



Lesson 11: Risky Business

TOPIC: Financial Risk

OVERVIEW:

This lesson will explore the basic principles of financial risk, engaging students in initial **risk-management** debates about **insurance** and emergency **savings**.

OBJECTIVES:

1. Identify methods to protect themselves from unwanted financial risk
2. Create a risk management plan for a purchase

INDIVIDUAL HANDOUTS:

- Insure Yourself

GROUP HANDOUTS:

- Purchasing a Vehicle (1 per group)
- Insurance Scenarios (1 per group)

TEACHER PRESENTATION SLIDES:

- none

ESSENTIAL QUESTIONS:

- What is risk management?
- How does risk management change based on different situations?

ASSESSMENT ACTIVITIES:

Pre-Assessment:

- **Activity:** There's a Little Risk in Everything

Post-Assessment:

- **Handout:** Insure Yourself
- **Wrap Up:** Financial Risk Exit Options

Time: 60 min

Supplies:

- Access to the Internet (optional)

Preparation:

- Make copies of student handout and group handouts
- Set up individual or group computers with access to the Internet (optional)

Glossary with key vocabulary 15

Instruction Steps

WARM UP

There's a Little Risk in Everything

10 MINUTES

Explain to students that, although they may seem fairly routine, activities such as riding a bike, skateboarding, or driving a car could be classified as **risky** behaviors. In fact, some might say that there's a risk in almost everything we do, from walking to school to sitting down at the dinner table to eat. Consider some everyday activities.

Ask:

What are the risks involved with those activities? (Possible answers: you can fall off of your bike or skateboard, you can choke while you're eating, you can accidentally cut yourself with scissors)

Next, ask students: *What are some actions that people could take to make those activities less risky?* (Possible answers: wearing a helmet, cutting up food or chewing slowly, holding the pencil in a safe way)

Ask students to consider: *Could some of these events happen even if you took action to try to avoid them?* (Yes)

Ask students: *What are the costs of some of these bad things happening?* (Possible answers: having to go to the doctor or the hospital) Explain that that is one reason why we purchase insurance. If those risks end up becoming a reality, the cost of taking care of yourself is not too high.

Introducing Risk Management and Insurance

10 MINUTES

Link to the Warm Up by introducing the vocabulary: **risk management** and **insurance**. Explain to students that what they just did was a type of risk management. True risk management is "the process of calculating risk and devising methods to minimize or manage loss." For example: when you buy a car, you are purchasing something valuable.

Ask:

What are some of the financial risks of owning a car? Possible answers: getting into an accident, car repairs, flood damage, theft. In order to minimize the financial risk of owning a car, car owners purchase insurance. Insurance is "a risk management tool that protects individuals from specific financial losses under specific terms and premium payments, as described in a written policy document"—for example: covering property damage during a vehicle accident or protecting dependents if someone passes away and those dependents lose their income.

Check for understanding by discussing with students:

- *What are some purchases that have financial risk?* (Possible answers: house, car, big vacation, your business)
- *What are those risks?* (Possible answers: accident or weather-related damage, loss, or theft)
- *Why is it a good idea to buy insurance for your purchases?* (Possible answer: It makes potential damage or loss less severe because the insurance company helps you recover. For example, if you get into a car accident, having vehicle insurance means that you won't have to pay for all of the repairs yourself.)

MONEY SMART TIP!

What are the health insurance laws in your state? How does having health insurance reduce financial risk?

Find resources at www.healthcare.gov/families/.

GROUP EXPLORATION
Making Insurance
Decisions

30 MINUTES

Split students into groups of three or four. Distribute the *Insure Yourself student handout* and the *Purchasing a Car* and *Insurance Scenarios* group handouts.

Grade-Level Modification:

Advanced: Allow students to search for additional insurance options online to see if they can find more coverage, more appropriate insurance, or a better deal.

Guide students to read through the teacher presentation slide about their purchase, the cost of the purchase, and the options for insuring their purchase. Students should use the *Insure Yourself* worksheet to record information and make their decision.

As groups move through the scenario activity, see whether their choice of insurance matches the *Insurance Scenarios* group handout. Have students copy or paraphrase the scenario onto their *Insure Yourself* student handouts, then determine how much they pay with and without the insurance based on the scenario. (Note: Decide in advance which student groups get Scenario 1, which groups get Scenario 2, and so on.) See the Answer Key for a sample answer of the *Insure Yourself* student handout.

When all groups have finished, allow each group a few minutes to present their purchase and explain why they chose one insurance plan over the other.

Check for understanding and review questions:

- *What types of insurance exist? Do you know of any others?*
- *Why is insurance a good investment?*
- *Do you need to insure everything you own? Why or why not?*

WRAP UP

Financial Risk Exit Options

10 MINUTES

Present students with three options for their closing activity:

- **Create a fictional financial risk superhero cartoon.** Based on what you have learned today, create a superhero that can make possible damages or losses less severe for the public.
- **Quick-write: Consider your own family situation.** What risks does your family have? What actions can be taken to protect your family from risk? Why?
- **Draft an email,** explaining why it's important to protect yourself against unwanted financial situations and how you can protect yourself. Students can use **futureme.org** to send the message to themselves in the future.

Extended Exploration

Note: Use the following ideas to extend financial literacy concepts throughout the school year within core content areas through English Language Arts, Math, Social Studies and Economics, and Technology activities, projects, and discussions. Duration of activities will vary.

ENGLISH LANGUAGE ARTS

Writing Prompts:

Describe a different scenario in which you would need to buy insurance (for example: purchasing a vehicle and looking for vehicle insurance). Explain the financial risk involved and how insurance could lessen that financial risk.

Additional Readings/Resources:

Protect Your Belongings by the U.S. government: Helpful tips on homeowner's and renter's insurance.

www.usa.gov/topics/family-homes/insurance.shtml

The World Is a Risky Place by BizKids: A short video clip on the risks involved in business and protections available. (Time of video: 1:20 minutes) <http://bizkids.com/episode/the-world-is-a-risky-place>

MATH

Activity/Project Ideas:

Explore the real-world cost of insurance. Research types of insurance, the cost of each type of insurance, and the protections afforded by the insurance. Evaluate to determine the best types of insurance for different scenarios.

SOCIAL STUDIES AND ECONOMICS

Activity/Project Ideas:

Most states require you to purchase at least some types of vehicle insurance. Research your state's laws and compare them to the activity from this lesson.

If you purchase the minimum amount of insurance required, will it adequately protect you in the event of an accident?

TECHNOLOGY

Online Games/Tools:

Risk and Insurance by Junior Achievement: An online activity to help students understand the concepts and terms associated with risk and insurance.

<http://games-juniorachievement-org.s3-website-us-west-2.amazonaws.com/courseware/final/index.html>

Classroom activities from the Consumer Financial Protection Bureau (CFPB)

The CFPB has developed a set of classroom activities to help teachers develop and support the building blocks of financial capability in their students. Each activity is designed to be completed within a single class period and includes a teacher guide and supporting student material. Some specific activities that are relevant to this lesson include:

Creating a poster about insurance

Students explore different types of insurance and then create a poster about the importance of insurance.

www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/creating-poster-about-insurance/

Playing an insurance game

Students play a game to explore types of insurance and how they help protect people.

www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/playing-insurance-game/

Answer Key

Student Handout 1:

Insure Yourself

Answers will vary. See completed Sample below.

My Group's Purchase: Vehicle **Value of Purchase:** \$18,000

Brainstorm the risks associated with this purchase. What could happen to this purchase?

Vehicle accident, theft, weather-related damage, vandalism

Consider the two insurance options. Which option will your group buy? Why?

Collision Coverage—We chose collision coverage because the description says the most accidents fall under this kind of insurance policy.

PUT YOUR INSURANCE TO THE TEST:

Scenario Description:

Scenario #1—Vehicle is flooded

Cost without insurance: \$7,500 **Cost with insurance:** \$700

Did your group make the right choice? Explain.

We did not make the right decision. Because collision coverage does not cover flood damage, we owe the full cost of repairs instead of the \$750 deductible.



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INSURE YOURSELF

Name: _____

Directions: Fill in blanks.

My Group's Purchase:

Value of Purchase:

Brainstorm the risks associated with this purchase. What could happen to this purchase?

Consider the two insurance options. Which option will your group buy? Why?

PUT YOUR INSURANCE TO THE TEST:

Scenario Description:

Cost without insurance:

Cost with insurance:

Did your group make the right choice? Explain.



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PURCHASING A VEHICLE

Use with *Making Insurance Decisions* activity. One copy per group.

Our purchase: Doesn't everyone love the smell of a new vehicle? You've been driving for several years without a single accident, but your state requires that at the very least you buy liability insurance. That means that, if you get into an accident, your insurance will pay the costs of repair and injury for the other person if it was your fault. Now you have a choice: what else do you want to cover?



Vehicle Cost: \$18,000

Option 1: Collision Coverage

Buying collision coverage is protection for when your vehicle is involved in a crash with another vehicle or a stationary object.

Most accidents fall under this kind of insurance policy. Damage includes your vehicle crashing into another vehicle, another vehicle colliding with yours, or ramming into a streetlight, pole, or some other stationary object.

If you use collision coverage, you pay a \$750 deductible to repair your vehicle, and the insurance company pays the rest.

Monthly cost: \$100

Option 2: Collision and Comprehensive Coverage

Collision coverage offers the same protections as Option 1. Comprehensive coverage includes most damage other than collisions. Generally speaking, comprehensive coverage includes any accidents where you as the driver do not have control of your vehicle. This might include natural disasters, vandalism or theft, or falling objects.

If you use collision coverage, you pay a \$750 deductible to repair your vehicle, and the insurance company pays the rest.

If you use comprehensive coverage, you pay a \$750 deductible to repair your vehicle, and the insurance company pays the rest.

Monthly cost: \$120



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INSURANCE SCENARIOS

Use with *Making Insurance Decisions* activity. One copy per group.

Scenario 1

You open up your latest bank statement to discover that there are several transactions on it that you did not authorize.

You decide to make a call to the customer service branch of your bank.

Scenario 2

Oh no! You've been in an accident! Luckily, no one was hurt, but your vehicle is pretty messed up. You were in the busy grocery store parking lot trying to pull out so that you could head home and make a delicious dinner. You were thinking so much about dinner that you didn't even notice that another vehicle was pulling out at the same time. On impact, your bumper fell off the back of the vehicle.

The repair person quoted the cost of repairs at \$800.

Scenario 3

Oh no! Your vehicle window is smashed and there's glass everywhere! You'd heard about a recent spate of burglaries in the neighborhood, but you never thought it would happen to you. It probably didn't help that you left your electronic music player out on the vehicle seat. After you called the police to report the burglary, you took the vehicle to the repair shop.

The repair person quoted the cost of repairs at \$350.

Scenario 4

Ho hum. No big news here. No flooding, no accidents, no burglaries, nothing. You don't owe anything on anything! But you are wondering whether it's worth all that money to keep paying for your vehicle insurance.

What do you think?