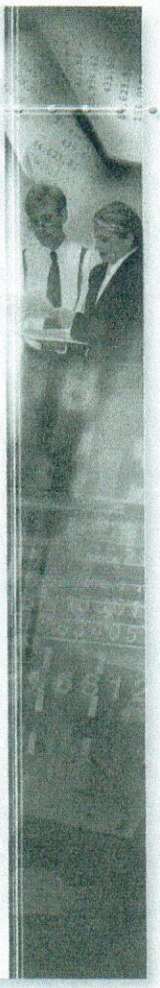
CHAPTER 11 Study Guide and Assessment

Living in the Real World



Insuring Your Life

Analyze the Story Insurance may not be a big issue for you now, but once you're no longer covered under your parents' or guardian's policies or you start full-time employment, you'll need to know your options. Here's an opportunity to test your knowledge. Write your answers to the following questions on a separate piece of paper.

1	Health insurance is only available as a benefit from an employer.	True	False
2	You can continue your health insurance even if you leave a job.	True	False
3	A co-payment is an amount you pay for a doctor's visit or prescription.	True	False
4	In general, the younger you are, the less expensive life insurance is.	True	False
5	Life insurance can also be used as an investment for retirement.	True	False
6	Life insurance companies can cancel policies if you develop a serious illness after you're insured.	True	False
7	You can collect life insurance benefits before you die.	True	False

After YOU READ

REVIEW OF KEY WORDS

health insurance (p. 372)
preferred provider organization (PPO) (p. 372)
health maintenance organization (HMO) (p. 372)
deductible (p. 375)
co-payment (p. 375)
co-insurance (p. 375)
life insurance (p. 378)
term life insurance (p. 378)
beneficiary (p. 378)
whole life insurance (p. 381)
cash value (p. 381)
limited payment policy (p. 381)
universal life insurance (p. 381)

For Problems 1–10, write your own definitions for 10 of the key words above.

Skills and Concepts

SECTION OBJECTIVE 11-1 AND EXAMPLES

Compute health insurance premiums.

Pedro Martinez is employed by the Wise and Wonderful Gift Corporation. He has a family membership in a traditional group medical insurance program. The annual premium is $8,540. Martinez's employer pays 90 percent of the total cost. His contribution is deducted monthly from his paycheck. What is Martinez's annual contribution? What is his monthly deduction?

STEP 1: Find the employee's percent.

100% − Employer's Percent

100% − 90% = 10% employee's percent

STEP 2: Find the employee's annual contribution.

Total Premium × Employee's Percent

$8,540 × 10% = $854 employee's contribution

STEP 3: Find the employee's monthly deduction.

Employee's Contribution ÷ 12

$854 ÷ 12 = $71.17 employee's monthly deduction

REVIEW EXERCISES

Complete the table below.

	Insurance Plan	Annual Premium	Employer's Percent	Employee's Percent	Employee's Contribution	Monthly Premium
11.	Single PPO	$ 3,006	65%	a.	b.	c.
12.	Family PPO	3,259	50%	a.	b.	c.
13.	Family Trad.	5,832	75%	a.	b.	c.
14.	Family PPO	15,600	90%	a.	b.	c.
15.	Single HMO	2,560	85%	a.	b.	c.
16.	Family HMO	13,650	70%	a.	b.	c.

SECTION OBJECTIVE 11-2 AND EXAMPLES

Calculate the amount the patient pays for health care.

Use Figure 11.1 on page 376 to solve the example and problems.

Tawney Manuel is single and has a health insurance plan with the benefits shown in Figure 11.1. Her recent network health care costs include co-payments for 4 physician visits and 6 specialist visits. She also had 56 home visits from a nurse at $45 each. What was the total amount she paid?

STEP 1: Find the deductible.
The deductible is $300.

STEP 2: Find the cost of co-payments.

Physician	+	Specialist	+	Physical Therapy
($10 × 4)	+	($20 × 6)		= $160 cost of co-payments

STEP 3: Find the co-insurance amount for home health care.
$45 × (56 − 50) × 20% = $54 co-insurance amount

STEP 4: Find the total amount paid by patient.

Deductible	+	Co-payments	+	Co-insurance Amount	+	Hospital Charges
$300	+	$160	+	$54		

= $514 total amount paid

REVIEW EXERCISES

Complete the table below.

	Deductible Amount	Number of Co-payments at $10.00 Each	Amount of the Co-payments	Amount Subject to Co-insurance	Insured Co-insurance Rate	Amount of Co-insurance	Total Paid by Insured
17.	$500	15	a.	$15,000	20%	b.	c.
18.	300	25	a.	10,000	30%	b.	c.
19.	200	45	a.	25,000	40%	b.	c.
20.	100	56	a.	12,000	35%	b.	c.
21.	150	41	a.	35,000	45%	b.	c.
22.	550	35	a.	55,000	25%	b.	c.

SECTION OBJECTIVE 11-3 AND EXAMPLES

Utilize tables to compute the annual premium for term life insurance.

Yamid Haad purchased a 5-year term life insurance policy. It provides $100,000 coverage. He is 35 years old. What is his annual premium?

STEP 1: Find the number of units purchased.
$100,000 ÷ $1,000 = 100 units purchased

STEP 2: Find the premium per $1,000. (Refer to Figure 11.2 on page 379.)
Male, age 35 = $2.70 premium per $1,000

STEP 3: Find the annual premium.
Number of Units Purchased ×

REVIEW EXERCISES

23. Paul Lopez has a 5-year term life insurance policy with $125,000 coverage. He is 50 years old. What is his annual premium?

24. Alexis Finley is 35 years old and has $150,000, 5-year term life insurance policy. What is her annual premium? What would it be if she increases the policy to $200,000? What is her monthly premium?

Use Figure 11.2 on page 379 to answer the following:

	Insured	Age	Coverage	Number of Units	Annual Premium per $1,000	Annual Premium
25.	Caesar Morales	25	$ 50,000	a.	b.	c.
26.	Rose McNerney	30	75,000	a.	b.	c.
27.	David Rotunno	45	80,000	a.	b.	c.
28.	Erin McCamie	55	100,000	a.	b.	c.
29.	Terrie Creek	60	200,000	a.	b.	c.
30.	John Kim	40	500,000	a.	b.	c.

SECTION OBJECTIVE 11-4 AND EXAMPLES

Apply tables to data to compute the annual premiums for three types of life insurance.

Gretchen Kuhn is 30 years old. She wants to purchase a whole life insurance policy valued at $150,000. What is her annual premium?

STEP 1: Find the number of units purchased.

$150,000 ÷ $1,000 = 150 units purchased

STEP 2: Find the premium per $1,000. (Refer to Figure 11.3 on page 382.)

Female, age 30 = $9.25

STEP 3: Find the annual premium.

Number of Units Purchased	×	Premium per $1,000	
150	×	$9.25	= $1,387.50 annual premium

REVIEW EXERCISES

Use Figure 11.3 on page 382 to solve the following:

	Type	Gender	Age	Face Value	Number of Units	Cost per $1,000	Annual Premium	Monthly Premium
31.	Paid at 65	Male	20	$ 50,000	a.	b.	c.	d.
32.	Whole Life	Female	40	125,000	a.	b.	c.	d.
33.	Paid at 65	Male	25	150,000	a.	b.	c.	d.
34.	Universal	Male	35	50,000	a.	b.	c.	d.