When you have completed this chapter, you will be able to:

Section 14.1
- Explain the importance of health insurance in financial planning.
- Analyze costs and benefits of various health insurance.

Section 14.2
- Differentiate between private and government health care plans.

Section 14.3
- Explain the importance of disability insurance in financial planning.
- Describe different sources of disability income.

Section 14.4
- Describe various types of life insurance coverage.
- Identify the key provisions in a life insurance policy.

To get the most out of your reading:

Predict what you will learn in this chapter.
Relate what you read to your own life.
Question what you are reading to be sure you understand.
React to what you have read.
In the Real World . . .

Upon graduating from college, Sharon Lewis discovered that she was no longer covered by her parents’ health insurance. When she found out what the monthly premium would be if she purchased her own policy, she decided to do without one. She said, “I’m healthy, and I get plenty of exercise skiing. I haven’t needed to visit the doctor in years.” Then she got in an accident. Rushing out of her apartment one morning, she tripped and fell, injuring her ankle. When she went to the emergency room, she was shocked to learn how much the visit would cost. A follow-up visit would be an additional expense. Health, disability, and life insurance are important for even the healthiest person.

As You Read  Consider the importance of having health insurance when you need it.

Health Care Costs

Q: I am a high school student. Why should I be concerned about my future health care costs now?

A: Your health care costs, now and in the future, can be affected by your personal health habits. Many health problems result from poor habits, such as lack of exercise or inadequate diet, and may take years to develop. By establishing good habits now, you can reduce the likelihood of future health problems and related expenses.

Ask Yourself  What good habits can you establish now that will help you ensure that your health care costs will stay low in the future?

Go to finance07.glencoe.com to complete the Standard & Poor’s Financial Focus activity.
Health Insurance and Financial Planning

What Is Health Insurance?

Why is it important for healthy people to have health insurance?

*Health insurance* is a form of protection that eases the financial burden people may experience as a result of illness or injury. You pay a premium, or fee, to the insurer. In return, the company pays most of your medical costs. Plans vary, but some of the things that they might cover are hospital stays, doctors’ visits, medications, and sometimes vision and dental care.

Health insurance includes both medical expense insurance and disability income insurance. *Medical expense insurance* typically pays only the actual medical costs. *Disability income insurance* provides payments to make up for some of the income of a person who cannot work as a result of injury or illness. In this chapter the term “health insurance” generally refers to medical expense insurance.

Health insurance plans can be purchased as several different plans: group health insurance, individual health insurance, and COBRA.

Group Health Insurance

Most people who have health insurance are covered under group plans. Typically, these plans are employer sponsored. This means that an employer offers the plans and usually pays some or all of the premiums. Other organizations, such as labor unions and professional associations, also offer group plans. Group insurance plans cover you and your immediate family. The Health Insurance Portability and Accountability Act of 1996 set new federal standards to ensure that workers will not lose their health insurance if they change jobs. For example, a parent with a sick child can move from one group health plan to another plan without a lapse in coverage. Moreover, the parent will not have to pay more for coverage than other employees do.

The cost of group insurance is fairly low because many people are insured under the same policy, which is a contract with a risk-sharing group or insurance company. However, group insurance plans vary in the amount of protection that they provide. For example, some plans limit the amount that they will pay for hospital stays and surgical procedures.
Coordination of Benefits  If your plan does not cover all your health insurance needs, you have some options. If you are married, you may be able to take advantage of a coordination of benefits (COB) provision, which is included in most group insurance plans. This provision allows you to combine the benefits from more than one insurance plan. The benefits received from all plans are limited to 100 percent of all allowable medical expenses. For example, a couple could use benefits from the wife’s group plan and from the husband’s group plan up to 100 percent. If this type of provision is not available to you, or if you are single, you can get added protection by buying individual health insurance.

Individual Health Insurance

Some people may not be offered an employer-sponsored group insurance plan. Some may not have access to one because they are self-employed. Others are simply dissatisfied with the coverage that their group plans provide. In these cases, individual health insurance may be the answer. You can buy individual health insurance directly from the company of your choice. Plans usually cover you as an individual or as a family. Individual plans can be adapted to meet your own needs. You should comparison shop, however, because rates can vary between companies.

COBRA

The Consolidated Omnibus Budget Reconciliation Act of 1986, known as COBRA, allows an employee who loses his or her job to keep the former employer’s group coverage for a set period of time. For example, Hakeem had a group insurance plan through his employer, but he was laid off. He wondered how he would be able to get medical coverage until he found a new job. Fortunately for Hakeem, COBRA allowed him to keep coverage for a while. He had to pay the premiums himself, but the coverage was not canceled. When he found a new job, he was then able to switch to the new employer’s group plan with no break in coverage.

Not everyone qualifies for COBRA. You have to work for a private company or a state or local government to be eligible for the benefits.

Types of Health Insurance Coverage

Why do you think basic health insurance and major medical insurance are often offered together?

Several types of health insurance coverage are available, either through a group plan or through individual purchase. Some benefits are included in nearly every health insurance plan; other benefits are less common.
Basic Health Insurance Coverage

Basic health insurance coverage includes hospital expense coverage, surgical expense coverage, and physician expense coverage.

**Hospital Expense** Hospital expense coverage pays for some or all of the daily costs of room and board during a hospital stay. Routine nursing care, minor medical supplies, and the use of other hospital facilities are covered as well. For example, covered expenses would include anesthesia, dressings, related X-rays, and the use of an operating room.

Most policies set a maximum amount they will pay for each day you are in the hospital. They may also limit the number of days they will cover. As you may remember from Chapter 13, many policies may also require a deductible.

**Surgical Expense** Surgical expense coverage pays all or part of the surgeon’s fees for an operation, whether it is done in the hospital or in the doctor’s office. Policies often have a list of the services that they cover, which specifies the maximum payment for each type of operation. For example, a policy might allow $500 for an appendectomy. If the entire surgeon’s bill is not covered, the policyholder has to pay the difference. People often buy surgical expense coverage in combination with hospital expense coverage.

**Physician Expense** Physician expense coverage meets some or all of the costs of physician care that do not involve surgery. It covers treatment by a physician in a hospital, a doctor’s office, or even the patient’s home. Plans may cover routine doctor visits, X-rays, and lab tests. Like surgical expense, physician expense includes maximum benefits for specific services. Physician expense coverage is usually combined with surgical and hospital coverage in a basic health insurance package.

**Major Medical Expense Insurance**

Most people find that basic health insurance meets their usual needs. The cost of a serious illness or accident, however, can quickly go beyond the amounts that basic health insurance will pay. For example, Chen had to have emergency surgery, which meant an operation, a two-week hospital stay, a number of lab tests, and several follow-up visits. He was shocked to discover that his basic health insurance paid less than half of the total bill, leaving him with debts of more than $10,000.
Major medical expense insurance would have better protected Chen. This coverage pays the large costs involved in long hospital stays and multiple surgeries. In other words, it takes up where basic health insurance coverage leaves off. Almost every type of care and treatment prescribed by a physician, in or out of a hospital, is covered by this type of plan. Maximum benefits can range from $5,000 to over $1 million per illness per year.

**Coinsurance** Of course, this type of coverage is not inexpensive. To keep premiums lower, most major medical plans require a deductible. Some plans also include a coinsurance provision. **Coinsurance** is the percentage of the medical expenses the policyholder must pay in addition to the deductible amount. Many policies require policyholders to pay 20 or 25 percent of expenses after they have paid the deductible.

For example, Ariana’s policy includes an $800 deductible and a coinsurance provision requiring her to pay 20 percent of all bills. If her bills total $3,800, the insurance company will first exclude $800 from coverage, which is Ariana’s deductible. It will then pay 80 percent of the remaining $3,000, which would total $2,400. Therefore, Ariana’s total costs are $1,400 ($800 for the deductible and $600 for the coinsurance).

**Stop-Loss Provisions** Some major medical policies contain a stop-loss provision. **Stop-loss** is a provision that requires the policyholder to pay all costs up to a certain amount, after which the insurance company pays 100 percent of the remaining expenses covered in the policy. Typically, the policyholder will pay between $3,000 and $5,000 in out-of-pocket expenses before the coverage begins.

**Comprehensive Major Medical** Major medical expense insurance may be offered as part of a single policy that includes basic health insurance coverage, or it can be bought separately. **Comprehensive major medical insurance** is a type of complete health insurance that helps pay hospital, surgical, medical, and other bills. It has a very low deductible, usually $200 to $300. Many major medical policies set limits on the benefits they will pay for certain expenses, such as surgery and hospital room and board.

**Hospital Indemnity Policies**

A hospital indemnity policy pays benefits when you are hospitalized. Unlike most of the other plans mentioned, however, these policies do not directly cover medical costs. Instead, you are paid in cash, which you can spend on medical or nonmedical expenses as you choose. Hospital indemnity policies are used as a supplement to—not a replacement for—basic health insurance or major medical insurance policies. The average person who buys such a policy, however, usually pays much more in premiums than he or she receives in payments.
Dental Expense Insurance

Dental expense insurance provides policyholders reimbursement for the expenses of dental services and supplies. It encourages preventive dental care because it pays for maintenance care. The coverage normally provides for oral examinations, X-rays, cleanings, fillings, extractions, oral surgery, dentures, and braces. However, some dental expense policies do not cover X-rays and cleanings. As with other insurance plans, dental insurance may have a deductible and a coinsurance provision, stating that the policyholder pays from 20 to 50 percent of the dental expenses after the deductible.

Global Financial Landscape

When faced with the frustrations of finding affordable health care and insurance, Americans often think Canadians have the solution. Canada offers its citizens free doctor’s visits, free hospital care, and free surgery. Children receive some dental work for free, and people over the age of 65 receive free prescription drugs. Taxes, which make up about 9 percent of the country’s gross domestic product (GDP), cover these health care costs.

Though the Canadian health care system provides many benefits, it has a down side. Some Canadian patients complain of overcrowding, a shortage of medical staff, outdated equipment, and long waits for treatment. Citizens are prohibited from hiring private health services in Canada, but they can travel outside the country for care. Ironically, many Canadians have come to the United States for health care.

Think Globally
Why do you think medical costs have increased?

Standard and Poor’s publishes the globally recognized S&P 500® financial index. It also gathers financial statistics, information, and news, and analyzes this data for international businesses, governments, and individuals to help them guide their financial decisions.

CANADA

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Think Globally
Why do you think medical costs have increased?

Capital
Ottawa

Population
31,630,000

Language
English and French

Currency
Canadian dollar

Gross Domestic Product (GDP)
$957.7 billion (2003 est.)

GDP per capita
$29,700

Industry: Transportation equipment, chemicals, processed and unprocessed minerals, and food products

Agriculture: Wheat, barley, oilseed, tobacco, dairy products, forest products, and fish

Exports: Motor vehicles and parts, industrial machinery, aircraft, telecommunications equipment, chemicals, timber, and crude petroleum

Why do you think medical costs have increased?
Vision Care Insurance

Many insurance companies offer vision care insurance as part of group plans. Vision care insurance may cover eye examinations, glasses, contact lenses, eye surgery, and the treatment of eye diseases.

Dread Disease Policies

Dread disease, trip accident, death insurance, and cancer policies are usually sold through the mail, in newspapers, and magazines. These policies play upon unrealistic fears, and they are illegal in many states. They only cover very specific conditions, which are already fully covered under a major medical plan.

Long-Term Care Insurance

Long-term care insurance provides coverage for the expense of daily help that you may need if you become seriously ill or disabled and are unable to care for yourself. It covers a lengthy stay in a nursing home and help at home with daily activities such as dressing, bathing, and household chores. Annual premiums range from $900 up to $15,000, depending on age and the amount of coverage.

Major Provisions in a Health Insurance Policy

What are the benefits and limits of the major provisions in a health insurance policy?

Although all health insurance policies have certain provisions in common, you must be sure that you understand what your own policy covers. What are the benefits? What are the limits? The following provisions are included in most health insurance policies:

- **Eligibility** This provision defines the people covered by the policy. That usually includes the policyholder, a spouse, and children up to a certain age.
- **Assigned Benefits** You are reimbursed for payments when you submit your bills and claim forms. When you assign benefits, you let your insurer make direct payments to your doctor or hospital.
- **Internal Limits** A policy with internal limits sets specific levels of repayment for certain services. Even if your hospital room costs $400 a day, you will not be able to get more than $250 if an internal limit specifies that maximum.
- **Co-payment** A **co-payment** is a flat fee that you pay every time you receive a covered service. The fee is usually between $5 and $20, and the insurer pays the balance of the cost of the service. This is different from coinsurance, which is the percentage of your medical costs for which you are responsible after paying your deductible.
• **Service Benefits**  Policies with this provision list coverage in terms of services, not dollar amounts. For example, you are entitled to X-rays, instead of $40 worth of X-rays per visit. Service benefits provisions are always preferable to dollar amount coverage because the insurer pays all of the costs for a particular service.

• **Benefit Limits**  This provision defines a maximum benefit, either in terms of a dollar amount or in terms of number of days spent in the hospital.

• **Exclusions and Limitations**  This provision specifies services that the policy does not cover. That may include preexisting conditions (conditions diagnosed before the insurance plan took effect), cosmetic surgery, and more.

• **Guaranteed Renewable**  With this provision, the insurer cannot cancel the policy unless you fail to pay the premiums. It also forbids insurers from raising your premiums unless they raise all premiums for all members of your group.

• **Cancellation and Termination**  This provision explains the circumstances under which the insurer can cancel your coverage. It also explains how you can convert your group insurance policy into an individual insurance policy.

### Choosing Coverage

**What type of health insurance coverage should you choose?**

Now that you are familiar with the available types of health insurance and some of their major provisions, how do you choose one? The type of coverage you choose will be affected by the amount you can afford to spend on the premiums and the level of benefits that you feel you want and need. It may also be affected by the kind of coverage your employer offers, if you are covered through your employer.

You can buy basic health coverage, major medical coverage, or both basic and major medical coverage. Any of these three choices will take care of at least some of your medical expenses. Ideally, you should get a basic plan and a major medical supplement. Another option is to purchase a comprehensive major medical policy that combines the value of both plans in a single policy. See **Figure 14.1** for a description of the basic features you should look for in a health insurance plan. You should also consider the trade-offs of the various benefits.

**SHARING THE COST**  
All health insurance policies have certain provisions in common. *What is a co-payment?*
Health Insurance Trade-Offs

Different health insurance policies may offer very different benefits. As you decide which insurance plan to buy, you should consider the following trade-offs.

Reimbursement Versus Indemnity A reimbursement policy pays you back for actual expenses. An indemnity policy pays specified amounts, regardless of how much the actual expenses may cost.

For example, Katie and Seth were both charged $200 for an office visit to the same specialist. Katie’s reimbursement policy has a deductible of $300. Once she has met the deductible, the policy will cover the full cost of subsequent visits. Seth’s indemnity policy will pay him only $125, which is what his plan provides for each visit to any specialist.

Internal Limits Versus Aggregate Limits A policy with internal limits covers only a fixed amount for an expense, such as the daily cost of room and board during a hospital stay. A policy with aggregate limits may limit only the total amount of coverage (the maximum dollar amount paid for all benefits in a year), such as $1 million in major expense benefits, or it may have no limits.

Deductibles and Coinsurance The cost of a health insurance policy is affected by the size of the deductible, which is the set amount that the policyholder must pay toward medical expenses before the insurance company pays benefits. It can also be affected by the terms of the coinsurance provision.

Figure 14.1  Health Insurance Must-Haves

A health insurance plan should:

- Offer basic coverage for hospital and doctor bills.
- Provide at least 120 days’ hospital room and board in full.
- Provide at least a $1 million lifetime maximum for each family member.
- Pay at least 80 percent for out-of-hospital expenses after a yearly deductible of $500 per person or $1,000 per family.
- Impose no unreasonable exclusions.
- Limit your out-of-pocket expenses to no more than $3,000 to $5,000 a year, excluding dental, vision care, and prescription costs.

Essential Coverage Health insurance plans vary greatly, but all plans should have some basic features.

Would you add anything to this list of must-haves?
Out-of-Pocket Limits Some policies limit the amount of money you must pay for the deductible and coinsurance. After you have reached that limit, the insurance company covers 100 percent of any additional expenses. Having out-of-pocket limits may help you lower your financial risk, but those limits may also increase the price of your premiums.

Benefits Based on Reasonable and Customary Charges Some policies consider the average fee for a service in a particular geographical area. They then use that average amount to set a limit on payments to policyholders. If the standard cost of a certain procedure is $1,500 in your part of the country, then your policy will not pay more than that amount.

**Section 14.1 Assessment**

**QUICK CHECK**
1. Why is it important to include health insurance in your financial planning?
2. What are benefits provided by hospital expense coverage, surgical expense coverage, and physician expense coverage?
3. What are the trade-offs between reimbursement and indemnity?

**THINK CRITICALLY**
4. Explain why it is necessary for insurance companies to place limits on the amount of costs they will cover.

**USE COMMUNICATION SKILLS**
5. **Benefits of Insurance** Your 25-year-old sister never gets sick and leads an active, healthy life. She sees no reason to buy health insurance and calls the premiums a waste of money.

   **Role-Play** With a partner, role-play a response to your sister’s argument. Explain why she might benefit from health insurance regardless of her current situation.

**SOLVE MONEY PROBLEMS**
6. **Choosing an Insurance Plan** Richard is 35, single, and in reasonably good health. He works for a construction company that offers three health insurance plans. The first has a lifetime benefit of $1 million for all covered expenses, an annual deductible of $500, and a 15 percent coinsurance provision up to the first $2,000 in covered charges. The second requires a monthly premium of $50 and sets a $500,000 lifetime limit on benefits, has no annual deductible, and requires a $15 co-payment per office visit. The third has an annual deductible of $250 and a 25 percent coinsurance provision up to the first $1,500 in covered charges, with a lifetime limit on benefits of $700,000.

   **Analyze** Help Richard determine which of these three plans makes the most sense for his particular situation. Be prepared to defend your reasoning.
Private and Government Plans

Private Health Care Plans

What is the difference between an HMO and a PPO?

Most health insurance in the United States is provided by private organizations rather than by the government. Private health care plans may be offered by a number of sources: private insurance companies; hospital and medical service plans; health maintenance organizations; preferred provider organizations; home health care agencies; and employer self-funded health plans.

Private Insurance Companies

Several hundred private insurance companies are in the health insurance business. They provide mostly group health plans to employers, who in turn offer them to their employees as an employment benefit. Premiums may be fully or partially paid by the employer, with the employee paying any remainder. These policies typically pay for medical costs by sending payments directly to the doctor, hospital, or lab that provides the services.

Hospital and Medical Service Plans

Blue Cross and Blue Shield are statewide organizations similar to private health insurance companies. Each state has Blue Cross and Blue Shield. Blue Cross is an insurance company that provides hospital care benefits. Blue Shield is an insurance company that provides benefits for surgical and medical services performed by physicians. The “Blues” provide health insurance to millions of Americans.

Managed Care

According to a recent industry survey, 23 percent of employed Americans are enrolled in some form of managed care, due to rising health care costs. Managed care refers to prepaid health plans that provide comprehensive health care to their members. Managed care is designed to control the cost of health care services by controlling how they are used. Managed care is offered by health maintenance organizations, preferred provider organizations, and point-of-service plans.
One managed-care option is a health maintenance organization (HMO), which is a health insurance plan that directly employs or contracts with selected, or preapproved, physicians and other medical professionals to provide health care services in exchange for a fixed, prepaid monthly premium. HMOs are an alternative to basic health insurance and major medical expense insurance.

HMOs are based on the idea that preventive services will minimize future medical problems. Therefore, these plans typically cover routine immunizations and checkups, screening programs, and diagnostic tests. They also provide customers with coverage for surgery, hospitalization, and emergency care. If you have an HMO, you usually pay a small co-payment for each covered service, such as a doctor’s office visit. Supplemental services may include vision care and prescription services, which are typically available for an additional fee.

When you first enroll in an HMO, you must choose a plan physician from a list of doctors provided by the HMO. This physician provides or arranges for all your health care services. If you receive care from a physician outside your HMO’s approved physician list, you are responsible for the cost of the service. The only exception to this rule is in the case of a medical emergency. If you experience a sudden illness or injury that would threaten your life or health if not treated immediately, you may go to the nearest emergency room. All other care must be provided by hospitals and doctors under contract with the HMO.
HMOs are not for everyone. Many HMO customers complain that their HMO denies them necessary care. Others feel restricted by the limited choice of doctors.

Here are some tips on using and choosing an HMO. Because HMOs require you to use only certain doctors, you should make sure that those doctors are near your home or place of work. You should also be able to change doctors easily if you do not like your first choice. Second opinions should always be available at the HMO’s expense, and you should be able to appeal any case in which the HMO denies care. Finally, look at the costs and benefits—whether you will incur out-of-pocket expenses or co-payments and what services the plan will provide.

Preferred Provider Organizations A variation on the HMO is a preferred provider organization (PPO), which is a group of doctors and hospitals that agree to provide specified medical services to members at prearranged fees. PPOs offer these discounted services to employees either directly or indirectly through an insurance company. The premiums for PPOs are slightly higher than the premiums for HMOs.

PPO plan members often pay no deductibles but may have minimal co-payments. While HMOs require members to receive care from HMO providers only, PPOs allow members greater flexibility. Members can either visit a preferred provider (a physician selected from a pre-approved list) or go to their own physicians. Patients who decide to use their own doctors do not lose coverage as they would with an HMO. However, they must pay deductibles and larger co-payments.

Point-of-Service (POS) Plan A point-of-service (POS) plan combines features of both HMOs and PPOs. POS plans use a network of participating physicians and medical professionals who have contracted to provide services for certain fees. As with an HMO, you choose a plan physician who manages your care and controls referrals to specialists. As long as you receive care from a pre-approved provider, you pay little or nothing, just as you would with an HMO. However, you are allowed to seek care outside the network at a higher charge, as with a PPO.

Home Health Care Agencies

Rising hospital costs, new medical technology, and the increasing number of elderly people have helped make home care one of the fastest-growing areas of the health care industry. Home health care consists of home health care agencies; home care aide organizations; and hospices, which are facilities and organizations that provide care for the terminally ill. These providers offer medical care in a home setting in agreement with a medical order, often at a fraction of the cost charged by hospitals for similar services.
**Employer Self-Funded Health Plans**

Some companies choose to self-insure. The company runs its own insurance plan, collecting premiums from employees and paying medical benefits as needed. However, these companies must cover any costs that exceed the income from premiums. Unfortunately, some corporations do not have the financial assets necessary to cover these situations, which can cause a financial disaster for the company and its employees.

**Government Health Care Programs**

Who benefits most from government health care programs?

The health insurance coverages discussed so far are normally purchased through private companies. Some consumers, however, are eligible for health insurance coverage under programs offered by federal and state governments. The federal program is Medicare, and the federal and state program is Medicaid.

**Medicare**

Perhaps the best-known government program is Medicare. Medicare is a federally funded health insurance program available mainly to people over 65 and to people with certain disabilities. Medicare has two parts: hospital insurance (Part A) and medical insurance (Part B).

Medicare Part A is funded by part of the Social Security payroll tax. Part A helps pay for inpatient hospital care, inpatient care in a skilled nursing facility, home health care, and hospice care. Program participants pay a single annual deductible.

Part B helps pay for doctors’ services and a variety of other medical services and supplies not covered, or not fully covered, by Part A. Part B has a deductible and a 20 percent coinsurance provision. Medicare medical insurance is a supplemental program paid for by individuals who feel that they need additional coverage. A regular monthly premium is charged. The federal government matches this amount.

**Medicare Finances** Medicare is at risk financially. Health care costs continue to grow, and the population of senior citizens in the United States is increasing. This situation puts Medicare in danger of running out of funds. According to projections made in 2004, the program will be bankrupt by the year 2019 if no changes are made.

The Balanced Budget Act of 1997 created the additional program, Medicare 1 Choice. This program allows many Medicare members to choose a managed care plan in addition to their Medicare coverage. For some additional costs, members can receive greater benefits.
What Is Not Covered by Medicare? Medicare effectively covers many medical costs, but there are some medical expenses that Medicare will not cover at all. These expenses include certain types of skilled or long-term nursing care, out-of-hospital prescription drugs, routine checkups, dental care, and most immunizations. Medicare also limits the types of services it will cover and the amount it will pay for those services. If a doctor does not accept Medicare’s approved amount as payment in full, the patient is responsible for paying the difference.

Medigap People who are eligible for Medicare and who would like to have more coverage may buy Medigap insurance. Medigap insurance supplements Medicare by filling the gap between Medicare payments and medical costs not covered by Medicare. It is offered by private companies.
Medicaid

The other well-known government health program is Medicaid, a medical assistance program offered to certain low-income individuals and families. Medicaid is administered by the individual states, but it is financed by a combination of state and federal funds. Unlike Medicare, Medicaid coverage is so comprehensive that people with Medicaid do not need supplemental insurance. Typical Medicaid benefits include:

- Physicians’ services
- Inpatient hospital services
- Outpatient hospital services
- Lab services
- Skilled nursing and home health services
- Prescription drugs
- Eyeglasses
- Preventive care for people under 21

Alicia Hopkins
Farmer’s Insurance

Alicia is an excellent salesperson who cares about her clients. She sells insurance policies to individuals, families, business firms, and other groups to protect them from future financial loss due to injury, illness, death, property damage, or theft. Alicia interviews prospective clients to obtain data about their financial resources and needs, as well as the physical condition of the person or property to be insured. She then works out an insurance program suited to that customer, explains the program’s costs and benefits, and writes a policy. Alicia follows up regularly with her client so she can handle any changes and renewals to his or her policy. Alicia, like all insurance agents, is always on the lookout for new clients.

**SKILLS:**
Sales, communication, legal and financial awareness, mathematical, and time-management skills

**PERSONAL TRAITS:**
Diligent, self-confident, outgoing, tactful, and good judgment

**EDUCATION:**
High school diploma or equivalent; a license from the State Department of Insurance; pre-licensing and continuing education

**ANALYZE**
Why might it be helpful for an insurance agent to be active in civic or social organizations?

To learn more about career paths for insurance agents, visit [finance07.glencoe.com](finance07.glencoe.com).
Government Consumer Health Information Web Sites

The Department of Health and Human Services operates more than 60 Web sites that contain a wealth of reliable information related to health and medicine.

**Healthfinder** Healthfinder includes links to over a thousand Web pages operated by government and nonprofit organizations. It lists topics according to subject.

**MedlinePlus** MedlinePlus is the world’s largest Internet collection of published medical information. It was originally designed for health professionals and researchers, but it is also valuable for students and others who are interested in health care and medical issues.

**NIH Health Information** The National Institutes of Health (NIH) operates a Web site that can direct you to the consumer health information in NIH publications and on the Internet.

**FDA** The Food and Drug Administration (FDA), a federal consumer protection agency, provides a Web site with information about the safety of various foods, drugs, cosmetics, and medical devices.

### Section 14.2 Assessment

#### QUICK CHECK
1. What types of coverage are provided by Blue Cross and Blue Shield?
2. What are the differences between an HMO and a PPO?
3. What is the difference between Medicare and Medicaid?

#### THINK CRITICALLY
4. Identify the benefits and drawbacks to membership in an HMO.

#### USE MATH SKILLS
5. **PPOs** Last month Rose was involved in a car accident and was rushed to the emergency room. After receiving stitches for a facial wound and treatment for a broken finger, she was released from the hospital. Calculate Under Rose’s PPO, emergency room care at a network hospital is 80 percent covered after the member has met a $300 annual deductible. Assume that Rose went to a hospital within her PPO network. Her total emergency room bill was $850. What amount did Rose have to pay? What amount did the PPO cover?

#### SOLVE MONEY PROBLEMS
6. **HMOs** Your Aunt Alice will be 65. She pays $200 a month for an HMO she does not like. She will be eligible for Medicare and is wondering if she should drop the HMO coverage at that time. Analyze With a partner, discuss Aunt Alice’s alternative and if she should drop her HMO coverage.
Disability Insurance

Disability Income

Why is it important to have disability insurance?

Before disability insurance existed, people who were ill often lost more money from missed paychecks than from paying medical bills. Disability income insurance was set up to protect against such loss of income. **Disability income insurance** provides regular cash income when an employee is unable to work due to pregnancy, a non-work-related accident, or an illness. It protects your earning power, which is your most valuable resource. This kind of coverage is very common today, and several hundred insurance companies offer it.

The exact definition of the word *disability* varies from insurer to insurer. Some insurers will pay you when you are unable to work at your regular job. Other insurers will pay only if you are so ill or badly hurt that you cannot work at any job. A violinist with a hand injury, for example, might have trouble doing his or her regular work but might be able to perform a range of other jobs. A good disability income insurance plan pays you if you cannot work at your regular job. A good plan will also pay partial benefits if you are able to work only part-time.

Many people make the mistake of ignoring disability insurance, not realizing that it is very important to have. A disability can cause even greater financial problems than death because disabled persons lose their earning power but still have to pay for their living expenses. In addition, they often face huge costs for the medical treatment and special care that their disabilities require.

Sources of Disability Income

Before you buy disability income insurance from a private insurance company, remember that you may already have some form of this insurance. This coverage may be available through worker’s compensation if you are injured on the job. Disability benefits may also be available through your employer or through Social Security in case of a long-term disability.

**Worker’s Compensation** If your disability is the result of an accident or illness that occurred on the job, you may be eligible to receive worker’s compensation benefits. The amount of benefits will depend on your salary and your work history.
Many employers provide disability income insurance through group insurance plans. In most cases, your employer will pay part or all of the cost of such insurance. Some policies may only provide continued wages for several months, while others will provide long-term protection.

Social Security Social Security may be best known as a source of retirement income, but it also provides disability benefits. If you are a worker who pays into the Social Security system, you are eligible for Social Security funds if you become disabled. How much you get depends on your salary and the number of years you have been paying into Social Security. Your dependents also qualify for certain benefits. However, Social Security has very strict rules. Workers are considered disabled if they have a physical or mental condition that prevents them from working for at least 12 months, or if they have a condition that may result in death. Benefits start at the sixth full month the person is disabled. They stay in effect as long as the disability lasts.

Private Income Insurance Programs Privately owned insurance companies offer many policies to protect people from loss of income resulting from illness or disability. Disability income insurance gives weekly or monthly cash payments to people who cannot work due to illness or accident. The amount paid is usually 40 to 60 percent of a person’s normal income. Some plans pay as much as 75 percent.

**As You Read**

Do Social Security disability benefits provide enough coverage for you to feel comfortable about your financial future if you were to become disabled? Why or why not?

**ACCIDENTS HAPPEN**

Disability income insurance can be very important because it provides funds if you are unable to work due to illness or injury. *How would disability income insurance help a dancer who broke a leg in a surfing accident?*
Disability Insurance Trade-Offs

When you purchase health or disability insurance, you must make certain trade-offs when you decide among different private disability insurance policies. You should consider several factors as you look for a plan.

Waiting or Elimination Period  Your benefits will not begin the day you become disabled. You will have to wait between one and six months before you can begin collecting. This span of time is called a waiting, or elimination, period. Usually a policy with a longer elimination period charges lower premiums.

Duration of Benefits  Every policy names a specified period during which benefits will be paid. Some policies are valid for only a few years. Others are automatically canceled when you turn 65. Still others continue to make payments for life. You should look for a policy that pays benefits for life. If a policy stops payments when the policyholder is age 65, then having a permanent disability could be a major financial burden.

Amount of Benefits  You should aim for a benefit amount that, when added to other sources of income, will equal 70 to 80 percent of your take-home pay. Of course, greater benefits cost more money.

HIGH RISK  Your chances of becoming disabled are greater in professions that involve physical risk. What program would provide disability income for a construction worker who is injured on the job?
Accident and Sickness Coverage Some disability policies pay only for accidents. However, accidents are not the only cause of disability, so coverage for sickness is also important.

Guaranteed Renewability If your health becomes poor, your disability insurer may try to cancel your coverage. Look for a plan that guarantees coverage as long as you continue to pay your premiums. Some plans may even suspend premiums if you become disabled.

Your Disability Income Needs

How do you determine your disability income needs?

After you find out what your benefits would be from the numerous public and private sources, you should determine whether those benefits would meet your disability income needs. Ideally, you want to replace all the income you otherwise would have earned. This money should enable you to pay your day-to-day expenses while you are recovering. You will not have work-related expenses, and your taxes will be lower during the time that you are disabled. In some cases, you may not have to pay various taxes at all.

Section 14.3 Assessment

QUICK CHECK
1. Why is disability income insurance important in personal financial planning?
2. What are the four main sources of disability income?
3. What are two trade-offs that you might have to make when choosing among different private disability insurance policies.

THINK CRITICALLY
4. Describe at least two situations for which a person might need disability income insurance.

USE COMMUNICATION SKILLS
5. Earning Power Many people who insure their houses, cars, and other property fail to insure their most valuable resource—their earning power.

Write About It Imagine that you are a health columnist for a newsletter aimed at people in the entertainment industry, such as dancers, actors, writers, and musicians. Explain why these artists should make sure that they are adequately covered by disability insurance.

SOLVE MONEY PROBLEMS
6. Choosing Plans Your next-door neighbor has about nine months’ salary saved up. He is 58, has no dependents, and plans to retire in seven years. He has just changed jobs. He now works in the office of a road-building company where he has a choice of disability insurance plans.

Analyze What features should your neighbor be looking for in a disability income insurance plan?
Life Insurance

What Is Life Insurance?

**Why is it important to include life insurance in your financial planning?**

When you buy life insurance, you are making a contract with the company issuing the policy. You agree to pay a certain amount of money—the premium—periodically. In return, the company agrees to pay a death benefit, or a stated sum of money upon your death, to your beneficiary. A **beneficiary** is a person named to receive the benefits from an insurance policy.

The Purpose of Life Insurance

Buying life insurance can help you protect the people who depend upon you from financial losses caused by your death. Those people could include a spouse, children, an aging parent, or a business partner. Life insurance benefits may be used to:

- Pay off a home mortgage or other debts at the time of death.
- Provide lump-sum payments as an endowment for children when they reach a certain age.
- Provide an education or income for children.
- Make charitable donations after death.
- Provide a retirement income.
- Accumulate savings.
- Establish a regular income for survivors.
- Set up an estate plan.
- Pay estate and death taxes.

The Principle of Life Insurance

No one can say with any certainty how long a particular person will live. However, insurance companies are able to make some educated guesses. Over the years they have compiled tables that show an estimate of how long people live. Using these tables, the companies make a rough guess about a person’s life span and set the price of insurance premiums for him or her accordingly. The sooner a person is likely to die, the higher the premium he or she will pay to have life insurance. For example, life insurance will cost more for a 65-year-old woman than for a 25-year-old woman.
How Long Will You Live?

If history is any guide, you will live longer than your ancestors lived. In 1900, the life expectancy of an American male was 46.3 years, and it was 48.3 years for an American female. In contrast, by the year 2000, the life expectancy increased to 74 years for men and 80 years for women. Figure 14.2 shows an estimate of how many years a person can be expected to live today. This type of table guides insurance companies when they set prices. For example, a 30-year-old woman can be expected to live another 50.6 years. That does not mean that she has a high probability of dying at age 80.6. This just means that 50.6 is the average number of additional years a 30-year-old woman may expect to live.

Do You Need Life Insurance?

Before you buy life insurance, you will have to decide whether you need it at all. Generally, if your death would cause financial hardship for somebody, then life insurance is a wise purchase. Households with children usually have the greatest need for life insurance. Single people who live alone or with their parents, however, usually have little or no need for life insurance unless they have a great deal of debt or want to provide for their parents or a friend, relative, or charity.

![Figure 14.2 Life Expectancy Table](image-url)

This type of table helps insurance companies determine insurance premiums. Use the table to find the average number of additional years a 15-year-old male and female were expected to live, based on the statistics gathered by the U.S. government as of 2000.
Types of Life Insurance Policies

When do you think it is most important to have life insurance?

You can purchase life insurance from two types of life insurance companies: stock life insurance companies, which are owned by shareholders, and mutual life insurance companies, which are owned by their policyholders. About 95 percent of life insurance companies in the United States are stock companies. Insurance policies can be divided into two types: term insurance and whole life insurance.

Term Insurance

Term insurance, which is sometimes called temporary life insurance, is insurance that provides protection against loss of life for only a specified term, or period of time. A term insurance policy pays a benefit only if you die during the period it covers, which may be 1, 5, 10, or 20 years, or up to age 70. If you stop paying the premiums, your coverage stops. Term insurance is often the best value for most consumers. You need life insurance coverage most while you are raising children. As your children become independent and your assets increase, you can reduce your coverage. Term insurance comes in many different forms.

Renewable Term The coverage of term insurance ends at the conclusion of the term, but you can continue it for another term, such as five years, if you have a renewable option. However, the premium will increase because you will be older. It also usually has an age limit, which means you cannot renew your coverage after you reach a certain age.

Multiyear Level Term A multiyear level term, or straight term, policy guarantees that you will pay the same premium for the duration of your policy.

COMING TO TERMS Many experts say that term insurance is best for most people—especially growing families. Name the types of term insurance policies that are available.
Conversion Term  This type of policy allows you to change from term to permanent coverage. This change will require a higher premium.

Decreasing Term  Term insurance is also available in a form that pays less to the beneficiary as time passes. The premiums are usually the same over the entire period of coverage. The insurance period you select might depend on your age or on how long you want to be covered. For example, if you have a mortgage on a house, you might buy a 25-year decreasing term policy as a way to make sure that the debt could be paid if you died. The coverage would decrease as the balance on the loan decreased.

Whole Life Insurance

The other major type of life insurance is known as whole life insurance (also called a straight life policy, a cash value policy, or an ordinary life policy). Whole life insurance is a permanent policy for which you pay a specified premium each year for the rest of your life. The insurance company pays your beneficiary a stated sum when you die. The amount of your premium depends mostly on the age at which you purchase the insurance.

Whole life insurance can also serve as an investment. Part of each premium you pay is set aside in a savings account. When and if you cancel the policy, you are entitled to the accumulated savings, which is known as the cash value. Whole life policies are popular because they provide both a death benefit and a savings component. You can also borrow from your cash value if necessary, although you must pay interest on the loan. Cash value policies may make sense for people who intend to keep the policies for the long term or for people who want a more structured way to save. However, the Consumer Federation of America Insurance Group suggests that you explore other savings and investment strategies before investing your money in a permanent policy.

The premium on a term insurance policy will increase each time you renew your insurance. In contrast, whole life policies have higher annual premiums at first, but the payment amount remains the same for the rest of your life. Several types of whole life policies have been developed to meet the needs of different customers. These include the limited payment policy, the variable life policy, the adjustable life policy, and universal life insurance.

Limited Payment Policy  Limited payment policies charge premiums for only a certain length of time, usually 20 or 30 years or until the insured reaches a certain age. At the end of this time, the policy is “paid up” and the policyholder remains insured for life. When the policyholder dies, the beneficiary receives the full death benefit. The annual premiums are higher for limited payment policies because the premiums have to be paid within a shorter period of time.
Variable Life Policy  With a variable life policy, premium payments are fixed. As with a cash value policy, part of the premium is placed into a separate account; this money is invested in a stock, bond, or money market fund. The death benefit is guaranteed, but the cash value of the benefit can vary considerably according to the ups and downs of the stock market. Your death benefit can also increase if the earnings of that separate fund increase.

Adjustable Life Policy  An adjustable life policy allows you to change your coverage as your needs change. For example, if you want to increase or decrease your death benefit, you can change either the premium payments or the period of coverage.

Universal Life  Universal life insurance is essentially a term policy with a cash value. Part of your premium goes into an investment account that grows and earns interest. You are able to borrow or withdraw your cash value.

Other Types of Life Insurance Policies

Other types of life insurance policies include group life insurance, credit life insurance, and endowment life insurance.

Group Life Insurance  Group life insurance is a variation of term insurance. It covers a large number of people under a single policy. The people included in the group do not need medical examinations to get coverage. Group insurance is usually offered by employers, who pay part or all of the costs for their employees. It may also be offered by professional organizations, which allow members to obtain coverage. However, it can be more expensive than similar term policies.

Credit Life Insurance  Credit life insurance pays off debts, such as auto loans or mortgages, in the event that you die before they are paid in full. These types of policies are not the best buy for the protection they offer. Decreasing term insurance is a better option.

Endowment Life Insurance  Endowment is life insurance that provides coverage for a specific period of time and pays a sum of money to the policyholder if he or she is living at the end of the endowment period. If the policyholder dies before that time, the beneficiary receives the money.

Key Provisions in a Life Insurance Policy

Why should you consider adding provisions to your life insurance policy?

Study the provisions in your policy carefully and be sure to update the necessary information as changes in your life occur. The following features are the most common provisions found in life insurance policies.
Learn to identify and understand the standard financial documents you will use in the real world.

**Investigate: A Life Insurance Policy Statement**

A life insurance policy statement contains the following information:

- Policy identification number
- Name of insured
- Death benefit amount
- Cash value
- Cost of the premium

**Your Motive:** If a person who holds a life insurance policy dies, the people who depended upon that policyholder can be protected from financial losses by the life insurance policy. By obtaining a life insurance policy, you are ensuring that your loved ones, who are your beneficiaries, will not be stuck with your debts.

<table>
<thead>
<tr>
<th>Policy number:</th>
<th>2–615–879</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date prepared:</td>
<td>May 18, 20--</td>
</tr>
<tr>
<td>Insured:</td>
<td>Juan Ramirez</td>
</tr>
<tr>
<td>Plan name:</td>
<td>Whole Life</td>
</tr>
<tr>
<td>Face amount:</td>
<td>$36,364</td>
</tr>
<tr>
<td>Premium:</td>
<td>$41.87 monthly</td>
</tr>
<tr>
<td>Issued:</td>
<td>June 23, 2003</td>
</tr>
<tr>
<td>Paid to:</td>
<td>June 23, 2016</td>
</tr>
</tbody>
</table>

This policy will provide the following benefits up to June 23, 2016, assuming premiums are paid to that date and no other changes occur.

<table>
<thead>
<tr>
<th>DEATH BENEFIT</th>
<th>CASH VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic policy</td>
<td>$36,364.00</td>
</tr>
<tr>
<td>Paid-up additions</td>
<td>$81.39</td>
</tr>
<tr>
<td>Option term</td>
<td>$63,554.61</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$100,000.00</strong></td>
</tr>
</tbody>
</table>

**Key Points:** A life insurance policy provides a predetermined payment that the insurance company will make in the event of the death of the policy owner. This amount is called the death benefit. In addition, the policy also accumulates a cash value over time as the holder of the policy pays premiums. If the owner chooses to cancel the policy before death, he or she will receive the policy’s cash value.

**Find the Solutions**

1. What is the yearly cost of this policy?
2. When was this policy issued or started?
3. How much will the policy pay upon Juan’s death?
4. When does Juan’s insurance coverage expire?
5. If Juan decides to cancel this policy, how much will the insurance company pay him?
**Beneficiary Designation**

You decide who receives the benefits of your life insurance policy. The beneficiary could be your spouse, your child, or your business partner, for example. You can also name *contingent beneficiaries*, those who will receive the money if your primary beneficiary dies before or at the same time as you do. You will need to update your list of beneficiaries as your needs change.

**Incontestability Clause**

The incontestability clause says that the insurer cannot cancel the policy if it has been in force for a specified period, usually two years. After that time the policy is considered valid during the lifetime of the insured. The incontestability clause protects the beneficiaries from financial loss in the event that the insurance company refuses to meet the terms of the policy.

**Suicide Clause**

Many insurance policies state that in the first two years of coverage, beneficiaries of someone who dies by suicide receive only the amount of the premiums paid. After two years from the date of death, beneficiaries may receive the full value of death benefits. However, some insurance policies will not provide benefits at all if a policyholder dies by suicide.

**Riders to Life Insurance Policies**

An insurance company can change the conditions of an insurance policy by adding a rider to it. A rider is a document attached to a policy that changes its terms by adding or excluding specified conditions or altering its benefits. Examples of riders include a waiver of premium disability benefit, an accidental death benefit, and a guaranteed insurability option.

**Waiver of Premium Disability Benefit** One type of rider is a waiver of premium disability benefit. This clause allows a policyholder to stop paying premiums if he or she is totally and permanently disabled before reaching a certain age, usually 60. The insurance company will continue to pay the premiums at its own expense so that the policy remains in force.

**Accidental Death Benefit** Another typical rider to life insurance policies is an accidental death benefit, sometimes called *double indemnity*. Double indemnity pays twice the value of the policy if the insured is killed in an accident. Again, the accident must occur before a certain age, generally 60 or 65. Experts counsel against adding this rider to your coverage. The benefit is expensive, and your chances of dying in an accident are slim.
Guaranteed Insurability Option  A third important rider is a guaranteed insurability option. This rider allows you to buy a specified additional amount of life insurance at certain intervals without undergoing medical exams. This is a good option for people who anticipate needing more life insurance in the future.

Cost of Living Protection  This special rider is designed to help prevent inflation from eroding, or reducing, the purchasing power of the protection that your policy provides. A *loss, reduction, or erosion of purchasing power* refers to the effect that inflation has on a fixed amount of money. As inflation increases the costs of goods and services, that fixed amount of money will not buy as much in the future as it does today.

Insurance Needs  

Before you buy any type of insurance, you should always consider a number of factors, such as your source of income, financial responsibilities, savings, and net worth. As your life situation and goals change, you need to regularly evaluate your insurance needs to determine if you have the right kind of coverage to support your personal financial plan.

Section 14.4 Assessment

**QUICK CHECK**

1. What is the purpose of life insurance?
2. What are the differences between term and whole life insurance?
3. What are the key provisions in a life insurance policy?

**THINK CRITICALLY**

4. “Term insurance is often the best value for most consumers.” Do you agree or disagree with this statement? Support your argument.

**USE MATH SKILLS**

5. **Life Expectancy**  Review the life expectancy tables in Figure 14.2 on page 465.

   **Present**  Show the life expectancy at various ages for both genders on a line graph. Add number of years lived to number of years expected to remain.

   For example, at age 50, life expectancy for males and females is 80 years ($50 + 30 = 80$). What trends do you notice in your line graph?

**SOLVE MONEY PROBLEMS**

6. **Life Insurance Comparisons**  Jon is a 27-year-old single man with no children. He has a younger sister who has a developmental disability. Both his parents are living, though neither parent is in good health. Jon has an auto loan, a $50,000 mortgage on his condominium, and no consumer debt.

   **Analyze**  Is Jon a good candidate for life insurance? If so, what kind and how much life insurance should he buy? In a small group, discuss Jon’s situation and his needs to determine his ideal life insurance policy.
Communication Key Terms

Choose your ideal benefits package for a job and include health and life insurance. Using the
terms below, write instructions for what insurance you want your employer to buy for you.

- health insurance
- coinsurance
- stop-loss
- co-payment
- Blue Cross
- Blue Shield
- managed care
- health maintenance organization (HMO)
- preferred provider organization (PPO)
- point-of-service (POS) plan
- Medicare
- Medicaid
- disability income insurance
- beneficiary (insurance)
- term insurance
- whole life insurance
- cash value
- endowment

Reviewing Key Concepts

1. Explain how increasing co-payments and deductibles affects premium rates.
2. Discuss basic health insurance coverage and major medical expense insurance.
3. Compare government health care programs and those offered by private companies.
4. Explain the importance of disability insurance in financial planning.
5. Describe the advantages of worker’s compensation.
6. Identify the types of term and whole life insurance.
7. Explain the key provisions of life insurance.
Social Studies Hector Ramirez and Walter Chan are both shopping for life insurance policies. Hector and his wife just bought a car. Walter, his wife, and four children just moved into a new $150,000 home. Hector and Walter have narrowed their choices to either decreasing term insurance or credit life insurance.

Write About It Which type of insurance should each person choose? Provide a list of reasons for each of your choices.

Heath Insurance Premiums Because you are self-employed, you started buying individual health insurance nine years ago at a cost of $579 per quarter. Now the quarterly premium is $806.

1. Calculate what your annual premium was nine years ago and what it is today. What was the percentage increase over those nine years?

2. Compute by using an Internet search engine to locate information on health insurance premiums and coverage from five insurance companies. Compare and contrast the offers using spreadsheet software.

Connect with Economics and Law Many companies that once sold just life insurance have “reinvented” themselves as financial services companies. Many of these firms promote themselves as “one-stop shops” for all your financial service needs.

1. Research Access the Web site of your state’s insurance regulatory agency and find out what requirements insurance agents must meet to be able to sell other financial products, such as mutual funds.

2. Think Critically What are the pros and cons of buying financial products from an insurance company versus a stockbroker?

Buying Insurance on the Internet You may not need to purchase life insurance right now, but it is a good idea to know how much a policy will cost so that you will be able to plan your finances accordingly.

Log On Use an Internet search engine to find the Web sites of three insurance companies. Obtain quotes for a term life insurance policy from the three companies. Answer the following questions:

1. What forms of term life insurance do these companies offer?

2. Choose one form of term life insurance offered by all three companies and determine which company’s policy you feel is the best deal for you. Explain why you would choose that policy.

Newsclip: More Choices A health savings account (HSA) is a plan that allows employees to save for medical expenses in a tax-free account.

@ Log On Go to finance07.glencoe.com and open Chapter 14. Learn more about HSAs. Write a paragraph about how HSAs might affect your future. Would you sign up for an HSA?
## INSURANCE FACTS AND FICTION

Insurance may not be a big issue for you now, but when you are no longer covered under your parents’ or guardian’s policies or you start full-time employment, you will need to know your options. Here is an opportunity to test your knowledge. Write your answers to the following questions on a separate sheet of paper.

<table>
<thead>
<tr>
<th>Question</th>
<th>True</th>
<th>False</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Health insurance is only available as a benefit from an employer.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. You can continue your health insurance even if you leave a job.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. A co-payment is the small amount you pay for a doctor’s visit or a prescription.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. In general the younger you are, the less expensive life insurance is.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Life insurance can also be used as an investment for retirement.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Life insurance companies can cancel policies if you develop a serious illness after you are insured.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. You can collect life insurance benefits before you die.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. The amount of disability insurance you can buy is based on a percentage of your total income.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Comparing Life Insurance

Sean Richards is investigating the cost of life insurance. He is 28 years old, married, and has two children. Sean contacted two reputable insurance companies and based his comparison on $100,000 worth of insurance.

<table>
<thead>
<tr>
<th>Type of Policy</th>
<th>Company A</th>
<th>Company B</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-year decreasing term insurance $100,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly premium</td>
<td>$14.00</td>
<td>$8.25</td>
</tr>
<tr>
<td>Total premiums for 20 years</td>
<td>$3,360.00</td>
<td>$1,980.00</td>
</tr>
<tr>
<td>Cash value in 20 years</td>
<td>none</td>
<td>none</td>
</tr>
<tr>
<td>Whole life insurance (limited payment) $100,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly premium</td>
<td>$82.00</td>
<td>$62.60</td>
</tr>
<tr>
<td>Total premiums for 20 years</td>
<td>$19,280.00</td>
<td>$15,024.00</td>
</tr>
<tr>
<td>Cash value in 20 years</td>
<td>$25,000.00</td>
<td>$21,243.00</td>
</tr>
</tbody>
</table>

Sean chose the 20-year decreasing term insurance because of the low cost, even though he cannot convert it into cash at a future date. He purchased his policy with Company B.

**Compare**

On a separate sheet of paper, follow Sean’s chart to compare life insurance rates. Using the Internet, or by visiting, calling, or writing, get quotes from two different insurance companies. Base the quote on (1) a 20-year decreasing term insurance policy for $100,000 and (2) a whole life (limited payment) insurance policy for $100,000. Use your own age.