

 **BUILDING BLOCKS STUDENT WORKSHEET**

# Understanding how insurance works: A case study about Lucy

By exploring a case study, you'll better understand how insurance can protect you from risks and the financial burdens that can come with these risks.

## Instructions

1. Review the "What is insurance?" handout, if needed.
2. Read through Lucy's case study to understand the insurance choices she's made.
3. Review Lucy's life in the year following her insurance decisions.
4. Summarize the costs of Lucy's insurance decisions and reflect on which type(s) of insurance seems most important for a young person.
5. Write an email from Lucy's perspective offering advice to a younger cousin about how insurance works and how to make thoughtful insurance choices.

## Lucy's case study\*

Lucy is starting out on her own in a rural area in Illinois and wants to be responsible. She has a steady job with benefits, a car, and an apartment in an old farmhouse. She understands that insurance may help minimize some financial risks, but she can't afford to purchase every policy she wants within her budget. She has determined that she can spend up to \$2,150 per year on premiums. After doing some careful research to figure out which choices would be best for her at this point in her life, here's what Lucy decided.

|                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                              |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Medical insurance - In place</b></p> <p><i>Through her employer, Lucy pays a premium of \$103 per month.</i></p> <p>\$30 copay for doctor visits</p> <p>\$10 copay for prescriptions</p> <p>\$0 copay for annual physical</p> <p>\$50 copay for emergency room visits</p> <p>Lucy pays 20% of the cost of medical procedures.</p> | <p><b>Dental insurance - Declined</b></p> <p><i>Through her employer, Lucy would have paid a premium of \$27 per month.</i></p> <p>Lucy brushes and flosses every day, so she felt like she could do without this insurance for a couple of years.</p> | <p><b>Vision insurance - In place</b></p> <p><i>Through her employer, Lucy pays a premium of \$2 per month.</i></p> <p>\$30 copay for eye doctor visits</p> <p>\$10 copay for prescriptions</p> <p>\$0 copay for annual eye exam</p>         |
| <p><b>Renter's insurance - Declined</b></p> <p><i>Lucy would have paid a premium of \$16 per month.</i></p> <p>There is little to no crime in Lucy's area, and she can't imagine a fire or flood affecting her.</p>                                                                                                                     | <p><b>Disability insurance - In place</b></p> <p>Paid for by Lucy's employer. She doesn't have to pay a premium, deductible, or copay for this policy.</p>                                                                                             | <p><b>Auto insurance - In place</b></p> <p><i>Lucy pays an annual premium of \$889.</i></p> <p>This type of insurance is required by law. Lucy pays a \$300 deductible for claims (including coverage for glass replacement and towing).</p> |

*\* Note that 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.*

## 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.                                                                                                                        |                                   | <input type="checkbox"/> Yes<br><input type="checkbox"/> No |                                                                                          |
| March     | Lucy fell on ice while hiking and had to get stitches in the emergency room. Without insurance, the procedure cost \$250.                                                                                                                  |                                   | <input type="checkbox"/> Yes<br><input type="checkbox"/> No |                                                                                          |
| 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.                  |                                   | <input type="checkbox"/> Yes<br><input type="checkbox"/> No |                                                                                          |
| September | Lucy hit a deer when driving home from work. She wasn't hurt, but the damage to her car was \$3,400.                                                                                                                                       |                                   | <input type="checkbox"/> Yes<br><input type="checkbox"/> No |                                                                                          |
| 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. |                                   | <input type="checkbox"/> Yes<br><input type="checkbox"/> No |                                                                                          |

## Summarize the costs

Based on the insurance coverage Lucy had in place, how much did she have to spend herself that year? How much more would it have been if she didn't have any insurance (including copays, deductibles, and the premiums)?

## Consider insurance in your life

Life is full of surprises. Insurance is there to help us when things go wrong. What types of unexpected life events (illness, accident, surgery, natural disaster, dental emergency, etc.) have happened to you or to your family or friends in the past year that may have caused a financial burden? Which types of insurance coverage would be most helpful to protect people in these instances?

## Lucy gives advice

Imagine that Lucy's cousin is getting ready to graduate and start his first job in a new town. After meeting with his new employer, he's asked Lucy for advice on whether or not insurance is worth the cost. Prepare a response as if you're Lucy, giving general advice about the important role insurance can have on a person's financial life. Include at least two examples from Lucy's experiences.