

Personal Finance © 2012

Chapter 15: Home and Motor Vehicle Insurance

Check Your Answers: Section Assessment

Section 1

Review Key Concepts

1. Risk refers to the fact that you cannot predict trouble; it is also used to refer to the insured person or property. Peril is anything that may cause a loss, such as fire or an accident. Hazard is anything that increases the change of loss, such as defective wiring.
2. An insurance program will help reduce the financial impact of risks by covering all or part of the cost. Most insurance programs require you to pay a deductible (risk assumption) and the program will pay the remaining amount for you (risk shifting).
3. Property insurance will help pay to replace lost or damaged property, and liability insurance will protect you if you are responsible for someone else's losses or injuries. These costs can often be great; by including insurance in your financial plan, you can protect yourself from financial loss.

Higher Order Thinking

4. Sample response: I would recommend that Dania spend the money for an insurance policy since she does not have enough left in savings to replace the equipment should it be lost, broken, or stolen.

English Language Arts

5. **My Favorite Things** Lists and journal entries will vary. Sample items on list might include computer, photo albums, jewelry, or auto. Student might feel that the photo albums have more personal consequences than financial costs. Other items would be expensive to replace but insurance would help cover the cost, making it possible to replace the items. Some items, such as jewelry, might be an heirloom that could be replaced if covered by insurance but would not be replaceable as a token of love and tradition that had been passed down by a family member.

Mathematics

6. **Liability Insurance** Annual premiums paid = $\$25 \times 12 = \300 ; Deductible = $\$350$; Total insurance over the course of the year = $\$300 + \$350 = \$650$; Total expense incurred without insurance = $\$3,200$; Savings amount due to insurance = $\$3,200 - \$650 = \$2,550$

Section 2

Review Key Concepts

1. The five areas of coverage include buildings and other structures, additional living expenses, personal property, personal liability and related coverages, and specialized coverages.
2. The six forms include HO-1, the basic form; HO-2, the broad form; HO-3, the special form; HO-4, the tenants' form; HO-5, the comprehensive form; and HO-6, condominium owners insurance.
- 3 The cost of homeowners insurance is determined based on the location of the home, the type of structure and its construction, the purchase price of the house, the amount of coverage, the type of policy, available discounts, and the company offering the insurance.

Higher Order Thinking

4. Responses might include that if a natural disaster were to occur it would be too expensive for one company to cover all the repairs and living expenses necessary for an entire neighborhood.

21st Century Skills

5. **Analyze Media** Reports will vary. Messages might include having 24-hour customer service available, or having a lower cost than the competition. Students may indicate that even though they like an ad, they would not choose a company based only on the ad but would require more research.

Mathematics

6. **Homeowners Insurance** Personal belongings coverage = $\$150,000 \times 55\% = \$82,500$; Total losses = $\$25,000 + \$10,000 + \$5,000 + \$3,500 = \$43,500$; Eva will recover all of her losses.

Section 3

Review Key Concepts

1. Motor vehicle insurance covers bodily injury and property damage.
2. Rental reimbursement coverage, wage-loss insurance, and emergency road service coverage are other types of motor vehicle insurance.
3. Three main factors include the vehicle type, the rating territory, and driver classification.

Higher Order Thinking

4. Sports cars are more frequently stolen than sedans and the sports cars may often have more expensive replacement parts or complicated repairs.

English Language Arts

5. **Don't Drink and Drive** PSAs will vary but ideas might include using a designated driver, signing no-drinking pledges, or renting a limo for important occasions.

Mathematics

6. Motor Vehicle Insurance Medical coverage = second number in terms 100/300/50 = \$300,000; Property coverage = third number in terms 100/300/50 = \$50,000; Total medical damages = \$150,000 + \$75,000 + \$175,000 = \$400,000; Total out of pocket expense = \$400,000 - \$300,000 = \$100,000; Since Gabe's property coverage is greater than the damages incurred, he is covered for the \$15,500.