JIGSAW DISCUSSION IDEAS NAME _______________ DATE _______________

"In Case of Emergency - Insurance Can Keep a Bad Day From Getting Worse"

Insurance gets no respect.
While just about every other aspect of personal finance centers on accumulating wealth, insurance is all about spend- ing money for a product that, if you need it, you know you've had a bad day. You've either been robbed, you've wrecked your car,your house has been damaged in a disaster, you've seriously injured yourself, you have an illness that has flared up, or, in the worst of all possible bad days, you have died.

For that reason, people typically hate shelling out for an insurance policy, often grumbling about spending money year in and year out for something they rarely, maybe even never, use. That's understandable. But how often do you call on the police department because of an emergency? How often do you call on the fire department to save your burning home? You may not need either for decades, but when you do, you're relieved they're around. Insurance is exactly the same. Without it, all the personal wealth you manage to amass is at risk when bad things happen to you or your property, or to others injured by you or your property. In those situations, all the money you've paid to own insurance through the years—the premiums—pays off, allowing you to replace your property, pay for expensive medical care, or cover the damages you inflicted on someone else.

Protecting One Another

All insurance is fairly similar in the way it works. When you buy an insurance policy, the insurer groups you with people similar to you in age, health status, sex, lifestyle, home location, and a variety of other factors. Then actuaries—vital statisticians who compute risk—calculate how many deaths, car accidents, heart transplants, hurricanes or whatever are likely to occur over a period of time to your particular group of people.Insurers use that risk assessment to determine the premiums you must pay to insure whatever risk it is you're trying to protect against—whether it's your premature death or the risk that an uninsured motorist will total your car.
With life insurance, for instance, if you're young and healthy, your premiums are low because, statistically, the chances are low that you will die soon and force the insurer to pay a benefit. On the other hand, if you're old and ailing, your premiums will be very high because the risk that you will die soon is substantially greater.

This pool of similar consumers essentially shares the risk of protecting one another from financial hardship in the event of death or some other insured event. This shared risk works because of the law of large numbers, a scientific principle which holds that the actions of one will not have a tremendous effect on the group as a whole at any given moment. Thus, a relatively small number of events each year that require an insurer to pay claims will not hurt the overall pool much.
Insurance companies don't just sit on the premiums you pay; they invest them. Since statistically you're not likely to claim the money for years, if ever, the insurer can generate an investment return on those dollars to increase the asset base available to pay claims with. Because of the investment return, and because only a small portion of the insured population will file a claim in any given year, insurers have the ability to pay your claim for, say, $40,000 even though you might have paid the insurance company only $7,000 in premiums through the years.

Three Main Figures

For the insurance carrier, there are hundreds of statistics that are taken into account in setting rates and assigning policyholders to risk pools. From the point of view of you, the average insurance buyer, there are just three key figures to keep track of: coverage, premium, and deductible.

Coverage is how much money the policy will pay out for whatever event you are insuring, whether it's your life or the cost of rebuilding a beachfront home after a hurricane blows through. With life insurance, for instance, the coverage might be $100,000, meaning that when you die your beneficiary will receive a check for that amount.

Premium represents the cost of the coverage, or how much you have to pay to own the insurance policy. Though the coverage might be $100,000, your premium will be just a sliver of that because of the way insurance companies spread your individual risk across millions of customers. Insurance companies place people in one of four risk groups: preferred, standard, substandard and uninsurable. Preferred customers are charged the lowest premiums; the uninsurable are, well, uninsurable for whatever reason. But remember this: A customer whom one insurer labels "preferred" might be labeled standard by another insurer, which would adjust the customer's rates accordingly. Insurers routinely tighten
and loosen their underwriting standards—the standards they use to determine who falls into what category—depending on a variety of business factors. Those standards can and do change regularly.
The message is to shop around to find a less-expensive premium for the same coverage.

Deductible is how much money you have to come up with to help cover the cost of an insurable event. If you have a $250 deductible on your auto insurance and you wreck your car, causing $1,000 in damages to the car, you're responsible for the first $250; the insurance company covers the rest.

Many consumers often want the lowest deductible because they loathe the notion of digging up a big chunk of money in the event something happens that causes them to file a claim. It is better, they feel, to pay as small an amount as possible and let the insurer do the heavy lifting.
That is a more expensive proposition in the long run. Here's why: If you double a $500 deductible to $1,000, you might save $150 a year on your premiums. Sure, you're on the hook now for an extra $500, but you'll come out ahead financially because every 3.3 years you will have saved $500 in premiums (500 ÷ 150 = 3.3) you'd otherwise have to pay with a lower deductible.
That makes it a pretty simple equation: If you're not filing claims very often, why pay the higher premiums for no reason?

And if you are filing claims often, then it's a moot point: Your insurance company is going to jack up your premiums anyway or cancel your coverage because you obviously present a greater risk to the company.

JIGSAW DISCUSSION IDEAS- Discuss as a class in jigsaw groups (group 1, 2, 3 and then mix them up)

1. Why do people spend money on insurance when they rarely, if ever, use it? What are the benefits and costs of investing in insurance? Should people invest in insurance policies or is insurance just a waste of money?
2. There are many different types of insurance, including automobile coverage, homeowner's coverage and life insurance. Decide what kinds of people need insurance. Do you need insurance? Do your parents? What kinds do you need? What kinds do your parents need?
3. Insurance companies assess the amount of risk—or the likelihood of an event occurring—to determine a person's premium for a particular insurance policy. For example, a homeowner with a fire extinguisher may pay a smaller premium for homeowner's coverage than a homeowner without one because his house is less likely to burn down. What factors you think influence insurance premiums for automobile coverage and life insurance.
4. Do you think it is ethical for insurance companies to determine the cost of particular insurance policies based on a person's age, race, gender, postal code or credit score? Why or why not?