



### Exercise 6B: Manage the Risks

How do you recommend  
reducing or avoiding the risks  
you listed in Exercise 6A?

Enter your answers into the  
second column of the chart  
on the previous page.



### Assignment 6-1: A Case for Insurance

Develop a brochure, a  
one-minute radio or TV  
commercial, or a poster to  
inform others of ways to  
reduce common risks faced  
by high school students.

## Sharing the Risks

**Insurance** is a means of guaranteeing your financial protection against various risks. In exchange for a relatively small payment, you gain protection against a potentially large loss. What's a large loss? For most people, a house burning down or spending weeks in the hospital recovering from an accident can create huge expenses that can't be paid out of their own pockets. An **insurance policy** is a written contract detailing what an insurance company will cover, how much it will pay, and how much you will pay.

The **premium** is simply the amount you pay for an insurance policy. It can be paid monthly, quarterly, semi-annually, or annually. It can cost several hundred thousand dollars to rebuild a house that has been destroyed by a fire. But insuring that house might cost only several hundred dollars a year. Because most people can better afford the second option than the first, they choose to share or transfer the potential costs of rebuilding their homes to insurance companies.

The insurance premium is based on the type and amount of coverage you choose and varies from one insurance company to another. Factors that generally affect your premium include your age, marital status, whether you live in an urban or rural area, and your credit history. Insurance companies have found that people with higher credit scores are usually less risky to insure, so they tend to charge them lower premiums.

And for each type of insurance, other factors come into play. For example, your driving record and the type of car you drive matter when an auto insurance company determines the premium for your car insurance. How healthy you are helps determine the premium for your health and life insurance.

In the United States, having insurance is considered a privilege and not a right. Companies cannot reject your insurance application based on ethnicity or marital status, but they can reject your application for a variety of other reasons.

As you review your insurance options, one choice you'll have to make that affects how much you pay is the amount of coverage you want. The **coverage limit** is the maximum amount the insurance company will pay if you file a claim. It can be just a few thousand dollars, or a few million. Amounts that exceed the coverage limit are your responsibility, so you should think carefully about choosing a low level of coverage. You'd be surprised how quickly costs can add up if you hit an expensive car or come down with a long-term illness.

The size of your deductible will also affect your premium amount. A **deductible** is the amount of a loss you must pay out of your own pocket before the insurance company will step in and pay the rest. Deductibles can be as low as \$100 or as high as \$1,000 or more.