

Personal Finance © 2012

Chapter 16: Health, Disability, and Life Insurance

Check Your Answers: Section Assessment

Section 1

Review Key Concepts

1. Hospital expense coverage pays for some or all of the daily costs of room and board during a hospital stay, as well as routine nursing care, minor medical supplies, and the use of other hospital facilities. Surgical expense coverage pays all or part of the surgeon's fees for an operation. Physician expense coverage meets some or all of the costs of physician care that do not involve surgery.
2. Other policies include major medical expense, hospital indemnity, dental expense, vision care, and long-term care.
3. Health insurance is a form of protection against the financial burden that can occur due to illness or injury.

Higher Order Thinking

4. Possible response: A reimbursement policy pays you back for actual expenses so you are not out any money but this might come with a higher premium since costs have the potential of being higher. And indemnity policy pays only a specified amount, regardless of the actual cost so you could have to pay part of the expense out of pocket, but because the expenses are more determined, it could mean a lower monthly premium.

English Language Arts

5. **Physical and Financial Health** Dialogues will vary but should include realistic questions from Bryan about the cost and necessity of insurance. Answers should reflect an understanding of the section content. For example, "You never know when you will be involved in an accident and the medical costs could be in the tens of thousands of dollars. By purchasing insurance, you can be sure that you can afford the care you will need. If you are concerned about the cost, you can choose a plan with a higher deductible or coinsurance to help keep the monthly fees low."

Mathematics

6. **Coinsurance or Stop-Loss?** Coinsurance policy expense incurred by policy holder excluding deductible = $(\$3,000 - \$600) \times 20\% = \$480$; Total coinsurance expenses incurred = $\$480 + \$600 = \$1,080$; Total stop-loss expense incurred = $\$1,000$; The stop-loss provision provides greater savings in this case.

Section 2

Review Key Concepts

1. Health care plans are available from private insurance companies, hospital and medical service plans, health maintenance organizations, preferred provider organizations, home health care agencies, and employer self-funded health plans.

2. Medicare is a federally funded health insurance program available to people over 65 and to people with certain disabilities. Medicaid is a state and federally funded medical program available to certain low-income individuals and families.

3. Health care accounts include a flexible spending account (FSA) in which you contribute pretax money to an employer managed account; health reimbursement account (HRA) which is funded by the employer, allows you to invest the funds in stocks, bonds, and mutual accounts; and health savings account (HSA) in which you contribute money to a tax-free account to be used for out-of-pocket expenses with a health care policy. All three accounts require that the money be spent only for health care expenses.

Higher Order Thinking

4. Responses will vary. Sample response might include that everyone should be eligible for Medicare, regardless of income, since it is paid for by Social Security taxes that everyone contributes to.

21st Century Skills

5. **Make Judgments and Decisions** Sample response might include: I would choose the HMO. I am fairly healthy and active and do not visit the doctor very often. I would not mind changing doctors, if necessary, to use an in-network physician. By choosing the HMO, I believe I would have lower monthly premiums taken from my paycheck and I can use that extra money each month to help cover new expenses of living on my own.

Mathematics

6. **PPOs Coverage** = $(\$1,200 - \$400) \times 85\% = \$680$; **Out-of-pocket** = $\$1,200 - \$680 = \$520$

Section 3

Review Key Concepts

1. Disability insurance will protect your earning power by providing income when you are unable to work due to illness or injury, thereby insuring that you can still pay your bills and maintain a standard of living.

2. Worker's compensation would not provide income for someone who was injured outside of work or who became pregnant or ill.

3. When purchasing disability insurance, you should look at the waiting period, duration of benefits, amount of benefits, accident and sickness coverage, and guaranteed renewability.

Higher Order Thinking

4. Sample response: Professional athletes might have a greater need for disability income insurance because they have a high risk of injury. Also, if an athlete becomes ill, he or she is less likely to be able to perform his or her job.

English Language Arts

5. Inclusive Insurance Articles should explain how dependent all people are on regular income and that many people in the entertainment industry might be unable to perform due to a wide range of possible accidents. For example, a musician would be unable to play his instrument if he fell and broke his wrist. An actor could not perform if she had bruises or bandages visible. Without disability insurance, these accidents could lead to lack of income which could cause people to fall prey to debt collectors or foreclosure.

Mathematics

6. Worker's Compensation First 4 months benefit received = $100\% \times \$3,500 \times 4$ months = \$14,000; Next 5 months benefit received = $65\% \times \$3,500 \times 5$ months = \$11,375; Total benefit received = \$14,000 + \$11,375 = \$25,375; Income earned with no injury = $\$3,500 \times 9$ months = \$31,500.

Section 4

Review Key Concepts

1. Renewable term means you have the option to continue your term life insurance after the initial term ends. Multiyear level term guarantees that your premium will not increase for the term of your policy. A conversion term policy allows you to change from term to permanent coverage. Decreasing term policies pay less as time passes.
2. Other life insurance policies include group life, credit life, and endowment life.
3. Four riders include the waiver of premium disability benefit, accidental death benefit, guaranteed insurability option, and cost of living protection.

Higher Order Thinking

4. Sample answer: I do not agree with this statement because there are many adults who support their parents or other family members. If that adult were to pass away, the money from a life insurance policy would be necessary to pay for the necessities of those family members. Also, if a single adult is living with his parents and has a lot of debt, the life insurance could pay off that debt.

21st Century Skills

5. Analyze Media Sample response might evaluate the Gerber Life ad that promotes the Grow-Up Plan. This plan has minimal premiums due to the age of the child, and guarantees that premium will never increase. Because it is a whole life policy, it builds a cash value. Also, the child will have opportunities to increase coverage as an adult. I do not feel that this is worth purchasing. When additional coverage is added, the premiums would increase. The parents would be better to place their money in a high-return savings account or portfolio.

Mathematics

6. Universal Life Annual premium = $\$55 \times 12 \text{ months} = \660 ; Total premiums over term = $\$660 \times 15 \text{ years} = \$9,900$; Annual investment = $\$660 \times 25\% = \165 ; Total investment over term = $\$165 \times 15 \text{ years} = \$2,475$; Balance after 15 years = $\$165 \times [(1 + 0.07)(15 + 1) - 1] / 0.07 - \165 ; Balance after 15 years = $\$4,436.53$.