

Chapter 34: Insurance as a Risk Management Tool

Practice matching insurance types to needs and calculating costs

Part 1: Matching Insurance to Situations

Exercise 1: Identify the Insurance Type

For each situation, select the most appropriate type of insurance:

Situation	Insurance Type
You just purchased your first home	
You have a 30-year-old car that isn't worth much	
You're a 30-year-old with a spouse and two young children	
You rent an apartment and have \$15,000 in belongings	
You're self-employed and depend on your income	
You need surgery and hospital care	

Options: Health, Auto (Liability only), Auto (Comprehensive), Homeowner's, Renter's, Life, Disability

Part 2: Health Insurance Calculations

Scenario 1: Understanding Co-insurance

Sarah has health insurance with: \$2,000 deductible, 80/20 co-insurance, and \$6,000 out-of-pocket maximum. She needs surgery that costs \$15,000.

a) Calculate Sarah's out-of-pocket costs:

Total Bill:	\$15,000
Sarah pays deductible:	\$_____
Remaining after deductible:	\$_____
Sarah's 20% co-insurance:	\$_____
Sarah's Total Out-of-Pocket:	\$_____
Insurance Pays:	\$_____

b) If Sarah's total costs reached \$8,000, how much would she actually pay? Why?

Explain how the out-of-pocket maximum works...

Part 3: Auto Insurance Coverage

Scenario 2: Coverage Selection

Marcus is buying auto insurance for his new car worth \$25,000. Explain which coverage types he needs:

Coverage Type	Needed? (Y/N)	Why?
Liability		
Collision		
Comprehensive		
Uninsured Motorist		

If Marcus had a 15-year-old car worth \$3,000, would your recommendations change? Why?

Your answer...

Part 4: Life Insurance Analysis

Scenario 3: Life Insurance Decision

Compare these life insurance options for a 35-year-old parent with young children:

Feature	20-Year Term	Whole Life
Death Benefit	\$500,000	\$500,000
Monthly Premium	\$35	\$450
Coverage Duration	20 years	Lifetime
Cash Value	None	Builds over time

a) What is the total premium paid over 20 years for each option?

Term:

Whole Life:

b) Which would you recommend for this person and why?

Your recommendation and reasoning...

Consider: The main purpose of life insurance for parents is to replace income during the years their children are dependents.

Part 5: Insurance Needs Assessment

Scenario 4: Life Stage Analysis

For each life stage, identify the most important insurance types and explain why:

a) 22-year-old recent college graduate, single, renting apartment:

Important insurance types:

Why:

b) 35-year-old married parent with mortgage and two children:

Important insurance types:

Why:

c) 60-year-old empty nester approaching retirement:

Important insurance types:

Why:

Part 6: Cost-Benefit Analysis

Scenario 5: Is Insurance Worth It?

Evaluate whether insurance makes sense in each situation:

- a) Extended warranty (\$150) on a \$400 gaming console:

Worth it? Why or why not?

- b) Renter's insurance (\$20/month) for \$10,000 in belongings:

Worth it? Why or why not?

- c) Disability insurance (costs 1-3% of income) for a self-employed person:

Worth it? Why or why not?

Part 7: Reflection

1. What factors should you consider when choosing a deductible amount?

Your answer...

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2. Why is it important to review your insurance coverage regularly?

Your answer...

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3. How does your current life situation affect your insurance needs?

Your answer...

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