



CAR INSURANCE

Key concepts:

Risk management, insurance, comparison shopping

Summary:

This lesson introduces students to car insurance, including managing risk, understanding what factors affect insurance rates, and evaluating insurance coverages.

Overview & Lesson Objectives

This lesson is intended for high school students in ninth through twelfth grade. The lesson teaches students how to understand and evaluate alternative automobile insurance policies.

Students will be able to:

- Identify common types of risk
- Explain the purpose and importance of car insurance
- Understand how insurance companies evaluate and price risk
- Explain what statistical factors affect car insurance rates
- Summarize how to shop for better rates on car insurance

Time Allocation:

15 – 20 Minute Prep

35 – 40 Minutes Engagement

Materials:

- Student Insurance Worksheet (one per student)
- Insurance Worksheet, answer key (teacher version)

State the Objective: Tell the students what they will be able to do upon conclusion of the lesson.

“Today we are going to learn about car insurance, why it is needed, how insurance companies price it, and how you can best evaluate options for coverage.”



Lesson Begins: Setting the Stage

Car accidents can be costly. The average price of a new car in the U.S. is around \$40,000. The average price of a used car depends on the model and year, but a large percentage of used cars (now called “previously owned vehicles”) range from \$16,000 - \$18,000.

Ask students what persons and things could possibly be damaged in an automobile accident?

- Your car?
- Another car(s)?
- Personal or business property? Give an example.
- You, the driver?
- Your passenger(s)?
- Occupants in other cars or vehicles?
- Public property: street signs, bridges, school buses?

Without insurance, if you have an automobile accident – even if it were someone else’s fault – you can lose your car and have no way to replace it. You may have to pay for damages to cars of others in the accident. Then, consider how costly it could be if there were property damage to buildings. And what about medical care for drivers and passengers? Unless you have an unlimited supply of money, paying these kinds of expenses at the time of an accident could be a real hardship.

In addition, you will need automobile insurance to buy a car. That is because 49 U.S. states and the District of Columbia require minimum amounts of automobile insurance coverage. Only the State of New Hampshire does not have coverage minimums and is called a non-compulsory state; but N.H. drivers still have personal liability or responsibility.

Consumers buy automobile insurance to manage risk. Risk management is a way to handle a possible personal or financial loss. Insurance transfers part of the risk from the customer to an insurance company. By paying a small amount of money each month (or year) to an insurance company, you guarantee that a certain amount of the costs of an accident will be assumed by your insurer. The premiums lower your risk of financial disaster.

Why can’t I decide whether or not to take the risk? Most states require drivers and car owners to have insurance because accidents can involve “third parties.” For example, the passenger would not know if the driver who gives him or her a ride is insured. Because the risks we assume as individuals can affect others, most states insist that we minimize the risk to others as well as ourselves.

Pricing Auto Insurance

Have students complete the Worksheet about what factors affect auto insurance rates. Explain to them that insurance companies care about risk too! They have to price the premium based on the likelihood that an individual will have an accident that requires them to pay.



After they complete the Worksheets, ask them to support their answers. Then go over the answers, and explain the following:

Insurance companies base their rates on sophisticated statistical analyses of past accidents and risky behavior. Insurance companies cannot know for sure whether you as an individual will have an accident or how long they will collect premiums before you do. All they can do is make predictions based on the information that they know about you.

They collect data on large numbers of people and use this to calculate the proportion of people with specific characteristics who have accidents, as well as the seriousness of the accidents. The price you pay for insurance is based on these statistics. For example, young males have very high car insurance premiums because they are statistically more likely to have accidents than young females, older males, or older females. The more accurate their statistical predictions, the better they can set premiums to minimize risk while staying competitive with other companies.

Key Automobile Insurance Definitions:

Policy/Policyholder: contract for a specific term (time period) with a customer called policyholder.

Premium: payments to the insurance company.

Deductible: what the customer pays before the insurance company pays a claim.

Claim: request by the customer for a payment following an accident.

Risk: a chance of personal or financial loss.

Collision: insurance coverage for your vehicle. The amount you can collect cannot be greater than the retail value of your vehicle at the time of the accident.

Property damage liability: the portion of an insurance policy that protects you and others when you are found responsible for damage to the property of others.

Liability coverage for bodily injury: the portion of an insurance policy that covers medical expenses for persons injured. There is a maximum payment per person and a maximum payment per accident.

Note: both property damage (PD) and bodily injury (BI) covers court costs if you are sued for an accident.

Automobile insurance policy coverage is typically expressed as three numbers such as

100/300/50, where:

- \$100,000 is for injury/death to one person
- \$300,000 is for injury/death to more than one person



- \$50,000 is for property damage

Comprehensive physical coverage: coverage for damage other than an accident, such as weather damage, theft or vandalism or hitting a deer.

Uninsured Motorist: covers lost wages and medical costs if you are in an accident with a driver without car insurance.

Optional coverages: towing, emergency and road service; “wage loss” insurance for missed work following an accident; rental car reimbursement coverage.

Saving Money on Automobile Insurance

Review common ways to save money on automobile insurance. Tips for saving money on car insurance:

- Increase the deductible
- Reject optional, extra coverage such as towing, rental car replacement
- Install anti-theft devices such as car alarms
- Install driver monitoring devices (for speed, seat belt use, sharp turns, etc.)
- Consider multiple car discounts or multiple insurance discounts such as buying other insurance policies (home, life) from the same company
- Comparison shop: price various companies, full-service to online only

Lesson Closes

Review with students the importance of protecting assets such as automobiles with insurance coverage. Also review the driver classifications to remind students that risky behaviors can cost money. See the suggestions page for “Additional Engagement Opportunities/Resources” for additional ideas.



Additional Engagement Opportunities / Resources

Pair and Share

Students (pairs) interview one another about the lesson content. They must summarize the partner's feedback in either written report or verbal format

Sample Questions:

- What are the potential financial risks of a car accident?
- What do the three numbers describing your level of coverage refer to?
- Describe why it is important to protect one's automobile.
- What can you do to try to save money on auto insurance?

Misinformation: Quote information from the day's lesson purposely erroneous. Call on various students to restate the information correctly.

Samples:

A deductible is your payment to an insurance company

Comprehensive physical coverage, includes property damage and bodily injury

Property damage liability is not what protects you and others when you are found responsible for damage to the property of others.

Emergency Road Coverage is a mandatory requirement when purchasing car insurance

Debate: Two groups of students could debate whether it is fair for insurance companies to set different premiums for different groups/classifications in the population, e.g. young men. "Is this discrimination?": Yes? No? Or: "Is this fair?" Yes? No?

Peer Education through Skits, Videos: Often learning is reinforced or students learn best by teaching others. Have students write a script and act it out in class with the objective of teaching each other (their peers) about the lesson. A student skit could show a customer comparison shopping for car insurance by asking important questions about policy coverages and alternate deductibles. These should be prepared by students and performed in another class period that follows this lesson.



Educational Standards

NJ Core Curriculum Content Standards for Personal Financial Literacy 2014:

Standard 9.1: 21st Century Life and Careers

Standard 9.1. Personal Financial Literacy

9.1 E. Becoming a Critical Consumer: 9.1.12.E.2, 9.1.12.E.5

9.1 G. Insuring and Protecting: 9.1.12.G.1 – G.4

National Standards in K – 12 Personal Finance Education (from Jump\$tart Coalition) 2017:

Financial Decision Making:

Standard 1: “Recognize the responsibilities associated with personal financial decisions.”

Standard 4: “Make criterion-based financial decisions by systematically considering alternatives and consequences.”

Risk Management and Insurance:

Standard 1: “Identify common types of risks and basic risk management methods.”

Standard 2: “Justify the reasons to use property and liability insurance.”



Student Insurance Worksheet: What Factors Affect Car Insurance Rates?

Directions: Choose Yes or No to answer whether each of these factors is a legitimate, legal, factor that is included in the calculation of your car insurance rate:

<u>Factor</u>	<u>Yes</u>	<u>No</u>
Your home address, nearest street intersection [This is called the “rating territory.”]		
The value of your home		
The age, make, and model of your car		
Your occupation or job [Note: this is different than whether you drive for a living.]		
Your income		
Your age [Ages >70 and <25 have higher rates.]		
Whether you are married		
Your gender [Age, gender (sex), marital status, and driving record and habits are called driver classification.]		
How many years you have been driving		
Your driving record [example: any “moving violation” tickets for speeding, failing to stop at a stop sign, failing to stop for pedestrians in a crosswalk]		
Your grades in high school (and college)		
Traffic violations [example: parking tickets]		
Whether you own your house or rent an apartment/home		
Whether or not your car is equipped with GPS		
Your credit rating [This is being used more and more.]		
How far you drive to work		
The number of previous auto claims filed		



Insurance Worksheet: What Factors Affect Car Insurance Rates? ANSWER KEY

<u>Factor</u>	<u>Yes</u>	<u>No</u>
Your home address, nearest street intersection [This is called the “rating territory.”]	x	
The value of your home		x
The age, make, and model of your car	x	
Your occupation or job [Note: this is different than whether you drive for a living.]		x
Your income		x
Your age [Ages >70 and <25 have higher rates.]	x	
Whether you are married	x	
Your gender [Age, gender (sex), marital status, and driving record and habits are called driver classification.]	x	
How many years you have been driving	x	
Your driving record [example: any “moving violation” tickets for speeding, failing to stop at a stop sign, failing to stop for pedestrians in a crosswalk]	x	
Your grades in high school (and college)	x	
Traffic violations [example: parking tickets]	x	
Whether you own your house or rent an apartment/home		x
Whether or not your car is equipped with GPS		x
Your credit rating [This is being used more and more.]	x	
How far you drive to work	x	
The number of previous auto claims filed	x	