

Building Your Financial House

Set the Foundation of Your Future



Case Study

Ex-Offender Reentry
Appendix B Answer Key



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Anna’s Insurance Review

Insurance has a language of its own, and Anna is struggling with understanding all of the terms and phrases as she reviews her policies. Help Anna by defining the common terms and phrases for auto, renters, and life insurance policies using the additional resources provided and the Protect Your Potential materials.

Auto Insurance	
Term	Definition
Liability-bodily injury	<i>If you injure someone in an auto accident, this coverage pays for damages for which you are liable, such as medical and rehabilitation expenses. This coverage is required in Pennsylvania. The minimum required coverage is \$15,000/\$30,000. The \$15,000 pays for injuries for one person, while the \$30,000 represents the total value for one accident.</i>
Liability-property damage	<i>If you damage someone’s property (such as his or her car) in an accident and you are at fault, this coverage pays for repairs to that property. This coverage is required in Pennsylvania. The minimum required coverage is \$5,000.</i>
Medical benefits	<i>This coverage pays the medical bills for you and others who are covered by your policy, regardless of fault, if there are injuries resulting from an auto accident. The minimum required coverage is \$5,000.</i>
Collision	<i>This coverage pays to repair damage to your car as a result of an accident. Most banks or lenders require you to buy this coverage in order to receive a car loan. Under PA law, a \$500 deductible applies unless you request a lower amount.</i>
Comprehensive	<i>This coverage pays for theft or damage to your car from hazards such as fire, flood, vandalism, striking an animal, etc. Most banks or lenders require you to buy this coverage in order to receive a car loan. There is no set deductible; various levels can be purchased. Generally, the higher the deductible, the lower your premium.</i>
Uninsured motorist	<i>This coverage applies to you, relatives residing in your household, and your passengers if injured by an at-fault uninsured motorist or a hit-and-run driver. This does not cover damage to property.</i>
Underinsured motorist	<i>This coverage applies to you, relatives residing in your household, and your passengers if injured by an at-fault uninsured motorist who does not have enough coverage to pay your claim. This does not cover damage to property.</i>
Full tort	<i>You retain unrestricted rights to bring suit against the negligent party.</i>
Limited tort	<i>You are limited in the type and amount of damages you may claim in a suit. You are still able to recover out-of-pocket medical expenses and certain other expenses. However, you are not able to recover damages, such as payments for pain and suffering, unless the injuries meet one of the exceptions in the law. Limited tort offers significant savings on premium costs.</i>
Deductible	<i>This is the amount of money a policyholder is responsible to pay up front before covered benefits are payable. This applies only the comprehensive and collision coverage only.</i>

Source: PA Insurance Department’s Automobile Insurance Guide

Renter's Insurance	
Term	Definition
Peril	<i>This is an event or cause of a possible loss, like a fire, theft, hail, etc. Some policies specify which perils are covered; others specify which perils are excluded from coverage.</i>
Personal property	<i>This coverage pays for damages to your personal property, such as furniture, appliances, electronics, clothing, etc., as a result of a covered peril. It may also protect your belongings even when they aren't in your rental home or apartment.</i>
Personal liability	<i>This coverage protects you, your relatives in the household, and residents in your household under the age of 21, if you are sued and found legally responsible for injury or damage to their property in your rented home or apartment.</i>
Medical expenses	<i>This coverage provides payments for medical bills for people hurt in your rented home or apartment or by your pets.</i>
Loss of use	<i>This pays for additional living expense, like hotel bills and relocation expenses, if you can't live in your rented home or apartment as a result of a covered peril.</i>
Replacement value	<i>This is the amount of money it would take to replace your personal property as a result of a covered peril.</i>
Actual cash value	<i>This is the amount of money it would take to replace your personal property less the age, wear, and tear of the items. Many times, actual cash value does not pay enough to fully return your personal property to the way it was before the peril occurred.</i>
Rider/scheduled personal property endorsement	<i>If you have items such as jewelry, furs, antiques, guns, etc., there may limits on coverage. A ride/endorsement is additional protection to cover these items.</i>
Multi-policy discount	<i>This is a discount that may be offered to policy holders that have more than one type of policy with the same insurance company.</i>

Source: PA Insurance Department's *Homeowner's Insurance Guide*

Life Insurance	
Term	Definition
Term life	<i>This coverage protects you for a term of one or more years. It pays a death benefit only if you die within that term. Term insurance generally offers the largest insurance for your premium dollar and has lower premiums in the early years. You may be able to renew the policy without passing a physical exam, but again, the premiums will be higher because of age.</i>
Permanent life	<i>This is sometimes referred to as cash value life insurance and provides protection for as long as you live and the premiums are paid. With every premium payment, some pays for the cost of insurance and some builds up cash value. The cash value may be used for a variety of things, including buying paid-up insurance without paying any additional premiums. There are three common types of permanent life insurance: whole, universal, and variable universal.</i>
Whole life	<i>This is the most basic of permanent insurance. Premiums are generally fixed and are paid for as long as you live. Some policies will allow you to pay until 65 and use the cash value to continue paying the cost of insurance for as long as you live. Cash value will earn interest.</i>
Universal life	<i>This is a flexible type of permanent insurance that allows you to vary premium payments and adjust the amount of coverage. Premiums are put into the policy account that earns interest. The cost of insurance and fees are deducted from that account. If your yearly premium payments plus interest are less than the cost of insurance and fees, the value will be lower. If the account is depleted, coverage may end.</i>
Variable life	<i>This is sometimes referred to as variable universal life, where the death benefits and cash values depend on the performance of the investment accounts within the policy. Premiums are put into separate accounts that generally invest in mutual funds. Just as universal life, the cost of insurance and fees are deducted from the accounts. If the underlying investments do well, your death benefit and cash value increase. If not, the cost of insurance and fees may deplete the cash value and coverage may end.</i>
Policy illustrations	<i>If you are considering a policy where cash values, death benefits, and premiums may vary, you should get an illustration from your agent or company that describes how the policy works. The illustration will show what the policy guarantees, assumptions that are made (i.e., estimated investments returns), and then how benefits could change based on actual interest rates, investment performance, etc. You will be asked to sign a statement that you understand that some of the policy numbers in the illustration are not guaranteed.</i>
Death benefit	<i>This is face amount of the policy (less any existing loans or expenses) that the designated beneficiaries will receive upon the death of the insured. Typically, life insurance death benefits are not considered taxable income to the recipient.</i>
Beneficiary	<i>This is the person(s) that will receive the death benefit. The beneficiary can also be a trust, charitable organization, etc.</i>

Cash value	<i>This is the amount of cash build up in a permanent life insurance policy. The value depends upon interest received, investment performance, and cost of insurance and fees.</i>
Policy loan	<i>This is a loan taken from the cash value of a permanent life policy. If you don't pay back the loan with interest, the amount owed will be deducted from the death benefits. Keep in mind that policy loans could have unforeseen tax implications if the loan interest is not paid back.</i>
Surrender charge	<i>This is a fee charged if the life insurance policyholder cancels the policy before a specified number of years. The amount varies with cash value and number of years to the end of the surrender period.</i>
Suicide clause	<i>This is a stipulation which states that no death benefit will be paid if the insured commits suicide within two years (usually) of taking out the policy.</i>
Sales charge	<i>This is sometimes referred to as a premium load and is a fee charged in variable universal life policies for making the underlying investments in the policy. The fee is usually a percentage of the premium payments, i.e. 5%.</i>

Source: NAIC INSURE U's Life Insurance Buyer's Guide

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