




PEER REVIEWED
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My Financial Future

A Financial Literacy Curriculum

 Saving	 Spending	 Credit Cards	 Purchasing
 Financial Records	 Risk Management	 Investment	 Goal

Risk Management Guide Risk Management and Insurance Lessons

THIS CURRICULUM IS A PROJECT OF:

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Module 1: Identify Common Types of Risk & Basic Risk Management Methods

Activity: The Daily Risks of a Student's Life Going to School

Learner Outcomes:

1. Give examples of how people manage risk through avoidance, reduction, retention, and transfer.
2. Explain how to self-insure and give examples of circumstances in which self-insurance is appropriate.
3. Recommend insurance for the types of risks that young adults might face.

Life Skills:

1. Define and identify risk
2. Understand the choice to transfer risk to an insurance company by paying a premium

Time Needed: 1 - 2 hours

Making decisions everyday involves risk, which is uncertainty. It is important to develop a risk management plan.

Introduction:

The assumption of risk is inherent in many of our daily decisions. Your goal will be to develop a risk management plan that addresses the application of transferring risk, reducing it, assuming it or avoiding it all together based on common scenarios you would face on a normal, average day.

How do you
define risk?



Experience:

Despite our best efforts to plan, sometimes things just go wrong. You get sick, lose something valuable, or get sideswiped by another car in a parking lot. Some of these events may just be small blips on the radar screen- such as getting a cold or losing a CD. But other events may be physically, legally, and financially disastrous.

Oftentimes it's completely unexpected when things go wrong. But let's face it, sometimes our own behavior causes bad things to happen: not wearing a helmet when you're riding a bike or motor cycle; leaving your wallet behind in a public place; not locking up your bike, car, or apartment; or tackling a friend on your front lawn. All of these actions increase your risk that something unfortunate will happen.

Risk is the chance of loss from some type of danger. Whether you're doing something to increase your risks or just going about your daily life, you can take steps to protect yourself. Risk management refers to how you deal with the chance of potential personal or financial loss.

There are four ways to manage your risk:

1. **Avoid the risk:** don't do the activity. If you are worried about the risk, you don't do the activity.
2. **Reduce the risk:** take steps to protect yourself. If you are riding your bike, you can wear a helmet.
3. **Accept the risk:** this is a good strategy when the amount or likelihood of the loss is small. For example, forgoing on the extended warranty on the digital music player. You may be willing to take the chance of this loss.
4. **Share the risk:** this is what insurance companies are all about.

Insurance is a means of guaranteeing your financial protections against various risks. In exchange for a relatively small payment, you gain protection against a potentially large loss. In order to have insurance, you need to pay a premium, which is the amount you pay for an insurance policy. Your policy will have a coverage limit: the maximum amount the insurance company will pay if you file a claim. And you will also have a deductible, the amount of a loss that you must pay out of your own pocket before the insurance company steps in.

Activity #1

Transportation to School Debate (Group Exercise)

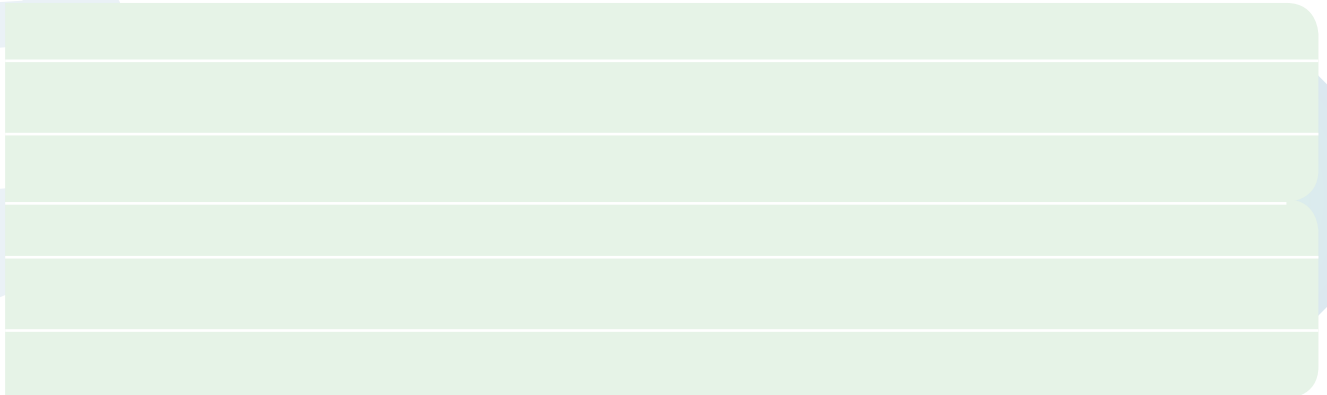
Preface:

Going to school is necessary to learn and gain knowledge. Some students elect to take the bus and others have their parent(s)/guardian drop them off. Perhaps you live close enough to walk or ride a bike to school. As you may have noticed, sometimes there are no seatbelts on buses, yet in cars it is the law to wear one. Having a seatbelt on makes you safer and may reduce the likelihood of sustaining severe injuries in the event of an accident. Not wearing a seatbelt is called a hazard. This increases the chance of a loss such as injury or death.

1. Do you take the bus or have someone drive you to school?
2. Do you ride your bike or walk to school?
3. Has anyone been you know involved in an accident on the way to school?

➔ **Split into small groups. Choose a method of dealing with risk of transportation to school. Each group should choose a method of transportation to school. Then, debate which one is the MOST RISKY and which one is LEAST RISKY. Each team should identify which method of risk they are choosing within their arguments.**

➔ **Conduct a debate to argue each transportation method as a more suitable method to get to school the safest.**





Share	
» Which mode of transportation used what risk management method? <ol style="list-style-type: none"> 1. taking the bus 2. dropped off by car 3. ride a bike 4. walk 5. not go to school 	
» What are all of the risks associated to each method of getting to school? Work with your team to identify the risks.	
Reflect	
» Which option (taking the bus versus getting a ride) to get to school has more risk?	
» Which option has the least amount of risk between walking or riding a bike versus taking the bus or a car?	
» What action(s) reduces the risk of getting hurt in the event of an accident?	
» Describe three methods to reduce the risk of getting into an accident while being taken to school in a car.	
Generalize	
» Is it possible to avoid all risk? How can you minimize risks you face daily?	
Apply	
» Exercise - Create a personal risk management checklist: <ol style="list-style-type: none"> 1. What risks do you face each day? 2. What can insurance cover? 3. What can you insure yourself? 4. What risk(s) can you avoid? 	

Activity #2

SWEET Sixteen (Individual Assignment)

Congratulations! You have turned 'sweet' 16 and successfully completed the driver's safety and instructional course at school.

- ➔ You have been driving for six months and are ready to take your final driver's test at the Department of Motor Vehicles.

Section 1:

- ➔ Describe how you will prevent failing the driver's test by reducing risk.

- ➔ You have been working on a farm since you were age 12, and you have been getting paid \$10 an hour for 10 hours a week. You have been saving \$50 a week for 4 years.

How much money do you have?

Section 2:

- ➔ With the money, you choose to buy a car for \$7,200 and a year's worth of auto insurance is \$1,200. You chose to have a zero deductible, which is the amount of money you have to pay up to before the insurance company pays the rest.

How much money do you have left?



Section 3:

➔ Two weeks after you bought the car, your best friend asked to borrow the car that you bought. Describe who is assuming the risk if an accident were to happen.

➔ Your friend does not have auto insurance and your company will not cover them if they get in an accident. You tell your friend that they can still use the car, but they are responsible for any damages. What has your friend done regarding risk?

1. Transfer 2. Avoid 3. Retain 4. Reduce

Matching Exercise:

Instructions – Match the description with the type of insurance.

___ a. health insurance	1. Income benefit from injury and can't work
___ b. property insurance	2. Insurance for covering the cost of an injury
___ c. liability insurance	3. Coverage for damage to another vehicle
___ d. medical insurance	4. Replace the value of a house in event of a fire
___ e. flood insurance	5. Protect a house from water damage
___ f. disability insurance	6. Insurance to cover cost of curing an illness
___ g. life insurance	7. Coverage if you injure another driver
___ h. homeowner's insurance	8. To replace the human value of income



Did You Know?

The Social Security Administration (SSA) has a life expectancy calculator on their website. <http://www.ssa.gov/OACT/population/longevity.html>. Life expectancy is a component in determining some insurance premiums.

References

http://www.diffen.com/difference/Morbidity_vs_Mortality

NEFE High School Financial Planning Program

GLOSSARY WORDS

Risk – uncertainty about a future event

Hazard – something that increases the chance of loss

Avoidance – to completely remove oneself from doing anything to take on risk

Transfer – to shift the financial consequences of risk to another entity

Retain – to assume risk for oneself

Self Insure – to retain or assume risk by paying any financial consequences out of own pocket

Reduce – to lower the likelihood of a financial loss occurring

Premium – the amount of money equivalent to the cost of transferring risk for covering a potential financial loss

Deductible – the amount of money the insured is going to pay before the insurer pays the remaining portion of a claim

Uninsured – does not have insurance coverage to cover any financial losses

Insurance – the ability to transfer risk to another entity to help cover the costs of a financial loss

Morbidity – the rate of incidence of a disease

Mortality – the term used for the number of people who died within a population

Learn More

Actuaries analyze the financial costs of risk and uncertainty. Insurance companies are interested in learning about probability, mortality risk, morbidity, and consumer choice in medical services, such as drugs. Insurance companies use this data to calculate insurance premiums based on consumer health history. Actuaries job is to evaluate the probability of events to quantify possible outcomes in order to minimize financial loss. Go to the Bureau of Labor and Statistics for more information about the career and the characteristics of the job. <http://www.bls.gov/ooh/math/actuaries.htm#tab-2>.