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Middle School Version

Focus on **FINANCE**

Renters and Homeowners Insurance: When the Unexpected Happens

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> "Don't Know What You Got (Till It's Gone)"
> —Song written by Tom Keifer and performed by the band Cinderella

GLOSSARY

Coverage: How much risk or liability is protected with an insurance policy.

Credit history: A person's payment activity over a period of time.

Deductible: An amount you must pay for expenses before the insurance company pays. The deductible amount is specified by the terms of the insurance policy.

Liability: Legal responsibility.

Lawsuit: A claim by a person or entity against another person or entity brought to a court of law for legal resolution.

Loan: A sum of money provided temporarily on the condition that the amount borrowed be repaid, usually with interest.

Premium: The fee paid for insurance protection.

Probability: The likelihood or chance of an event occurring.

Rider: An optional addition to an insurance policy that adds benefits or amends the terms of the policy and may increase the premium.

Risk: The chance of loss.

Introduction

When the 1980s band Cinderella performed "Don't Know What You Got (Till It's Gone)," they were referring to a lost love. The idea can apply to any loss, really—including the loss of your possessions. Think about everything you own. How much would you have to pay to replace it all? Do you even know for sure what you own? Hopefully you've never experienced it, but it is possible to lose all of your belongings. In 2012, for example, many people lost their homes in Hurricane Sandy, with New York and New Jersey losing more than 600,000 housing units.[1] Those with insurance had help to replace structures and personal belongings and didn't have to pay the full amount themselves. Why? When people buy insurance, they must pay insurance **premiums**. When an insurance holder has a loss, payment is made from the pooled premiums. In this way, insurance transfers **risk** to a larger group. For example, after Hurricane Sandy, insurance holders' repair bills were paid by many people's insurance premiums, not just the premiums of those affected by the storm. With insurance, the cost to anyone insured is less than the cost of all the losses. Many types of insurance are available, with each providing specific types of **coverage**.

Property and Casualty Insurance

You can buy insurance for homes, cars, motorcycles, businesses, and much more. You can also buy insurance to protect your belongings if you rent. Insurance is available for other situations as well. Two types of insurance are property and casualty insurance. Property insurance protects the value of personal property in the event of a loss. Casualty insurance protects from losses due to legal **liability**. When a person or entity is sued, they face a **lawsuit**. The lawsuit claims that the person or entity is responsible for an accident or was negligent and caused harm. For example, say a homeowner has steps coated with ice. If a guest falls and is injured, the homeowner could face a lawsuit for negligence. An employer who doesn't

Insurance Declaration Page		
Coverages and deductibles	**Limits**	**Premium**
Section I: Property coverages		
Coverage A: Dwelling protection (structure) • $1,000 All peril deductible	$200,000	$1,200
Coverage B: Other structures protection • $1,000 All peril deductible	$20,000	Included
Coverage C: Personal property protection • $500 Deductible • Replacement value	$100,000	$125
Coverage D: Loss of use—additional living expenses • Up to 12 months	$20,000	Included
Additional coverages: Backup of sewer and drains Rider: jewelry	 $5,000 $7,500	 $50 $100
Section II: Liability coverages		
Coverage E: Personal liability protection	$300,000 per occurrence	$50
Coverage F: Medical payments (guest medical)	$5,000 per person	$25

provide proper safety gear could face a lawsuit if a worker is hurt on the job. Here, we will focus on homeowners and renters insurance. Some terms, however, are common across different types of insurance. These terms include liability, **deductible**, and premium. Being aware of basic insurance terms is helpful. You'll use them when you shop for and buy insurance someday. We'll start with homeowners insurance. We'll then move to renters insurance (pun intended).

Homeowners Insurance

When you own a house, homeowners insurance helps protect it. That insurance will also help protect the contents. If you purchase a home with a loan, the lender will make you by insurance. Insurance will pay all or some of the cost to fix the house if damage occurs. The main parts of a homeowners policy include the dwelling, other structures, personal property, loss of use, personal liability, and medical payments. Medical payments coverage is sometimes called guest medical coverage. Customers can buy **riders** to insure high value items. These items might include jewelry, expensive art, or gun collections. Insurance companies usually offer added coverage for sewer backups as well. Policy options vary among insurance companies. State laws may vary options as well. A typical homeowners policy would include a *declaration page*. This page shows the coverage and dollar amounts. (It usually looks like the table.)

Look at the coverage amounts in the table. The total amount of insurance on the dwelling is $200,000 (Coverage A). The policy states the payment limits, exclusions, and any deductibles. The other structures protection (Coverage B) is 10 percent of Coverage A. Any structure not attached to the house is insured under this section. Other structures include detached garages, sheds, and even swing sets. Coverage C is for personal property. Personal property is all your stuff. It includes everything from your clothes, to your TV, to your toaster. In the event of a loss, the insurance company would pay to replace your belongings. Personal property protection is provided at 50 percent of Coverage A. Loss of use is Coverage D. It would pay for a place to stay, such as a hotel, if your house is so damaged that you can't live in it. It would also pay for meals. Coverage D is 10 percent of Coverage A. In the event of a covered loss, the insured could get payments from each part of the policy. Personal liability coverage is in place in the event the homeowner is sued.

Personal liability means coverage for actions by a person insured on the policy. Children are usually included on the policy. Here's how a liability claim might work. Let's say a group of children were playing backyard baseball. On a wild throw to a base, a run scores. The ball, however, sails through a neighbor's huge $5,000 picture window. The window is shattered into a million pieces. Who is responsible? The player who threw the ball or his or her parents or guardian. He or she must pay to replace the window—the liability. The family with the broken window could file a claim with the thrower's insurance company to get the window replaced.

Medical payments coverage is for injuries that happen to a guest on a homeowner's property. The policy will pay for medical bills even if the guest was *not* invited. Say a salesperson comes to the door. The policy would pay if that person tripped over a flowerpot and got hurt. Medical payments have a lower dollar limit. Most are about $5,000. Sometimes medical bills are more than that. If so, the homeowner's liability coverage would likely pay the rest. Cases like that would typically involve filing a lawsuit against the homeowner. For example, a person with a dog bite might sue if he or she needed surgery. Payments are figured out based on the legal language in the insurance policy. In lawsuits, the courts often control payments. Renters insurance offers a lot of the same protections.

Renters Insurance

Spoiler alert! Renter's insurance doesn't offer protection for the building you live in. This is because you don't own it. But does the building owner pay if a renter's personal property is lost, stolen, or damaged? No. Building owners buy insurance for the property. This insurance covers his or her personal liability and personal property. The owner *does not* provide renters insurance. Renters must buy their own insurance.

If you live at home while going to any post-secondary school, your belongings will most likely be covered from loss. This is because you are probably listed on your family's insurance policy. Check to make sure. Personal property coverage usually extends to your college dorm room if you are named on your family's policy. It is normally a percentage of the coverage limit. It might be 10 percent of $50,000, for example.[2] If you live in an off-campus house or apartment, your personal property is generally not covered. You have to buy your own renters insurance policy. Unfortunately, many people find this out the hard way when disaster strikes. Most renters don't have renters insurance.[3] Renters insurance could save you money in the long run, though.

TIP

Insurance professionals recommend you periodically take a video of all of your belongings so you know exactly what you have. They also recommend that you keep records and receipts (to prove value). If you store the information electronically, you'll have easy access to it if you need it.

And here's another benefit of renters insurance: It covers your personal items *anywhere in the world*. Your policy will let you know exactly how this works. Some losses and theft are covered. Renters (and homeowners) policies, however, usually don't cover losses from floods or earthquakes.[4] They do usually provide personal liability coverage in case you get sued. And you can also expect additional living expenses if your rental property is damaged and you need a place to stay. This works just like in a homeowners policy. You could think of insurance as a safety net. If the unexpected happens, it is there if you need it.

Insurance Companies

What about insurance companies? What's in it for them? How do they decide whom to insure? How do they know how much to charge? Insurance companies offer coverage to their customers for a price. To make a profit, all of the claims paid must be less than all of the premiums received. The price of insurance is based on the **probability** of an event happening. The more likely something is to happen, the higher the premium that must be paid. Actuaries and underwriters work for insurance companies. Actuaries gauge the odds of events happening. Underwriters evaluate properties, conditions, and applicants. They help decide good and bad risks for insurance companies.

When gauging risk for building or personal property coverage, underwriters evaluate many things. They consider the building's location. They look at how the building is constructed. They also inspect the building's condition. They even find out how close it is to a fire hydrant. Underwriters also evaluate people applying for insurance. They judge a person's **credit history**. They look to see if the person has claimed losses is the past. They also see if the person currently has or has ever had insurance coverage.

People usually buy insurance from an agent or an insurance company's website. Most often, insurance companies offer discounts to customers. Those who have renters or homeowners insurance and their auto insurance with the same company might get a discount. It pays to shop around—to get the best coverage for the best price.

Conclusion

There is no way to know if you'll ever need insurance. Insurance companies study the probabilities of loss. They offer insurance to spread risk to a larger group. If you shop around, buy the insurance that's right for you, and keep good records, you'll be better prepared if the unexpected happens. ■

Notes

[1] Gibbens, Sarah. "Hurricane Sandy Explained: Superstorm Sandy Was Actually Several Storms Wrapped Together, Which Made It One of the Most Damaging Hurricanes Ever to Make Landfall in the U.S." *National Geographic*, February 11, 2019; https://www.nationalgeographic.com/environment/natural-disasters/reference/hurricane-sandy/.

[2] Adams, Laura. "Do College Students Need Renters Insurance? Find Out What Renters Insurance Covers for College Kids and When Getting a Policy Is Worth It." *U.S. News & World Report*, August 7, 2017; https://money.usnews.com/money/blogs/my-money/articles/2017-08-07/do-college-students-need-renters-insurance.

[3] Dowdy, Landon. "Renting Your Place? Skipping This Could Cost You." *CNBC*, August 24, 2017, update; https://www.cnbc.com/2015/02/24/nials-rent-but-lack-renters-insurance.html.

[4] Adams, 2017. See footnote 2.

Name______________________________________ **Period**________

Federal Reserve Bank of St. Louis *Page One Economics*®:

"Renters and Homeowners Insurance: When the Unexpected Happens"

After reading the article, answer the following questions:

1. Which term is the payment for insurance?
    a. Rider
    b. Premium
    c. Deductible
    d. Credit

2. Which statement about homeowners insurance is true?
    a. Homeowners insurance will not offer protection from certain types of disasters.
    b. Homeowners don't have to buy insurance even if they have a loan.
    c. Homeowners policies do not pay for living expenses.
    d. Homeowners insurance guards against claims from car wrecks and events on the property.

3. Which coverage is provided by homeowners insurance but not renters insurance?
    a. Liability
    b. Additional living expenses
    c. Dwelling
    d. Medical expenses

4. In the homeowners policy example, personal property protection (Coverage C) is ____________of dwelling protection (Coverage A).
    a. 20 percent
    b. 30 percent
    c. 40 percent
    d. 50 percent

5. Which of these is optional in a typical insurance policy?
    a. Liability
    b. Medical payments
    c. Personal property
    d. Riders

6. Which statement is true?
   a. Your family's insurance covers your things in college no matter where you live.
   b. Your family's insurance likely covers your things if you live in a dorm.
   c. Your family's insurance will not cover your things while you're in college.
   d. Your family's insurance will cover your things if you live in off-campus housing.

7. Which statement is true?
   a. An apartment building owner's insurance covers losses of tenants' belongings.
   b. Renters insurance policies do not include medical payments coverage.
   c. Underwriters check buildings for risk but not people for risk.
   d. Renters insurance covers your belongings anywhere in the world.

8. Which statement describes how insurance works?
   a. Insurance companies borrow from banks when they have to pay claims.
   b. Insurance lowers the effects of loss by spreading risk to a larger group.
   c. Insurance companies hold a customer's payments and pay his or her claims from that money.
   d. Insurance companies change the coverage types on policies based on a person's loss history.

9. Most renters buy renters insurance.
   a. True
   b. False

10. Which statement is true?
    a. Insurance companies look at a person's credit history and loss history.
    b. People do not shop for insurance online.
    c. Insurance companies do not offer discounts to customers who have renters insurance and auto insurance.
    d. Insurance companies track their customers' belongings to know how much to pay in the event of a loss.