

Total Cents Podcast Lesson 10

Advise Them About Insurance

Topic Overview

In its simplest form, insurance is just a vehicle we use to cover certain financial risks we have in our lives. Anything of value can be covered by insurance, so if it is damaged, lost, or stolen, you will be reimbursed by an insurance company. Of course, for this service you pay money known as a premium—and if nothing bad happens to whatever you are protecting, you don't get your money back. It is a little bit like gambling, except that unlike gambling, you don't want to win, meaning you don't want your property or health destroyed simply for a financial payout. On the contrary, if you take out insurance and don't ever need to use it, you have won. In this lesson, we'll explain the difficult concept of insurance - how it works, why we have it, and the different kinds of insurance.

Have handy:

Automobile insurance declaration page



Your Intro Discussion

Tonight we are going to talk about insurance. The basic gist is that we insure things that, if something happened to them, it would cause us financial hardship for us to replace. There are a lot of different types of insurance that we're going to talk about.

Step 1

Go Big picture

What is risk?

- Simply put, risk is exposure to loss or injury. Some non-insurance ways we try to protect against risk are tactics like wearing a helmet when biking or having airbags in our cars.

Fun Stats:

What do you think the chances are of each of these events?

- Plane crash?: 1 in 5,051
- Shark attack?: 1 in 50,453
- Train crash?: 1 in 156,169
- Car accident?: 1 in 84

Step 2

Discuss the “how to”...not the types of insurance

What is insurance?

- It is something we use to protect us financially from certain bad events that might happen

Why do we buy insurance to cover certain risks?

Step 3

Teaching them how to “think about it”

What are the basic questions we need to think about as we spend our limited budget on insurance?

Answers should include:

1. How much would I lose financially if this event happened?
2. How much would it cost to insure against that loss?
3. What is the probability of loss?
4. Am I willing to accept the risk and not insure it?
5. Will it provide me peace of mind to have this coverage?

Step 4

What are some types of insurance?

There are two types of insurance coverage: health-related insurance and property-related insurance.

What is health insurance?

- Covers medical expenses that arise due to an injury or illness.
- Typical expenses that are covered by health insurance include:
 - » Doctor’s visits
 - » Hospitalization costs
 - » Medicine
 - » Surgery
- Usually, the insured/patient is responsible for some combination of a premium, co-pay, and deductible, and the rest is covered by the insurance company

Try these statistics to help kids understand how crucial this form of insurance is:

- More than 20% of Americans struggled to pay their medical bills
- 3 in 5 bankruptcies were due to medical bills

Other kinds of health-related insurance:

- Life Insurance - a contract with an insurance company that commits the company to paying out a lump sum of money to an insured’s beneficiary at death (death benefit) in return for premiums paid by the insured while they are alive
- Disability Insurance - an insurance policy that promises to continue paying someone’s wages if she or he becomes too sick or hurt to work at their job. Interesting statistics to share with your child:
 - » A 35-year-old has a 50% chance of becoming disabled for a 90-day period or longer before age 65
 - » About 1 in 7 people ages 35-65 can expect to become disabled for five years or longer
- Long Term Care Insurance - this coverage generally helps older individuals with services for either a short or a long period of time. These services help people to live as independently and securely as possible when they can no longer perform everyday activities on their own such as: eating, bathing, dressing, toileting, transferring, and continence (also known as the six activities of daily living).
 - » An interesting statistic to share with your child: Almost 70% of Americans will need some form of long-term care in their lives

What are property and casualty insurance?

Examples of property and casualty insurance coverages include

- Automobile Insurance—this protects the car owner from the costs due to an accident or theft
- Homeowners Insurance—this protects against losses and damages to a person’s home and the items (assets) in that home.
- Other types of property insurance
 - » Kidnapping Insurance
 - » Fantasy Football Insurance
 - » Bed Bug Insurance
 - » Chicken Insurance
 - » Cold Feet Insurance
 - » Multiple Birth Insurance
 - » Insurance against a bad grade - that’s called studying

Step 5

The How

How does it work?

- Insurance is using small dollars so that you can protect against losing big dollars should you suffer a loss.
- By paying a small amount to the insurance carrier, you can pool that risk with others who are worried about the same thing
- That pool of money is then used to compensate the few who will actually need it, and the insurance company gets to keep what is left over from that pool every year
- Each person enters into a contract with the insurance company specifying the coverage amounts, terms, and required premium to get that protection. It’s important to teach kids that they need to read your coverage, so that their expectations will be met when it comes time to recoup their money. No one likes surprises.

Step 6

Show them in the “real world”

Go through a copy of your automobile insurance declaration page

Conversation Wrap Up

You’ve heard the saying, “you have to plan for a rainy day.” And when it comes to personal finance, that planning typically involves buying insurance coverage.

