is always the best choice."	Low premiums often mean high deductibles or limited coverage. Total cost (premium + potential out-of-pocket) matters more than premium alone.

| "Risk avoidance is always the safest strategy." | Avoiding all risk means missing opportunities. Sometimes accepting or managing risk is necessary for growth, education, or financial advancement. |