FINANCIAL LITERACY

LESSON 12-25 ▲ INVESTMENT AND INSURANCE

**LEARNING GOALS/OUTCOMES**

* Outline the value of an investment/saving portfolio.
* Explain the purpose and value of insurance: health, auto, life, disability, property and liability.
* Explain how insurance companies determine insurance rates.
* Summarize basic consumer protection laws.

**MATERIALS NEEDED**

* **Student Handouts:**
* How to Be a Millionaire When You are 50
* Insurance Checklist
* Journal Page
* **A six sided dice**

**CLASSROOM ACTIVITIES**

1. **Students experience an investment/savings portfolio.** Ask students to imagine they have just worked for a year to save $5,000 (after paying all their basic costs of living). They are planning to put that money into an investment portfolio. Tell students that an investment portfolio is a collection of investments organized to reduce the risk of investing and saving money. The obvious risk is the risk of losing money on an investment. However, there is also a risk of being too conservative and not gaining from strong investment periods. By investing in multiple things, these risks are reduced.

Tell students you are offering two basic investments today: (1) a bank savings account that offers 5% interest per year (as long as you don’t touch the principal for five years); or (2) a mutual fund that invests in multiple stocks. Tell students that the bank savings is a sure thing, but the mutual fund has risk and reward. Let them know the mutual fund could increase as much as 15% each year of the game you’ll be playing, but it could also lose as much as 10% per year. Have students write their investment/savings portfolio ratio (eg. $2,500 savings and $2,500 mutual fund). They can go all in on either side, if they wish.

Team each student with one other person. Have them show each other their investment portfolio strategy. They will compete with each other to make the most after five years. Using a dice, take students through five years of investment changes (five rolls of the dice). At the end of each year, have students calculate a 5% gain on their banked cash and a variable rate on their mutual fund. The variance is calculated based on the roll of the dice: #6 = 15% gain, #5 = 10% gain, #4 = 5% gain, #3 = no change, #2 = 5% loss, #1 = 10% loss. Have each pair show their results after each year. After five years, find the highest scoring student and find out what their investment strategy was.

Discuss the different choices and students’ reasons for why they chose a riskier or more cautious strategy. Ask them whether they would have made different choices if the money had been real. Would they be more cautious or less cautious with their own money?
2. **Students examine the value of an investment/saving portfolio.** Remind students that if they have money that they are not going to spend immediately, they can save it or they can invest it. Tell students the following dictionary definitions.
* SAVING: To lay up money as the result of economy or thrift; to preserve something from harm or loss.
* INVESTING: To put money to use in something offering potential profitable returns.

Explain to students that the key difference between the two uses of money is in the relative safety. To save money is to “preserve” it: it will be safe but it will not offer much in the way of returns. To invest money is to “use” it: it has the potential for much higher returns, but also the potential to be lost.

Put students into pairs. Provide each student with a copy of *How to Be a Millionaire When You Are 50*. Ask teams of two to use a calculator to figure out the two saving/investing strategies. The exercise requires them to do 30 years of calculations, one year at a time. It is important to have students write down the money saved at different benchmarks. It allows students to see the power of compounding interest in the later years.

1. **Students explain the purpose and value of insurance: health, auto, life, disability, property and liability.** Ask for volunteers to call out all the different types of insurance they think a person or family might have. Write their ideas on the board. Tell students that this next section will focus on six basic types of insurance: health, auto, life, disability, property, and liability. Each of these types of insurance is something that they will need eventually, if not already. Distribute the *Insurance Checklist* and go through it with students. For each type of insurance, read the introductory information and then give students a few minutes to answer the questions about that type of insurance. Tell them that it’s OK if they don’t know all the answers. They should finish each section by making notes on what they need to learn about that type of insurance for their lives after graduation. When you have finished the checklist, ask for students to describe the purpose of each of the six types of insurance. Encourage them to use what they have learned to start a conversation with their family to plan for their insurance needs for life after graduation.
2. **Students explain how insurance companies determine insurance rates.** Write the names of each of the six basic types of insurance on the board: health, auto, life, disability, property, and liability. Then tell students that insurance companies set their rates for each of these very different types of insurance based on one common thing. What is that? Prompt students for answers until students say that “risk” is what insurance companies use to determine rates. Ask for volunteers to imagine a scenario that would affect the rate for each type of insurance. For example, a student might say that someone who has had several accidents or traffic tickets is a higher risk as a driver and therefore will pay higher auto insurance rates. Someone who has been sick is a higher risk and therefore will likely pay higher health insurance rates, and someone who has had a fire will likely pay higher property insurance rates. Explain that insurance companies try to estimate risk ahead of time. That is why younger, less experienced drivers have higher auto insurance rates (because they are more likely to have an accident) and why women generally have higher health insurance rates (because they are more likely to need health care for pregnancy). Discuss with students whether that is a fair way to set rates.
3. **Students** **summarize basic consumer protection laws.** Ask students if they think there is anything they can do if they feel they have been cheated on insurance or any type of purchase. Explain that in many cases there are laws that have been established to protect their rights as consumers. In the case of insurance, every state has an Insurance Commissioner they can contact if they feel their insurance company is not treating them fairly. States also have “lemon laws” for cars or other major purchases that do not work properly. And there are new federal laws that regulate how credit card companies and banks can treat their customers. Make sure students understand that if they feel they are being treated unfairly, they should do a little Internet research to find out if they have any recourse.
4. **Students reflect on investment and insurance after high school.** Ask students to use a *Journal Page* to answer the following questions:
* What is the likelihood that I will save a million dollars by the time I am 50? Explain.
* Some people don’t save money at all, citing “I’m here for a good time, not a long time,” as their reason. What’s my reaction to that?
* Do I expect to be insured for any aspect of my post-secondary life? If so, what types of insurance do I think I’ll have?

**STUDENT PRODUCTS**

* **Completed *How to Be a Millionaire When You Are 50***
* **Completed *Insurance Checklist***
* **Completed *Journal Page*** on personal savings perspectives and insurance possibilities

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LESSON 12-25 STUDENT HANDOUT

 HOW TO BE A MILLIONAIRE WHEN YOU ARE 50

Every graduating student has the opportunity to be a millionaire when they are 50. Here’s how. You and your partner will need a calculator for this exercise.

**PAY YOURSELF FIRST**

How much would you have saved if you put 10% of every paycheck into a bank account earning 5% on your money over 30 years? For the purpose of this exercise, we are assuming your salary is a constant $65,000 for all those years. In truth, it would be lower earlier and higher later.

**Age Money in Bank**

20 Years Old $0

21 Years Old ($6,500 + 105% of total/year) \_\_\_\_\_\_\_\_\_\_\_\_

25 Years Old \_\_\_\_\_\_\_\_\_\_\_\_

30 Years Old \_\_\_\_\_\_\_\_\_\_\_\_

35 Years Old \_\_\_\_\_\_\_\_\_\_\_\_

40 Years Old \_\_\_\_\_\_\_\_\_\_\_\_

45 Years Old \_\_\_\_\_\_\_\_\_\_\_\_

50 Years Old \_\_\_\_\_\_\_\_\_\_\_\_

**INVEST $10/DAY**

How much would you have earned if you put $10/day into a mutual fund that averaged a 9% gain over a 30 year period? For the purpose of this exercise, we are assuming you invested $3,650 at the end of each year and averaged 9% in each year. In truth, some years would have higher percentage gains and other years would be lower.

**Age Return on Investments**

20 Years Old $0

21 Years Old ($3,650 + 109% of total/year) \_\_\_\_\_\_\_\_\_\_\_\_

25 Years Old \_\_\_\_\_\_\_\_\_\_\_\_

30 Years Old \_\_\_\_\_\_\_\_\_\_\_\_

35 Years Old \_\_\_\_\_\_\_\_\_\_\_\_

40 Years Old \_\_\_\_\_\_\_\_\_\_\_\_

45 Years Old \_\_\_\_\_\_\_\_\_\_\_\_

50 Years Old \_\_\_\_\_\_\_\_\_\_\_\_

What is the total amount of money you would have in your investment portfolio at the end of 30 years?

TOTAL INVESTMENT PORTFOLIO: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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 INSURANCE CHECKLIST

You will be graduating from high school soon and may be moving away from home after that. Now is a good time to understand the types of insurance you may need.

**HEALTH INSURANCE**

Medical and dental insurance will help cover your expenses for medical or dental treatment (usually after you make a co-payment or pay a deductible). Different types of insurance policies will have different restrictions on which doctors you can see or which types of treatments will be covered. Federal law now allows parents to keep their children on their health insurance until the child is 26.

Do you currently have health insurance? 🞏 Medical 🞏 Dental 🞏 Neither

If you do not have insurance, has your family investigated low-cost programs in your state? 🞏 Yes 🞏 No

If you’re going to college, will the college provide insurance or health care? 🞏 Yes 🞏 No 🞏 Don’t know

List what you need to learn about health insurance after graduation:

**AUTO INSURANCE**

If you drive a car, whether the car belongs to you, a family member, or a friend, you must be insured. Auto insurance will cover your costs if you are in an accident. If you are responsible for the accident, your insurance will also cover the costs of anyone you hit.

Do you have a driver’s license? 🞏 Yes 🞏 No

If yes, who pays for your auto insurance? 🞏 I pay for my insurance 🞏 My family pays

Will your auto insurance status change after graduation? 🞏 Yes 🞏 No 🞏 Don’t know

List what you need to learn about auto insurance after graduation:

**LIFE INSURANCE**

Life insurance will pay someone you designate a set amount of money if you die. The payments you make toward your life insurance policy are determined both by how much money you want your “beneficiaries” to receive after you die, and how likely (or unlikely) it is that you will die soon. Life insurance is particularly important if you are responsible for other people (such as a spouse or children) who depend on the income you earn. Young, single people often do not have life insurance, but life insurance is a good thing to consider if there are other people who depend on you financially.

Do you currently have a life insurance policy? 🞏 Yes 🞏 No 🞏 Don’t know

If you do, who is designated as the beneficiary if you die?

If you do not have life insurance, is there anyone in your life who would suffer financially if you were to die?

List what you need to learn about life insurance after graduation:

**DISABILITY INSURANCE**

Disability insurance will pay your living expenses if you are unable to work because you are injured or become ill. (Note the distinction: health insurance would pay your medical bills; disability insurance would pay for your rent or groceries if you could not work because of illness.) Like life insurance, disability insurance is particularly important if you are responsible for other people (such as a spouse or children) who depend on the income you earn. It is also important if there is no one who could support you if you were unable to work for an extended period of time.

Do you currently have a disability insurance policy? 🞏 Yes 🞏 No 🞏 Don’t know

If you do, what types of bills will it cover?

List what you need to learn about disability insurance after graduation:

**PROPERTY INSURANCE**

Property insurance will cover the costs of replacing your possessions if they are stolen or damaged (note that most property insurance policies do not cover earthquakes or floods, both of which require special insurance). If you own a home, you will buy homeowner’s insurance, which will also protect your home and property and help you rebuild if your home is damaged. If you are a renter, you will buy renter’s insurance, which will protect the possessions in your apartment. People who own specialized goods or equipment (such as expensive musical instruments) may purchase special insurance policies just for those items, in addition to their regular policy. Property insurance is vital if you are living on your own.

Do you currently have a property insurance policy? 🞏 Yes 🞏 No 🞏 Don’t know

If you do, what does it cover?

If you are moving out of your family’s home, will their policy cover you in your dorm or apartment?

List what you need to learn about property insurance after graduation:

**LIABILITY INSURANCE**

Liability insurance protects you if someone sues you in court, for instance because they are hurt on your sidewalk or were hit by your car. Liability insurance is usually bundled in with auto or property insurance. In addition, though, if you own your own business, you will likely need liability insurance in case one of your customers sues you.

Do you currently have a liability insurance policy? 🞏 Yes 🞏 No 🞏 Don’t know

If you have auto or property insurance, how much liability coverage do they include?

List what you need to learn about liability insurance after graduation:

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 JOURNAL PAGE

**DATE:**

**Lesson 12-25 | *INVESTMENT AND INSURANCE***

***Q1:***  What is the likelihood that I will save a million dollars by the time I am 50? Explain.

***Q2:*** Some people don’t save money at all, citing “I’m here for a good time, not a long time,” as their reason. What’s my reaction to that?

***Q3:*** Do I expect to be insured for any aspect of my post-secondary life? If so, what types of insurance do I think I’ll have?

***Answers:***