

Understanding how insurance works: A case study about Lucy

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

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

NOTE

Please remember to consider your students' accommodations and special needs to ensure that all students are able to participate in a meaningful way.

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, Using insurance)

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

National Standards for Personal Financial Education, 2021

Managing risk: 12-1, 12-2, 12-3, 12-4, 12-5, 12-7

These standards are cumulative, and topics are not repeated in each grade level. This activity may include information students need to understand before exploring this topic in more detail.

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.
- 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

- While it’s not necessary, completing the “Exploring types of insurance” activity or the “Reading about insurance” activity first may make this one more meaningful. You also can share the “What is insurance” poster with your students. Download or order free copies at <https://pueblo.gpo.gov/CFPBpubs/CFPBpubs.php?PubID=13471>.
- Print copies of all student materials for each student, or prepare for students to access them electronically.

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.

Premiums aren't the only costs to consumers with insurance. Two other common costs are deductibles and copayments. A deductible is the amount of expenses the 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. A copayment (or copay) is a fixed amount (\$20, for example) you pay for a covered health care service in addition to the amount your insurer pays.

Note: It's also helpful to know that people get insurance not only to help with risks from unexpected events but also to help pay for routine things, such as annual medical checkups and dental visits. In addition, insurance companies negotiate discounts with health care providers, so their customers pay those discounted rates.

Teaching this activity

Whole-class introduction

- Ask students if they or someone they know uses insurance and to share what type of insurance it is.
 - Answers may include auto, health, homeowner's, or renter's insurance.
- Read the "Exploring key financial concepts" section to students.
- Distribute the "What is insurance?" handout and the "Understanding how insurance works: A case study about Lucy" worksheet, or direct students to access them electronically.

TIP

Generally, the lower the premium, the higher other costs such as deductibles and copays will likely be. At the same time, the higher the premium, the lower those other costs will likely 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

Because insurance products, terms, and laws change, students should be encouraged to always look for the most up-to-date information.

- Give students time to review the handout if needed.
 - You might also want to review the types of insurance listed on the worksheet to be sure students have a general sense of what each type covers.
- Be sure students understand key vocabulary:
 - **Beneficiary:** Someone or something named to receive proceeds or benefits. In the insurance context, it's the person, charity, trust, or estate designated by the policyholder to receive the policy's benefits or payments.
 - **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 the 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.
 - **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 person may buy and be the holder of a life insurance policy on their spouse. 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/.

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 case study carefully and then review which types of insurance coverage Lucy chose and which types she declined.
- For each incident in the worksheet’s “Life happens” section, ask students to determine which type of insurance would cover the cost of the incident (as listed in the case study), determine 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 with the costs of not having insurance.
- Students will answer the “Consider insurance in your life” questions on their own.
- As a final step or as a follow-up homework assignment, have students write a brief email as if Lucy were writing to give her younger cousin insurance advice.

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 to be used as examples only.

Wrap-up

- Bring students back together to review their findings about insurance costs and the consequences of choices made about insurance coverage.
- Ask students to share their answers to the “Consider insurance in your life” questions.

Suggested next steps

Consider searching for other [CFPB activities](#) that address the topic of protection, including managing risk and using insurance. Suggested activities include [“Creating an insurance commercial”](#) and [“Analyzing auto insurance scenarios”](#).

Measuring student learning

Students’ answers on their worksheets and during discussion can give you a sense of their understanding.

This answer guide provides possible answers for the “Life happens” section of the “Understanding how insurance works: A case study about Lucy” worksheet. **Keep in mind that students’ answers may vary.** The important thing is for students to have reasonable justification for their answers.

Answer guide

Life happens

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

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 visit 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. Her neighbor didn't have insurance.	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 cost \$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] = $\$1,541$).

If you choose to use the scoring rubric below to grade this activity, be sure to share it with all students so they know what criteria matter most and they can plan accordingly.

SCORING RUBRIC

Email criteria	Possible points	Points earned
Content of email demonstrates a general understanding of how insurance works.	20	
Email includes two or more examples from Lucy’s life that show positive and negative consequences of insurance choices.	20	
Total points	40	