

NAME: _____

DATE: _____

VIDEO

Insurance Cost Components

What + Why: Understand how insurance helps reduce financial risk and how insurance costs like premiums, deductibles, co-pays, and coinsurance affect what people pay during unexpected events.

Unexpected costs can happen at any time, and insurance helps people share the financial impact of those events instead of handling every cost alone.

As you watch, think about how insurance spreads financial risk across many people and how different insurance costs affect what someone pays before and after a covered event.

- How does insurance help reduce the financial impact of unexpected events?
- What is the difference between a premium and a deductible?
- Why might different insurance plans lead to different out-of-pocket costs?

You're just going about your day... and then life throws you a surprise. Your car won't start. You get a surprise medical bill. Your refrigerator breaks at the worst time. And suddenly, you're dealing with a cost you didn't plan for.

Sometimes, those costs are too big to handle on your own. That's where insurance comes in. Insurance helps protect you from those bigger financial risks.



Think of insurance like having a backup plan when things don't go as expected. It's a way to transfer financial risk. You pay a regular amount each month or year called a premium. In return, if something happens, instead of taking the full financial hit yourself, you share that risk with an insurance company.

So how does this actually work? Insurance is built on something called risk pooling. A lot of people pay premiums into the system over time.

Let's take car insurance as an example. Many drivers sign up for car insurance from the same company. They all pay their insurance premium. Most drivers will not get into a car accident each year, but some will. The pooled money helps cover costs of those that do get into accidents, spreading the financial risk across the group. Insurance companies also look at risk when deciding how much each person pays into the pool. Drivers with recent accidents or risky behavior like speeding tickets or driving under the influence will pay higher premiums than drivers with safer records.



There is a trade-off with insurance. With insurance, you're paying a smaller, predictable amount regularly, and even if nothing goes wrong, you don't get that money back. Your money is pooled with others, so the financial risk is shared. Without insurance, if something big happens—like an accident—you could face large, unpredictable costs. You take on the financial risk, which could mean paying for repairs, medical bills, or thousands of dollars in expenses. Insurance provides help with major expenses, so you're not stuck handling all of those costs on your own. The trade-off is paying smaller costs now to help protect yourself from much larger costs later.

**small, predictable cost regularly**

- X** no refund if unused
- ✓** shared financial risk
- ✓** coverage for major expenses

vs**large, unpredictable cost**

- X** personal financial risk
- X** paying for repairs, medical bills, or major expenses

One important thing to understand. Insurance doesn't stop bad things from happening. It doesn't prevent risk. What it does is help cover the financial impact when those things happen.

Question 1

You drop your phone, and the screen completely shatters. The repair is expensive. What would insurance do in this situation?

- ☐ a. Prevent the phone from breaking.
- ☐ b. Reduce the chance of damage.
- ☐ c. Help cover the cost of the repair.

Answer: c. Insurance doesn't stop things from happening; it helps cover the financial cost when they do.

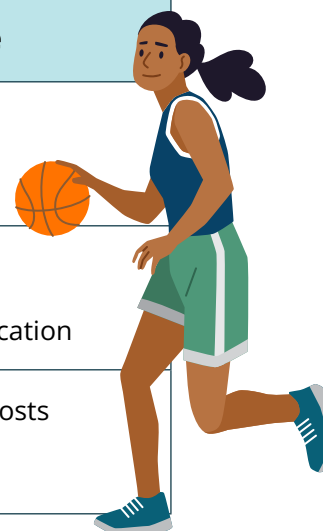
Earlier, you learned that insurance involves paying premiums over time. A premium is the regular amount you pay to keep your insurance coverage active. But premiums are not the only costs connected to insurance.

Riley visits the doctor each year for a routine checkup and pays a 10-dollar co-pay. A co-pay is a fixed amount you pay for a covered service.

Later that year, Riley lands awkwardly during a basketball game and injures a knee. This injury is a bit more expensive than a routine checkup, as it may require a specialist and extra fees like X-rays and pain medications. Before insurance begins helping cover treatment costs, Riley must first pay a deductible. A deductible is the amount you must pay out of pocket before insurance begins helping cover costs.

Insurance Costs

	Cost	What it Means	Riley's Example
	premium	regular insurance payment	paid each month
	co-pay	fixed amount paid for a covered service or medicine	\$10 doctor visit; \$15 per generic prescription medication
	deductible	amount you pay out of pocket first	injury treatment costs



Even after a deductible is met, insurance may not cover every cost completely. Many insurance plans also include coinsurance. Coinsurance means you and the insurance company share part of the remaining cost. For example, after meeting her deductible, Riley may pay twenty percent of a medical bill, while the insurance company pays the other eighty percent. Many insurance plans include both a deductible and coinsurance. In those plans, the deductible is usually met first before coinsurance applies. When a new plan year begins, many insurance costs start over again because deductibles reset.

Riley has recovered and returns to her routine checkups and may continue paying co-pays for covered services. It's important to note that co-pays are most commonly associated with health insurance, while other types of insurance may use different cost structures.

Insurance Costs

	Cost	What it Means	Riley's Example
	coinsurance	share a part of remaining costs with insurance after you pay the deductible	Riley pays 20%, insurance pays 80%



Premiums are the regular payments made to insurance companies to maintain coverage. Deductibles, co-pays, and coinsurance are all examples of out-of-pocket costs. These costs aren't just for health insurance, they apply to other types of insurance too, like auto, dental, homeowners and rental insurance, and others.

For example, if Dante is in a car accident, he may need to pay a \$500 deductible to get his bumper fixed, but after that, insurance would pay the rest.



If a hurricane damages Darlene's roof, her homeowners insurance would help cover the cost for repairing her roof and replacing any damaged personal belongings after she pays her \$2,000 deductible.



These out-of-pocket costs are the costs you pay yourself during a covered event. One of the exceptions is life insurance. Life insurance generally does not involve co-pays, deductibles, or coinsurance. People pay the premium (either all up front or in installments), and the insurance policy pays out the agreed upon amount if and when the covered event occurs.



Insurance helps reduce financial risk, but it does not eliminate every cost completely. Different insurance plans may have different premiums and different out-of-pocket costs.

Question 2

Riley goes to the hospital after an injury. Before insurance helps pay, Riley must first pay a certain amount out of pocket. What is this called?

- ☐ a. premium
- ☐ b. deductible
- ☐ c. co-pay

Answer: b. A deductible is the amount a policyholder pays before insurance begins helping cover costs.

Key Terms

- **coinsurance:** the percentage of covered costs a policyholder pays after meeting the deductible, with the insurance company paying the remaining percentage
- **co-pay:** a fixed fee an insured person must pay for a doctor's visit, an outpatient service, or a prescription
- **deductible:** the amount the policyholder must pay before the insurance company will pay any benefits
- **insurance:** a practice by which a company or government agency provides full or partial financial compensation for loss or damage caused by events beyond the control of the insured party in return for a premium
- **out-of-pocket costs:** the money a policyholder pays directly for covered services, including deductibles, copayments, and coinsurance, but not premiums
- **premium:** the money paid to an insurance company to obtain coverage of an insurance policy
- **risk pooling:** the practice of sharing risk among many individuals, where premiums collected from a large group are used to pay for the losses of the few who experience covered events
- **risk transfer:** the choice to share the risk of financial loss with another party, such as an insurance provider