Lesson 7.6: Why Renter's Insurance?

Lesson Author

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Standards and Benchmarks

See pages 5.

Lesson Description

This lesson focuses on a question that many individuals face when in college and/or moving into their first apartment: Should they buy renter's insurance? The lesson begins with students using an interactive tool to "customize" their first apartment. The tool will give them an estimated value of their possessions as well as the approximate monthly cost for renter's insurance. Students will learn about various aspects of renter's insurance, including why it is important, types of coverage, factors that affect the premiums and how to shop for this type of insurance. To obtain answer keys for the handouts and assessment in this lesson, create an account on FederalReserveEducation.org.

Concepts

Decision making
Insurance
Liability
Risk

Objectives

Students will be able to:

- describe what is covered and what is not covered in a typical renter's insurance policy.
- differentiate between replacement-cost and cash-value coverage.
- describe the factors that affect the premiums for renter's insurance.
- evaluate whether they should buy renter's insurance in the future.

Compelling Question

Why is renter's insurance important?

Time Required

45-60 minutes

Materials

- Why Renter's Insurance Lesson 7.6 Slides

- Handout 7.6.1: Typical Perils Covered by Renter's Insurance, one copy for each student
- Handout 7.6.2: How Will Different Situations Affect My Renter's Insurance Premium?, one copy for each student
- Handout 7.6.3: Premium Quotes for Renter's Insurance, one copy for each student
- Handout 7.6.4: Assessment, one copy for each student

Procedure

1. Display Slide 2. Explain to students that they will "customize" their hypothetical first apartment, using this interactive tool from *Allstate*: https://www.allstate.com/resources/wysw

2. Ask students to respond in writing to the questions found on Slide 3. Discuss as a whole group.

    a. What was the value of the belongings in your apartment? (*Answers will vary, but students should respond with the dollar amount given from using the interactive tool.*)

    b. Did this dollar amount surprise you? Why or why not? (*Answers will vary, but students should be able to sufficiently explain whether or not they were surprised at the value of their belongings.*)

3. Discuss the hypothetical scenario on Slide 4. "On the third day of your new job, you leave your apartment in a hurry and forget to lock the door. While you're at work, someone steals almost everything of value." Ask students, "What financial impact will this theft have on you and why?". *(Answers will vary, but most students will say the theft causes a financial disaster because they will need to replace the stolen items.)*

4. Ask students if they think the landlord (the person from whom they are renting) will reimburse them for the stolen items. *(Answers will vary.)*

5. Display the information about landlord responsibility on Slide 5. Refer back to the question posed in procedure Step 4 and ask students if the landlord would be liable to them in the situation they just discussed. *(No, the landlord would not be liable because he or she provided a lock for the door, but they didn't use it.)*

6. Display each scenario found on Slides 6-10. Ask students to decide whether they believe the landlord is liable in each one. Ask them to explain their answers.

    NOTE: To make this more active, students could stand on one side of the classroom if they think the landlord *is* liable, and the opposite side of the classroom if they think the landlord *is not* liable.

    i. A fire breaks out, destroying your possessions. An investigation clearly determines that faulty wiring was the cause. *(Landlord is liable because he or she is responsible for the wiring in the building.)*

ii. A nearby explosion causes your building to catch on fire, destroying many of your possessions. *(Landlord is not liable because the explosion was outside the building and beyond the landlord's control.)*

iii. A friend of yours is seriously injured when she trips on a rug in your apartment and falls down. She has medical bills because of the accident. *(Landlord is not liable because your rug caused her accident)*

iv. The weight of ice on the roof of the building causes the ceiling to leak, ruining some of your furniture. *(Unless you can prove that the leaks were caused by faulty construction – which the landlord knew about – or poor maintenance, the landlord would not be held responsible for the damages*.

v. A pipe freezes in your apartment during very cold weather, causing flooding that destroys a lot of your furniture. *(Generally an unusual situation such as very cold weather is not the landlord's responsibility, so he or she would not be liable.)*

7. Display Slide 11. Emphasize to students that the landlord is often not liable for perils that ruin your possessions. Also, it is difficult in many cases to prove that the landlord is liable. Renters can transfer part of this risk to an insurance company by purchasing renter's insurance.

8. Distribute one copy of Handout 7.6.1: Typical Perils Covered by Renter's Insurance to each student. Review the list of perils covered by renter's insurance. Students should complete A-G independently. When completed, compare answers with a partner.

9. Display Slide 12. Explain the difference between **replacement cost** and **cash value**. Ask the students to refer back to the value of the items in their hypothetical apartment from the beginning of the lesson. Use Slide 13 to have them compare what they would receive from the insurance company for both types of coverage.

   a. What would your insurance company pay you if you are covered with replacement cost coverage? (*Answers will vary, but this should be the value of their belongings from the introductory activity*.)

   b. What would your insurance company pay you if you are covered with cash value coverage? (Imagine that your items are now valued at ¾ of the replacement cost due to depreciation.) (*Answers will vary, but students should calculate ¾ of the value of their belonging from the introductory activity.*)

      i. How could you replace the items you lost if you only received ¾ of the replacement cost? (Answers will vary and include they could buy fewer items, which means that they would have fewer possessions, or they could buy many of the items secondhand.)

NOTE: Point out that the premium for replacement cost coverage is higher than the premium for cash value coverage because the insurance company will have to pay higher claims with the replacement cost coverage.

10. Distribute one copy of Handout 7.6.2: How Will Different Situations Affect My Renter's Insurance Premium? to each student. Ask students to complete A-G independently. Review answers when they are finished.

    NOTE: Make sure to point out that rates also differ from one insurance company to another. This is why it is important to comparison shop for renter's insurance coverage.

11. Distribute one copy of Handout 7.6.3: Premium Quotes for Renter's Insurance to each student. Have the students answer the questions and discuss their answers

Closure

12. Review the important points of the lesson by asking students the following questions found on Slide 14.

    a. Why do many renters not bother with renter's insurance? *(They believe the landlord's insurance will cover them and their possessions aren't worth very much. They don't realize that it will cost them a substantial amount of money to replace their possessions.)*

    b. Why is knowing the value of your belongings important to both the consumer and the insurance company? *(The inventory helps the consumer realize the actual value of the items he or she has and helps them to buy sufficient coverage. It also helps the insurance company determine what it will pay if the policyholder makes a claim.)*

    c. Name at least three types of coverages generally included in a renter's policy. *(Protection of possessions against the perils of fire, lightning, windstorms, hail, volcanic eruptions, smoke damage, falling objects, ice, snow, sleet, explosions, vandalism and water damage from plumbing system. Protection against liability suits if someone is injured on the property. Living-cost expenses if the rental unit is deemed uninhabitable for a period of time.)*

    d. What is the difference between replacement cost coverage and cash value coverage? Which type of coverage is more expensive? *(With replacement-cost coverage, the insurance company will provide reimbursement on the basis of replacing the destroyed or stolen item with a new item. Cash-value coverage provides reimbursement on the basis of what the item was worth just before it was destroyed or stolen — considering the depreciated value of the item. Replacement-cost coverage is more expensive because the insurance company must pay more in case of a loss.)*

Assessment

13. Distribute one copy of Handout 7.6.4: Assessment to each student. Students will complete this independently.

Standards and Benchmarks

National Standards for Personal Financial Education

Standard 6: Managing Risk

People are exposed to personal risks that can result in lost income, assets, health, life, or identity. They can choose to manage those risks by accepting, reducing, or transferring them to others. When people transfer risk by buying insurance, they pay money now in return for the insurer covering some or all financial losses that may occur in the future. Common types of insurance include health insurance, life insurance, and homeowner's or renter's insurance. The cost of insurance is related to the size of the potential loss, the likelihood that the loss event will happen, and the risk characteristics of the asset or person being insured. Identity theft is a growing concern for consumers and businesses. Stolen personal information can result in financial losses and fraudulent credit charges. The risk of identity theft can be minimized by carefully guarding personal financial information.

Benchmarks Grade 12

7. Auto, homeowner's and renter's insurance reimburse policyholders for financial losses to their covered property and the costs of legal liability for their damages to other people or property

Handout 7.6.1: Typical Perils Covered by Renter's Insurance

Directions: Read this list of typical perils that renter's insurance covers, then read the questions below. Circle **Yes** or **No** to indicate whether renter's insurance would cover each situation.

- Fire
- Smoke damage
- Lightning
- Falling objects
- Windstorms
- Damage from ice, snow, or sleet
- Hail
- Loss or damage to physical objects because of civil commotion or riot
- Explosions
- Volcanic eruptions
- Liability in case someone gets injured in the rental unit
- Theft
- Glass breakage
- Vandalism
- Loss of use of the facility
- Water damage from leaking or overflow of plumbing system

Yes **No** A. The stove in the apartment next door catches fire, and many of the items in your apartment have smoke damage.

Yes **No** B. An earthquake occurs, and your possessions are buried.

Yes **No** C. There is massive flooding in your area because of many weeks of rain. Your apartment is in the basement, and many of your possessions are ruined.

Yes **No** D. A violent windstorm takes down a tree in the yard, which smashes one of the windows of your apartment, ruining some of your possessions.

Yes **No** E. There is civil unrest in your town. One night there is a riot and some looting. Your apartment is broken into, and some of your possessions are stolen.

Yes **No** F. A friend of yours slips on your wet floor and hurts himself, requiring medical care. He wonders if you can cover the medical costs.

Yes **No** G. A fire breaks out in your building, and you cannot live in your apartment. You move to a nearby hotel until the repairs are made. Your hotel room has no kitchen, so you must eat out a lot more. Are your expenses covered?

Handout 7.6.2: How Will Different Situations Affect My Renter's Insurance?

Directions: For each of these situations, decide how your renter's insurance premium would be affected (higher or lower) and explain why.

A. You move to an apartment in an area with less crime.

B. You change the deductible from $500 to $100.

C. You change from cash-value coverage to replacement-cost coverage.

D. You move to an apartment building that is new from one that is 50 years old.

E. You move to an apartment that is 10 miles away from a fire and police station. Your previous apartment was five blocks away from the station.

F. You switch your automobile insurance coverage to the same company that provides your renter's insurance.

G. You increase the amount of coverage on your personal possessions.

Handout 7.6.3: Premium Quotes for Renter's Insurance (page 1 of 2)

Directions: Imagine you just landed a new job and you're trying to figure out where you're going to live. You've narrowed it down to two locations: a spot right in the city close to the office, or an apartment out in a quieter, rural area that still gives you an easy commute.

Before you sign a lease, you need to see how much it's going to cost to insure your belongings. You speak to an insurance agent, and they put together this breakdown comparing three different renter's insurance policies.

<u>The Policies:</u>

- Policy 1: The rural apartment with **Actual Cash Value** coverage (pays out what your belongings are currently worth).
- Policy 2: The same rural apartment, but upgraded to **Replacement Cost** coverage (pays out what it actually costs to replace your belongings with brand new items today).
- Policy 3: The city apartment with **Replacement Cost** coverage.

  Note: All three options cover the exact same inventory of items. To keep things fair, both locations are the same distance from a fire station and a police station. Plus, every policy includes a **$500 deductible**.

Coverages	**Policy 1** Rural Area with Cash Value Coverage	**Policy 2** Rural Area with Replacement Cost Coverage	**Policy 3** Urban Setting with Replacement Cost Coverage
Contents (Personal Property): $20,000	$126	$126	$198
Loss of use: $8,000	Included	Included	Included
Personal liability: $300,000	$36	$36	$36
Replacement cost/contents	Not applicable	$52	$75
Total yearly premium	**$162**	**$214**	**$309**

Handout 7.6.3: Premium Quotes for Renter's Insurance (page 2 of 2)

A. Suppose someone burglarized your apartment and took about $10,000 worth of possessions. How much would you receive, considering you are insured at $20,000?

B. What's the difference between the premiums for Policies 1 and 2? Why do you think there is a difference?

C. Which type of coverage – replacement cost or cash value – would you choose and why?

D. Why is the insurance policy for the urban apartment more expensive?

E. Notice that the charge for replacement-cost coverage in the urban neighborhood is higher than the charge in the rural area. Why might this be the case?

F. Are you surprised at the cost of renter's insurance? Is it higher or lower than you anticipated? Explain.

Handout 7.6.4: Assessment

1. A renter’s insurance policy has coverages similar to a:
   a. Life insurance policy
   b. Health insurance policy
   c. Automobile insurance policy
   d. Homeowner’s insurance policy

2. Which of the following statements is true about the difference between replacement cost coverage and cash value coverage?
   a. Replacement cost coverage has lower premiums.
   b. Replacement cost coverage provides less reimbursement for destroyed or stolen possessions.
   c. Replacement cost coverage provides greater reimbursement for damaged or stolen possessions.
   d. Replacement cost coverage carries a lower deductible, which means the insured gets more reimbursement.

3. What are two ways to cut the premium on your renter’s insurance?
   a. Move to a rental unit in an area with a lower crime rate and reduce your deductible.
   b. Move closer to a police station or fire department and change to a higher deductible.
   c. Purchase replacement cost coverage instead of cash value coverage and change to a higher deductible.
   d. Buy automobile and renter’s insurance from the same insurance company, and change to replacement cost from cash value coverage.

4. Why can’t you count on the landlord to replace your belongings if they are damaged, destroyed, or stolen?

5. Why is it a good idea to have an inventory of your possessions for insurance purposes?