Analyzing auto insurance scenarios

Working in groups, students will use real-world scenarios to explore how people’s choices in auto insurance coverage can affect them financially when unexpected events happen.

Learning goals

Big idea
Insurance can help lower the financial risks associated with driving and owning a car.

Essential questions
- What types of auto insurance coverage are available and what do they cover?
- How does auto insurance help limit your financial risks?

Objectives
- Analyze real-world scenarios to identify types of auto insurance coverage and concerns
- Evaluate risk factors, premiums, and financial responsibility related to auto insurance

What students will do
- Read about different types of auto insurance.
- Work in groups to select three types of coverage to buy.
- Read the scenario given to their group and, based on the coverage selected, determine how much they and the insurance company will be responsible for paying.
- Reflect on the need for auto insurance.

KEY INFORMATION

Building block:
- Executive Function
- Financial knowledge and decision-making skills

Grade level: High school (11-12)
Age range: 16-19
Topic: Protect (Managing risk)
School subject: CTE (Career and technical education), Math, Social studies or history
Teaching strategy: Cooperative learning, Simulation
Bloom’s Taxonomy level: Analyze, Evaluate
Activity duration: 45–60 minutes

STANDARDS

Council for Economic Education
Standard VI. Protecting and insuring

Jump$tart Coalition
Risk management and insurance – Standards 1 and 2

To find this and other activities go to: consumerfinance.gov/teach-activities
Preparing for this activity

□ Print copies of all student materials for each student, or prepare for students to access them electronically.

□ Students should have a basic idea of how insurance works before completing this activity. Having students complete activities such as “Reading about insurance,” “Understanding how insurance works,” and “Exploring types of insurance” before doing this activity may make it a more meaningful experience.

□ Print one copy of the “Insurance scenarios” page from this guide. Cut the scenarios into individual strips. You’ll give one scenario to each group.

What you’ll need

THIS TEACHER GUIDE

▪ Analyzing auto insurance scenarios (guide)
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STUDENT MATERIALS

▪ Analyzing auto insurance scenarios (worksheet)
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▪ Insurance scenario strips (from the guide)

Exploring key financial concepts

Most states require a minimum level of auto insurance, but there are different types of additional insurance coverage you may want to consider when purchasing an auto insurance policy. If you have an accident and file a claim, your out-of-pocket cost will depend on what types of coverage your policy includes, your deductible, and the policy limits (the maximum the insurance company will pay). The amount you pay for your policy (your premium) generally depends on how much of a risk you are to an insurance company. Because a major accident could cause severe injuries to multiple people and cause thousands of dollars in property damage, it’s helpful to carefully consider the types of insurance coverage to have in your policy.
Teaching this activity

Whole-group introduction

- If students are not familiar with basic principles of auto insurance, distribute copies of the “What is insurance?” handout. You can either read this aloud together in class, or have students read it individually.
- Be sure the students understand key vocabulary:
  - **Claim:** The insured’s request for payment due to loss incurred and covered under the policy agreement.
  - **Deductible:** The amount of expenses an insured must pay before the insurance company will contribute toward the covered item. For example, the amount you pay for covered health care services before your insurance plan starts to pay is your deductible.
  - **Insurance:** The practice or arrangement in which a company or government agency provides a guarantee of compensation for specified loss, damage, illness, or death in return for payment of a premium.
  - **Insured:** The person, group, or organization whose life or property is covered by an insurance policy.
  - **Insurer:** A person or company offering insurance policies in return for premiums; person or organization that insures.
  - **Out-of-pocket cost:** The expenses and losses that are not reimbursed by insurance. This cost includes deductibles and amounts paid for services or repairs that are excluded from coverage.
  - **Policy:** In the insurance context, it is a written contract between the insured and the insurer.
  - **Policyholder:** The individual or firm that acquires and wants protection from the risk and generally in whose name an insurance policy is written. The holder is not necessarily the insured. For instance, life insurance policies might be bought by employers of key employees, or a husband may buy and be the holder of a life insurance policy on his wife. In such cases, the buyer is the policyholder.
  - **Premium:** The amount of money that has to be paid for an insurance policy.
  - **Risk:** Exposure to danger, harm, or loss.

TIP

Visit CFPB’s financial education glossary at consumerfinance.gov/financial-education-glossary/.
Distribute the “Analyzing auto insurance scenarios” worksheet and ask a student to read the directions aloud.

Explain that each group will focus on a different scenario. All scenarios feature a young man named Isaac who experienced an unfortunate event related to his car.

Take a moment to review the six types of auto insurance coverage listed on the “Analyzing auto insurance scenarios” worksheet: collision, comprehensive, medical payments, bodily injury, property damage, and uninsured/underinsured driver. Make sure students understand what each means and what types of expenses each covers.

**Group work**

For this activity, you can have students work in small groups or as a whole class.

- If working in small groups, divide students into six groups and distribute an insurance scenario strip to each group. (The scenarios can be found in this guide).
- If working as a whole class, you can either distribute the “Auto insurance scenarios” page to students or project it on a screen and review the scenarios together.

Each group should select three of the six types of auto coverage for Isaac to include in his auto insurance policy. While all six might be considered important, the groups must select the three they think are most important for Isaac.

As the groups read their scenario, they should use the “Analyzing auto insurance scenarios” worksheet to document and analyze the extent to which Isaac is covered (or not) for the damages described.

Ask students to calculate what they believe Isaac’s financial liability in the scenario will be given the coverage he has on his auto insurance policy.

Invite the groups to share their scenario and totals with classmates. The groups with the lowest totals chose insurance coverage that best protects them financially.

**Wrap-up**

Give students instructions for completing a 3-2-1 reflection:

- Write three things they learned about auto insurance.
- Write two important tips they would share with other teen drivers.
- Write one idea that still confuses them or that they still have a question about.

Collect students' worksheets.
Suggested next steps

Consider searching for other CFPB activities that address the topics of protection and managing risk.

Measuring student learning

This answer guide provides possible answers for the “Analyzing auto insurance scenarios” worksheet.

Answer guide

Student answers will depend on the three types of insurance they selected. This answer guide shows the results if all insurance coverages were in effect. They’ll need to calculate the totals for their scenario based on the coverages they did or didn’t choose.

Student responses to the 3-2-1 reflection task may help provide a clearer picture of which auto insurance concepts they understand and if they still have questions.

Keep in mind that students’ answers may vary. The important thing is for students to have reasonable justification for their answers.

Scenario 1

<table>
<thead>
<tr>
<th>Type(s) of coverage needed (note up to three)</th>
<th>Does Isaac have this coverage?</th>
<th>How much is the deductible?</th>
<th>Amount Isaac’s insurance company will pay If you have coverage (subtract deductible, consider coverage limit)</th>
<th>Amount Isaac will pay With coverage: Deductible plus amount over the coverage limit No coverage: Full amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property damage</td>
<td>$0 No deductible</td>
<td>$6,000</td>
<td>With coverage: $0 No coverage: $6,000</td>
<td></td>
</tr>
<tr>
<td>Collision</td>
<td>$500</td>
<td>$8,000</td>
<td>With coverage: $500 No coverage: $8,000</td>
<td></td>
</tr>
<tr>
<td>Bodily injury</td>
<td>$0 No deductible</td>
<td>$45,000</td>
<td>With coverage: $0 No coverage: $45,000</td>
<td></td>
</tr>
</tbody>
</table>
### Scenario 2

<table>
<thead>
<tr>
<th>Type(s) of coverage needed (note up to three)</th>
<th>Does Isaac have this coverage?</th>
<th>How much is the deductible?</th>
<th>Amount Isaac’s insurance company will pay If you have coverage (subtract deductible, consider coverage limit)</th>
<th>Amount Isaac will pay With coverage: Deductible plus amount over the coverage limit No coverage: Full amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collision</td>
<td></td>
<td>$500</td>
<td>$3,000</td>
<td>With coverage: $500 No coverage: $2,500</td>
</tr>
<tr>
<td>Property damage</td>
<td></td>
<td>$0</td>
<td>$6,000</td>
<td>With coverage: $0 No coverage: $6,000</td>
</tr>
</tbody>
</table>

### Scenario 3

<table>
<thead>
<tr>
<th>Type(s) of coverage needed (note up to three)</th>
<th>Does Isaac have this coverage?</th>
<th>How much is the deductible?</th>
<th>Amount Isaac’s insurance company will pay If you have coverage (subtract deductible, consider coverage limit)</th>
<th>Amount Isaac will pay With coverage: Deductible plus amount over the coverage limit No coverage: Full amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensive</td>
<td></td>
<td>$500</td>
<td>$6,500</td>
<td>With coverage: $500 No coverage: $7,000</td>
</tr>
</tbody>
</table>

### Scenario 4

<table>
<thead>
<tr>
<th>Type(s) of coverage needed (note up to three)</th>
<th>Does Isaac have this coverage?</th>
<th>How much is the deductible?</th>
<th>Amount Isaac’s insurance company will pay If you have coverage (subtract deductible, consider coverage limit)</th>
<th>Amount Isaac will pay With coverage: Deductible plus amount over the coverage limit No coverage: Full amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensive</td>
<td></td>
<td>$500</td>
<td>$14,500 ($15,000 limit)</td>
<td>With coverage: $1,500 No coverage: $16,000</td>
</tr>
</tbody>
</table>
### Scenario 5

<table>
<thead>
<tr>
<th>Type(s) of coverage needed (note up to three)</th>
<th>Does Isaac have this coverage?</th>
<th>How much is the deductible?</th>
<th>Amount Isaac’s insurance company will pay</th>
<th>Amount Isaac will pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uninsured driver</td>
<td></td>
<td>$0 No deductible</td>
<td>$3,500</td>
<td>With coverage: $0 No coverage: $3,500</td>
</tr>
</tbody>
</table>

### Scenario 6

<table>
<thead>
<tr>
<th>Type(s) of coverage needed (note up to three)</th>
<th>Does Isaac have this coverage?</th>
<th>How much is the deductible?</th>
<th>Amount Isaac’s insurance company will pay</th>
<th>Amount Isaac will pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collision</td>
<td></td>
<td>$500</td>
<td>$5,500</td>
<td>With coverage: $500 No coverage: $6,000</td>
</tr>
<tr>
<td>Property damage</td>
<td></td>
<td>$0 No deductible</td>
<td>$2,500</td>
<td>With coverage: $0 No coverage: $2,500</td>
</tr>
</tbody>
</table>
Isaac’s auto insurance scenarios

Print this page single-sided and cut into six scenario strips. Give one strip to each group.

Scenario 1
Isaac accidentally turned into the wrong lane and hit another car. The other driver and his passenger were both hurt. The driver’s medical bills were $20,000, and the passenger’s were $25,000. The accident caused $15,000 worth of damage to the other car. Isaac’s car had $8,000 worth of damage, and he was unhurt.

Scenario 2
Isaac forgot to check his blind spot before changing lanes, and he sideswiped another car. The accident caused $3,000 worth of damage to Isaac’s car and $6,000 of damage to the other car. Neither Isaac nor the other driver were injured.

Scenario 3
A big storm blew through Isaac’s town last night. When he woke up this morning, he saw that a tree branch had fallen on his car. It caused $7,000 in damage.

Scenario 4
A large deer ran in front of Isaac’s car while he was driving on the highway, and he hit it. The impact totaled his car. The cash value of Isaac’s car is $16,000.

Scenario 5
Isaac returned to his car in the mall parking lot to find that someone had hit it, causing $3,500 of damage to the rear side panel and bumper. The driver of the other car did not have insurance.

Scenario 6
Isaac was changing the radio station while driving, and the distraction caused him to lose control of the car and hit a light pole. The accident caused $6,000 worth of damage to Isaac’s car. The light pole cost $2,500 to replace.