

THE CHALLENGE

Sarah, a 28-year-old graphic designer, needs an appendectomy costing \$20,000. Her health insurance has a \$2,000 deductible and 80/20 co-insurance. She's confused about how much she'll actually pay and whether her insurance is worth the monthly premium.

How do insurance components like deductibles and co-insurance work together to determine your actual out-of-pocket costs?

Learning Objectives

- Understand key insurance concepts: premiums, deductibles, coverage limits, and exclusions.
- Identify different types of insurance and their specific purposes.
- Apply this knowledge to make informed decisions about insurance needs.

CORE CONCEPTS

Term	Definition
Premium	The amount paid regularly to maintain insurance coverage, regardless of claims filed.
Deductible	The amount you must pay out-of-pocket before your insurance coverage begins.
Co-insurance	A percentage of costs you share with the insurance company after meeting your deductible.
Coverage Limit	The maximum amount an insurance policy will pay for a covered loss.
Exclusion	Specific conditions or circumstances not covered by an insurance policy.

Background: Insurance transfers financial risk from individuals to insurance companies. You pay regular premiums in exchange for protection against potentially devastating losses. Different types of insurance serve different purposes: **health insurance** covers medical expenses, **auto insurance** protects against vehicle-related losses, **homeowner's/renter's insurance** covers property damage and liability, and **life insurance** provides financial support to dependents. Understanding how these policies work helps you select appropriate coverage for your needs.

APPLY IT

PART A: INSURANCE TYPE MATCHING

Match each situation to the most appropriate type of insurance coverage.

Scenario 1: New Homeowner

You just purchased a home and want to protect it from potential damage, theft, and liability if someone is injured on your property.

Insurance type: _____ (health / auto / homeowner's / life / disability)

Scenario 2: New Parent

You're a 30-year-old parent with a young child and want to ensure your family has financial support if something happens to you during the next 20 years.

Insurance type: _____

Specific product: _____ (term life / whole life / universal life)

Scenario 3: Older Used Car

You own an older car worth \$3,000 and need the minimum legally required insurance. You're not concerned about damage to your own vehicle.

Coverage type needed: _____ (liability only / collision / comprehensive / full coverage)

Hint: Term life insurance provides coverage for a specific period and is most cost-effective for temporary needs. Whole life provides permanent coverage with a cash value component.

PART B: HEALTH INSURANCE COST CALCULATION

Calculate Sarah's out-of-pocket costs for her \$20,000 appendectomy using her insurance details.

Insurance Feature	Sarah's Plan	Your Calculation
Total Medical Bill	\$20,000	—
Annual Deductible	\$2,000	
Remaining After Deductible	—	
Co-insurance Rate	80/20 (Sarah pays 20%)	
Sarah's Co-insurance Amount	—	
Sarah's Total Out-of-Pocket	—	

Insurance Pays

4. Show your step-by-step calculation for Sarah's total out-of-pocket expense:

Show your work:

Sarah's total: \$_____ | Insurance pays: \$_____

PART C: INSURANCE EVALUATION

5. Jordan, age 22, is choosing between employer health insurance (\$200/month premium, \$1,500 deductible) or staying on parents' plan (free) for 4 more years. What factors should Jordan consider?

CHECK YOUR UNDERSTANDING

1. Which of the following is NOT covered by a typical homeowner's insurance policy?

- A. Fire damage to the structure
- B. Theft of personal belongings
- C. Flood damage from a natural disaster
- D. Liability if a guest is injured on property

2. Explain the difference between term life insurance and whole life insurance. When might each be appropriate?

3. **Calculation:** Marcus's auto liability insurance has limits of \$100,000/\$300,000. He causes an accident injuring two people: Person A has \$120,000 in medical bills, Person B has \$80,000. How much does insurance pay for each?

Show your work:

Person A receives: \$_____ | Person B receives: \$_____

4. A fire damages Aisha's apartment, destroying \$15,000 worth of belongings. Her renter's insurance has a \$500 deductible and \$20,000 coverage limit. How much will she receive?

5. Reflection: Think about your family's current insurance coverage. Which type of insurance do you think is most important for your family's situation, and why?
