

THE CHALLENGE

Riley just bought her first car, a used vehicle worth \$8,000. She needs to decide what insurance coverage to purchase. She could get minimum liability insurance for \$75/month, or comprehensive coverage for \$150/month with a \$500 deductible. She also installed an anti-theft device that qualifies her for a discount.

How can understanding risk management strategies help Riley make the best insurance decision for her situation?

Learning Objectives

- Define risk and categorize different types of risk (personal, property, liability, financial).
- Compare the four main risk management strategies: avoidance, reduction, acceptance, and transfer.
- Apply appropriate risk management strategies to various scenarios.

CORE CONCEPTS

Term	Definition
Risk	The possibility of loss or gain in any situation where the outcome is uncertain.
Risk Avoidance	Eliminating the possibility of loss by avoiding the activity entirely.
Risk Reduction	Taking steps to minimize the chance or impact of potential loss.
Risk Transfer	Shifting the financial responsibility for loss to another party, typically through insurance.
Deductible	The amount you must pay out-of-pocket before insurance coverage begins.

Background: Risk is an unavoidable part of life, but understanding how to manage it empowers better decision-making. The four main strategies are: **Avoidance** (don't do the risky activity), **Reduction** (take precautions like wearing seatbelts), **Acceptance** (pay for small losses yourself), and **Transfer** (buy insurance for major risks). The right strategy depends on the likelihood of loss, the potential impact, and your financial resources. Insurance works best for high-impact, low-probability events.

APPLY IT

PART A: RISK IDENTIFICATION AND STRATEGY SELECTION

For each scenario, identify the type of risk and select the most appropriate management strategy.

Scenario 1: Smartphone Protection

You just bought a new smartphone for \$1,000. You use it constantly for school, work, and entertainment. You're deciding whether to buy a \$150/year protection plan with a \$50 deductible, or simply be careful with it.

Type of risk: _____ (personal / property / liability / financial)

Best strategy: _____ (avoid / reduce / accept / transfer)

Because: _____

Scenario 2: Severe Weather Driving

A major ice storm is forecast for tomorrow morning. You have an important exam at 8 AM, but the roads are expected to be very dangerous until afternoon.

Type of risk: _____ (personal / property / liability / financial)

Best strategy: _____ (avoid / reduce / accept / transfer)

Because: _____

Scenario 3: Dog Ownership

You want to adopt a large dog breed. Your landlord requires an additional \$500 pet deposit, and your renter's insurance has a \$100,000 liability coverage that includes pet-related incidents.

Primary risk type: _____ (personal / property / liability / financial)

Strategy used (pet deposit): _____

Strategy used (insurance): _____

Hint: Many real-world situations use multiple risk management strategies together. A driver might reduce risk (wear seatbelt) AND transfer risk (buy insurance).

PART B: INSURANCE COVERAGE ANALYSIS

Compare auto insurance options for a vehicle worth \$12,000. Annual premiums and potential costs are shown.

Coverage Type	Option A (Minimum)	Option B (Standard)	Option C (Premium)
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Monthly Premium	\$75	\$110	\$150
Annual Cost	\$900	\$1,320	\$1,800
Collision Coverage	None	\$500 deductible	\$250 deductible
If Car Totaled (your cost)	\$12,000	\$500	\$250
5-Year Premium Total			

4. Calculate the 5-year premium total for each option. Which option costs the least if you have NO accidents over 5 years?

5. If your car is totaled in Year 2, what would be your total cost (premiums paid + out-of-pocket) with Option A vs. Option B?

Show your work:

Option A total: \$_____ | Option B total: \$_____

PART C: PERSONAL RISK ASSESSMENT

6. List ONE risk you currently face in each category. Then identify which strategy you currently use (or should use) to manage it.

CHECK YOUR UNDERSTANDING

1. Which risk management strategy involves purchasing insurance?

- A. Risk Avoidance
- B. Risk Reduction
- C. Risk Acceptance
- D. Risk Transfer

2. Explain the difference between a premium and a deductible. Give an example of each.

3. Calculation: An insurance policy has a \$200 monthly premium and a \$1,000 deductible. If you have a covered loss of \$5,000, how much total do you pay (annual premium + deductible)?

Show your work:

Answer: \$ _____ **total out-of-pocket**

4. Marcus is deciding whether to join the school basketball team. He loves basketball but is worried about injuries. Which risk management strategies could he use, and why might he choose NOT to use risk avoidance?

5. Reflection: Think about a significant financial decision you or your family might face. What risks are associated with it, and which risk management strategies would be most appropriate? Why?
