

The Cost of More

How coverage limits affect insurance premiums

SS.8.FL.6.4 "Discuss why insurance policies that guarantee higher levels of payment in the event of a loss (coverage) have higher prices."

NAME _____

DATE _____

1 READ AND MARK _____ Read it twice

YOUR JOB Underline each sentence that explains why higher coverage can lead to a higher premium. Circle the words that name the insurer's possible payment or financial risk.

More Protection, Higher Price

- ① Insurance helps people manage expensive losses, such as a damaged roof or a car crash. A policy lists covered events, limits, deductibles, and premiums. The premium is the price paid to keep the policy. The coverage limit is the most the insurer will pay for a covered loss. When a person chooses a larger limit, the insurer may have to pay much more after a serious event. That possible payment affects the premium the insurer charges. Insurers use these details to estimate the financial risk they are taking.
- ② Suppose two renters buy policies that cover the same kinds of theft and fire losses. One policy can pay up to \$15,000 for covered belongings. The other can pay up to \$35,000. If a fire destroys \$30,000 of belongings, the first policy cannot pay the full loss because its limit is lower. The second policy could pay more, if its other terms are met. Because the insurer faces a larger possible claim, it generally charges more for the higher limit.
- ③ Insurance companies collect premiums from many policyholders and use that money to pay covered claims and business costs. They set prices by estimating how often losses may happen and how large payments could be. A higher coverage limit raises the maximum amount at risk for the insurer. It does not mean every claim will reach that amount, but it increases the insurer's potential cost. Other choices, including a lower deductible or added protections, can also raise a premium. Comparing policies means comparing both price and protection.

2 ANSWER WITH EVIDENCE _____ Use the passage

1 What does a coverage limit tell you about a policy?

2 In the renters example, why could the \$35,000 policy pay more after the \$30,000 fire loss?

3 Why does the insurer generally charge more for the policy with the \$35,000 limit?

4 Why is coverage limit not the only policy choice that can affect a premium?

3 YOUR TURN _____ Your own words

A homeowner is choosing between a policy with a \$100,000 coverage limit and one with a \$250,000 coverage limit. Write exactly three sentences explaining why the \$250,000 policy will probably cost more and describing one factor the homeowner should weigh when choosing.

PART 1 • READ AND MARK

Underline each sentence that explains why higher coverage can lead to a higher premium. Circle the words that name the insurer's possible payment or financial risk. Accept any marking that follows this job and points at the right text.

PART 2 • ANSWERS

#	QUESTION	ANSWER
1	What does a coverage limit tell you about a policy?	It tells the maximum amount the insurer will pay for a covered loss.
2	In the renters example, why could the \$35,000 policy pay more after the \$30,000 fire loss?	Its \$35,000 coverage limit is high enough to cover more of the \$30,000 loss, while the \$15,000 policy is limited to \$15,000.
3	Why does the insurer generally charge more for the policy with the \$35,000 limit?	The insurer could face a larger claim and make a larger payment after a covered loss.
4	Why is coverage limit not the only policy choice that can affect a premium?	Premiums also depend on estimated loss frequency and size. A lower deductible or added protections can also raise the insurer's potential cost and the premium.

PART 3 • YOUR TURN (SAMPLE ANSWER)

The \$250,000 policy will probably have a higher premium because the insurer could have to make a much larger payment after a covered loss. The homeowner should consider how much property needs protection. The homeowner should weigh the extra protection against the higher premium.

Accept equivalent explanations that connect a higher limit to a larger possible insurer payment, greater financial risk, and a higher premium. For Part 3, require exactly three sentences, a clear cause-and-effect explanation, and a relevant comparison factor.