Types of Insurance

The table below shows several types of insurance you can buy to manage different types of risk. Study the table and answer the questions that follow.

Type of Insurance	Purpose	Examples of Coverage
AUTO	Provides financial protection against losses caused by an auto accident or other damage to a car	**Collision:** Provides for the repair or replacement of the policy owner's car damaged in an accident. **Liability:** Covers the cost of property damage or injuries to others caused by the policy owner. **Comprehensive:** Covers the cost of damage to an automobile as a result of fire, theft, or storms. **Uninsured and underinsured motorist:** Covers the cost of property damage or injuries to the policy holder when the driver at fault is uninsured or doesn't have sufficient coverage to pay for all the expenses related to the accident.
HEALTH	Provides payment for certain health care costs including coverage for dental and vision care	**Traditional health insurance:** Provides reimbursement for hospital, surgical, medical, and other expenses; plans can include deductible and co-payments of 20 percent or more. **HMOs:** Cover hospital, surgical, and medical services through a group of physicians; fees based on a monthly charge whether or not services are used. **High deductible health care:** Covers hospital, surgical, and medical services through either an HMO or traditional health care plan; consumers pay much higher deductibles in exchange for lower premiums; these policies are often used to insure against catastrophic health events. **Health savings accounts (HSAs):** Provide a tax-sheltered account where consumers can save for their medical expenses.
RENTER'S	Provides financial protection in case of loss of personal possessions in a rental unit, as well as injury to others on the property	Reimburses the policy owner for loss of possessions in a rental unit caused by fire, theft, water damage, etc. Also provides liability protection for bodily injuries of guests that occur in the rental unit.

Type of Insurance	Purpose	Examples of Coverage
HOMEOWNER'S	Protects against financial loss from damage to your home or its contents, as well as injury to others on the property	**Physical damage:** Reimburses for fire or water damage to the house, its contents, or other structures on the property. **Loss or theft:** Reimburses for personal property damaged or stolen. **Liability:** Protects against loss from a lawsuit for injuries to invited or uninvited guests.
LIFE	Provides financial protection to dependents of policy owner when policy owner dies (to cover such expenses as income replacement, debt repayment, funeral expenses, and education expenses)	**Term life:** Offers protection for a specified period of time; the policy must be renewed if coverage is desired for another period of time. **Cash value life:** Combines financial protection with a savings or investment component. Cash value life insurance can cost many times more than term life insurance because of the investment feature. Common types of cash value insurance policies include: **Whole life:** Provides cash value and financial protection during the lifetime of the policy holder. **Universal life:** Provides term policy protection with an investment feature of a whole life policy; the face value of the policy can change during the time of the policy. **Variable life:** Similar to universal life but allows the policyholder some choice in the investments for the cash-value portion of the policy.
DISABILITY	Provides income over a specified period when a person is ill and unable to work; most disability policies end at retirement age of 65-70	Policy owner selects a replacement income for lost wages if an illness or accident prevents the person from working. Disability is paid for a specified time after a waiting period. Disability insurance is more important for a young, single person than life insurance. The likelihood that a person in his or her 20s will become disabled is seven times greater than his or her chance of dying.

EXTENDED WARRANTY	Provides a warranty on consumer goods beyond the standard warranty date	Allows a longer time for the consumer to hold the company liable for a product, such as a car, television, computer, etc. Generally offered by merchants or companies upon purchase or when the standard warranty is about to expire. Prices and lengths vary greatly. Sometimes called a service or maintenance agreement.
WORKER'S COMPENSATION	Provides benefits for employees who are injured on the job	Regulations for coverage are determined by each individual state but basic features are similar. By law, an individual is entitled to compensation and other benefits for injuries incurred at work, whether or not the employer or employee is negligent. Benefits may be paid to the family in cases of accidental death.

Questions

a. Using your own words, explain what each type of insurance provides.

i. Auto:

ii. Health:

iii. Renter's:

iv. Homeowner's:

v. Life:

vi. Disability:

vii. Extended Warranty:

viii. Worker's Compensation:

b. In the case of auto insurance, what is the difference between collision and liability coverage?

c. You are taking a new job and have two choices of health insurance (see below). Which one would you choose and why?

- Traditional health insurance with coverage for office visits, laboratory, hospital costs, and routine care as well as protection for larger bills from illness or injury. The annual deductible is $500, and there is an 80/20 percent co-insurance clause with an out-of-pocket annual limit of $2,000 (this means you are responsible for the first $500 of health expenditures each year and after that, you pay 20% of all medical bills up to a total of $2,000 per year). The monthly premium for this coverage is $180 per month. This plan allows the consumer to use the provider (doctor) of their choice.
- HMO with coverage for all medical expenses. There are no deductibles, but there is a $25 co-pay for each time you visit the doctor. The premium for this coverage is $150 per month. Consumers must use providers within the HMO network to receive services covered by the plan.

d. What is the difference between health insurance and worker's compensation?