

Understanding how insurance works: A case study about Lucy

Students read about how insurance works, then review a case study to see how insurance choices can affect personal finances for a rural young adult.

Learning goals

Big idea

When you purchase insurance, you are transferring financial risk from yourself to an insurance company.

Essential questions

- What is the main benefit of choosing to purchase insurance?
- How do the insurance company and the policyholder share risks and costs?

Objectives



- Understand how insurance works
- Apply insurance policy specifics to a case study to evaluate costs and benefits

What students will do

- Read about how the insurance process works and discover what roles the insurance company and the policyholders play.
- Review information about specific types of insurance policy coverage and costs.

KEY INFORMATION

Building block:

-  Executive Function
-  Financial knowledge and decision-making skills

Grade level: High school (9-12)

Age range: 13-19

Topic: Protect (Managing risk)

School subject: CTE (Career and technical education), Math, Physical education or health, Social studies or history

Teaching strategy: Cooperative learning, Simulation

Bloom's Taxonomy level: Understand, Apply, Evaluate

Activity duration: 45-60 minutes

STANDARDS

Council for Economic Education
Standard VI. Protecting and insuring

Jump\$tart Coalition
Risk management and insurance -
Standard 1

- Evaluate a case study to see how one policyholder’s insurance choices affected her financially.
- Write an advice email about the value of insurance in that policyholder’s life.

Preparing for this activity

- Print copies of all student materials for each student, or prepare for students to access them electronically.
- While it’s not essential, having students complete the “[Exploring types of insurance](#)” activity before doing this one will make it a more meaningful experience.

What you’ll need

THIS TEACHER GUIDE

- [Understanding how insurance works: A case study about Lucy \(guide\)](#)
[cfpb_building_block_activities_understanding-how-insurance-works-lucy_guide.pdf](#)

STUDENT MATERIALS

- [Understanding how insurance works: A case study about Lucy \(worksheet\)](#)
[cfpb_building_block_activities_understanding-how-insurance-works-lucy_worksheet.pdf](#)
- [What is insurance? \(handout\)](#)
[cfpb_building_block_activities_what-is-insurance_handout.pdf](#)

Exploring key financial concepts

A risk is something that exposes us to danger, harm, or loss. We face risks every day, and often these risks can have a financial impact on our lives. Getting sick, breaking a leg, having a car accident, or experiencing a house fire are examples of risks that may happen to any of us. If we had to pay the full costs for doctor’s visits, surgeries, and automobile repairs ourselves, it could cause a substantial financial burden in our lives.

To protect against the financial consequences associated with these risks, people often choose or are required to purchase insurance policies. Insurance policies reduce a person’s financial risk in areas such as health (medical insurance), eyesight (vision insurance), automobiles (auto insurance), homes (homeowner’s insurance or

renter's insurance), and death (life insurance). Consumers pay a fee for these policies, called a premium, which is typically much less than the costs associated with this risk without insurance. The consumer who buys the insurance policy is called a policyholder. The policyholder might pay the premium all at once or through a payment plan that divides the total cost into payments that are made monthly, quarterly, or some other agreed payment schedule.

Teaching this activity

Whole-class introduction

- Let students know that they'll be learning about insurance and why it's an important part of managing risk.
- Tap into their prior knowledge by asking students to share what they know about insurance. Document their responses, listing them under the heading "What we know."
- Be sure students understand key vocabulary:
 - **Copayment (or copay):** A fixed amount (\$20, for example) you pay for a covered health care service in addition to the amount your insurer pays.
 - **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.
 - **Policy:** In the insurance context, it is a written contract between the insured and the insurer.

TIP

Generally, the lower the premium, the higher other costs such as deductibles and copays likely will be. At the same time, the higher the premium, the lower those other costs likely will be. Because insurance costs and coverage can vary significantly – even among plans offered by the same company – it's important to shop around before choosing a plan.

TIP

Visit CFPB's financial education glossary at consumerfinance.gov/financial-education-glossary/.

- **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 might 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.
- Distribute the “What is insurance?” handout and the “Understanding how insurance works: A case study about Lucy” worksheet, or direct students to access them digitally.

Individual work

- If this is one of students’ first exposures to the topic of insurance, be sure to allow time for students to read or review the “What is insurance?” handout during class.
 - If students completed the “Exploring types of insurance” activity or have a basic knowledge of insurance, the handout can be used to review key concepts.
- You might also want to review the types of insurance listed on the “Understanding how insurance works: A case study about Lucy” worksheet to be sure students have a general sense of what each type covers.

Individual or group work

- Students can work individually or in pairs to review the case study about Lucy’s insurance choices and the impact on her personal finances.
- Be sure students read the narrative carefully and then review which types of insurance coverage Lucy chose and which types she declined.
- For each incident in the “Life happens” section of the worksheet, ask students to determine which type of insurance would cover the cost of the incident (as listed in the case study), identify whether or not Lucy had the coverage, and list how much she had to pay to cover the costs.
- Based on Lucy’s experiences, have students calculate and compare the costs of having insurance coverage with the costs of not having insurance.

- As a final step of this activity (or as a follow-up homework assignment), have students draft a brief email as if Lucy was writing to give her younger cousin insurance advice.

Wrap-up

- Bring students back together to review their findings about insurance costs and the consequences of choices made about insurance coverage.
- To help make the activity personally relevant, engage them in a discussion about which types of insurance seem most important to a young person starting their career.

Suggested next steps

Consider searching for other [CFPB activities](#) that address the topics of protection and managing risk.

Measuring student learning

Students' worksheet responses will help you gauge their understanding of insurance.

The answer guide that follows provides possible answers for the "Understand how insurance works: A case study about Lucy" worksheet.

Answer guide

Life happens

The table below details specific things that happened to Lucy during the year.

NOTE

The premiums used in this case study represent national averages and are not broken out by age, location, or other key details. Premium costs will vary based on many factors, including state requirements. While the premiums in this activity are based on national averages, they are intended for illustrative purposes only.

Month	What happened?	Which insurance would cover this?	Did Lucy have coverage?	How much will Lucy have to pay? (If she has insurance, what is her copay or deductible?)
January	Lucy got sick and visited the doctor. Without insurance, the appointment cost \$120, and the antibiotics cost \$110.	Medical	Yes	\$30 copay for doctor visit; \$10 copay for prescription
March	Lucy fell on ice while hiking and had to get stitches in the emergency room. Without insurance, the procedure cost \$250.	Medical	Yes	\$50 copay for emergency room visit
July	A kitchen fire in the apartment next door caused the sprinkler system to activate in Lucy's apartment as well. Her couch, her television, her computer, and her bookcase were ruined. The cost of the damage was \$2,500.	Renter's	No	\$2,500 (She replaced the damaged items.)
September	Lucy hit a deer when driving home from work. She wasn't hurt, but the damage to her car was \$3,400.	Auto	Yes	\$300 deductible
October	Lucy got dirt in her eye while picking fruit at a local farm. She went to the eye doctor when her eye became red and swollen; the doctor prescribed eye drops. Without insurance, the appointment cost \$150, and the eye drops cost \$90.	Vision	Yes	\$30 copay for doctor visit; \$10 copay for prescription

Summarize the costs of Lucy's deductibles, copays, and premiums: Lucy paid a total of \$2,930 for the incidents that year. Without any insurance, she would have paid \$6,620. After subtracting Lucy's total premiums of \$2,149 for the year, her insurance choices saved her \$1,541 ($\$6,620$ [costs without insurance] - $\$2,930$ [costs paid that year] - $\$2,149$ [total premiums for the year] = $\$1,541$).

You may choose to use the scoring rubric below to evaluate students' writing for the final task on the worksheet. If you use the scoring rubric, be sure to share it with all students so they know what criteria matter most and they can plan accordingly.

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

SCORING RUBRIC FOR LUCY'S EMAIL

Performance descriptions	Possible point values	Points earned
Content of email demonstrates a general understanding of how insurance works.	20 points	
Email includes two or more examples from Lucy's life that show positive and negative consequences of insurance choices.	20 points	
Total	40 total points possible	