

Risk Transfer

Read how insurance shifts the cost of a possible loss.

SS.8.FL.6.2 "Identify insurance as a product that allows people to pay a fee (called a premium) now to transfer the costs of a potential loss to a third party."

NAME _____

DATE _____

1 READ AND MARK _____ Read it twice

YOUR JOB Underline the words that name the fee paid now, circle the third party that can pay after a covered loss, and write 1 beside the sentence that explains the transfer of financial risk.

The Riveras Plan Ahead

- ① After a severe windstorm, the Rivera family noticed loose shingles and water stains on a bedroom ceiling. They worried that another storm, or a fire, could cause expensive damage. Instead of waiting for a disaster to happen, they bought a homeowners insurance policy. A policy is a contract with an insurance company. The family agreed to pay a set fee, called a premium, at regular times, such as each month or each year, for coverage.
- ② In return, the insurance company agreed to cover certain losses named in the policy. The company is a third party, meaning it is separate from the Rivera family and from the event that causes damage. If a covered fire or windstorm damaged the house, the insurer could pay part or all of the covered repair cost, following the policy's rules. The family might still pay a deductible, which is an amount they must pay before insurance pays. Not every problem is covered, so the family must read the policy.
- ③ Insurance does not make the chance of a fire or windstorm disappear. It changes who carries much of the financial risk if a covered loss occurs. By paying premiums before any damage happens, the Riveras transfer the possible large repair cost to the insurance company. In other words, they trade smaller, planned payments now for help with a possible costly loss later. The company collects premiums from many customers and uses those funds to pay covered claims. This arrangement helps families plan for risks that could otherwise strain their budget.

2 ANSWER WITH EVIDENCE _____ Use the passage

1 What is a premium, and when does the Rivera family pay it?

2 Why is the insurance company called a third party?

3 Name two examples of possible covered home losses in the passage that could create a repair bill.

4 How does insurance transfer much of the cost of a possible covered loss from the Riveras to the insurance company?

3 YOUR TURN _____ Your own words

Create a different insurance situation. Write three sentences that name a possible loss, identify the premium and third party, and explain how paying the premium transfers much of the possible cost.

PART 1 • READ AND MARK

Underline the words that name the fee paid now, circle the third party that can pay after a covered loss, and write 1 beside the sentence that explains the transfer of financial risk. Accept any marking that follows this job and points at the right text.

PART 2 • ANSWERS

#	QUESTION	ANSWER
1	What is a premium, and when does the Rivera family pay it?	A premium is the set fee for insurance coverage. The family pays it regularly before a loss happens.
2	Why is the insurance company called a third party?	It is separate from the Rivera family and from the damaging event.
3	Name two examples of possible covered home losses in the passage that could create a repair bill.	Damage from a fire and damage from a windstorm.
4	How does insurance transfer much of the cost of a possible covered loss from the Riveras to the insurance company?	The Riveras pay premiums now. If a covered loss occurs, the insurer can pay part or all of the covered repair cost under the policy's rules, after any deductible.

PART 3 • YOUR TURN (SAMPLE ANSWER)

Jordan buys renters insurance to help with the cost of replacing belongings after a covered apartment fire. Jordan pays a monthly premium to an insurance company, the third party. If the policy covers the loss, the company can pay covered costs after any deductible, so Jordan has transferred much of the possible cost.

Accept equivalent explanations that identify a premium paid before a loss and an insurer that takes on covered costs. For the open response, accept realistic insurance examples if the student clearly identifies the possible loss, premium, third party, and cost transfer.