

The Costs and Benefits of Renter's and Homeowner's Insurance

LESSON DESCRIPTION (Background for the Instructor)

In this lesson, students will learn about property insurance that protects their personal possessions as a renter and both their possessions and their house as a homeowner. Included will be a discussion of the liability insurance portion of both types of policies. Students will also learn how to calculate the value of their personal possessions and understand the consequences of not having property insurance coverage.

The lesson includes five activities that instructors can select from. In these activities, students will:

- ◆ View the video *Renters Insurance: What Does It Typically Cover?* and answer debriefing questions
- ◆ Use the *What's Your Stuff Worth?* calculator to find the value of their 10 most valuable possessions
- ◆ Use the *Renter's Insurance Coverage Calculator* to complete a renter's insurance case study analysis
- ◆ Answer questions about the infographic *Homeowners Insurance at a Glance*
- ◆ Complete a *Web Quest* to identify what happens when you have no homeowner's (or renter's) insurance and why mortgage lenders require coverage for homes and condos that they lend money for

The lesson also contains 10 assessment questions (5 multiple choice and 5 True-False), learning extensions (i.e., suggested learning activities beyond the scope of the lesson plan), and references and resources.

INTRODUCTION (Background for the Instructor)

Renter's insurance and homeowner's insurance are both forms of Property and Casualty (P&C) insurance. P&C insurance covers things that people own (i.e., their "stuff") including a home or condo, personal property, car, boat, all-terrain vehicle (ATV), golf cart, and snowmobile.

Renter's insurance is basically the same as homeowner's insurance except that renters (a.k.a., tenants) do not own their dwelling and, therefore, the policy does not cover the structure. Rather, the policy covers personal possessions plus additional living expenses if tenants cannot live in their residence and need to stay at a hotel or move to another rental unit. For example, if renters must move out and live somewhere else while their apartment is being repaired due to a fire or flooding.

According to the [State Farm](#) insurance company, the average tenant without coverage has over \$35,000 of belongings that are probably not covered by a landlord's policy. Property coverage covers property such as clothing, furniture, housewares (e.g., small appliances, pots, and dishes), hobby items (e.g., sports equipment and musical instruments), and basic electronics (e.g., computer and audio equipment).

According to one [study](#), only 37% of people who rent their homes have renter's insurance coverage versus 95% of homeowners. Stated another way, almost two-thirds of renters have no insurance. By forgoing coverage, they are putting the value of their possessions at risk as well as risking liability loss damages.

Renter's insurance policies also include liability protection in case someone is injured or another person's property is damaged, within the tenant's premises. In today's litigious society, liability coverage (and, hence, renter's insurance) may be required by some landlords and stated in the lease.

Renter's insurance is relatively inexpensive and is highly recommended for all tenants. According to National Association of Insurance Commissioners' [data](#), the average policy costs just \$184 per year. This figure works out to a little more than \$15 per month for coverage that ranges from \$30,000 to \$50,000 (depending on where the renter lives) with a \$500 to \$1,000 deductible.

People who own a home need homeowner's insurance. A standard homeowner's policy includes coverage for the home and other structures on the property (e.g., a free-standing garage or shed), coverage for personal belongings such as furniture and clothing, liability protection in case someone is injured or another person's property is damaged, and coverage for additional living expenses such as money to rent an apartment if a home is damaged and the owner cannot live there.

A mortgage lender will generally require homeowners to buy enough insurance to cover the amount owed on the mortgage. This amount covers their financial interest in the home. However, the amount of the outstanding mortgage is just a starting point. Homeowners with substantial equity should purchase coverage equal to 80% to 100% of the replacement cost of the home (i.e., the current cost to rebuild it).

The exact amounts of homeowner's coverage will depend on the value of the home and the property in the home (e.g., furniture). Land on which the home stands is not insurable.

A standard homeowner's policy does not include coverage for the business use of a home or damage due to floods and earthquakes. Special insurance policies are required for these risks. Flood insurance coverage is provided by the National Flood Insurance program. In order to get flood insurance coverage, homeowners must be approved for a flood insurance policy and must pay an additional premium.

There are two ways to insure property such as furniture, a car, or a house:

- ◆ **Replacement cost coverage** pays the policyholder the cost of replacing the damaged property without deduction for depreciation, but limited to a maximum dollar amount. As an example, a policyholder's sofa cost \$1,000 when it was bought it new. With replacement cost insurance, if the sofa is burned in a fire, the insurance policy would pay current costs for a replacement sofa, minus the policy deductible.
- ◆ **Actual cash value (ACV) coverage** provides a policyholder with an amount equal to the replacement value of damaged property, minus an allowance for depreciation. Unless a homeowner's policy specifies that property is covered for its replacement value, the coverage is for actual cash value. So with the sofa, ACV insurance would pay what a sofa is worth today – possibly as little as \$100. ACV coverage costs less than replacement cost, but policyholders get less money if there is a claim.

Umbrella liability coverage is enhanced liability coverage over and above the underlying liability coverage limit (e.g., \$300,000) on regular P&C insurance (auto and homeowner's) policies. Umbrella liability policies are typically available in \$1 million increments from \$1 million to \$5 million and cost about \$300 to \$400 for \$1 million of coverage. Some people may want to increase their liability coverage because:

- They own a substantial amount of assets that could be lost in a law suit.
- There is a risk of losing valuable assets due to increased risks. For example, homeowners may want to have umbrella liability coverage if they have a pool, serve as a volunteer emergency responder or board member in their community, own a big dog, or own a boat.

Umbrella coverage does not kick in until the liability limit on other P&C policies is reached (i.e., there is a liability claim above the underlying limit on other property insurance). For example, in the case of someone with \$300,000 of homeowner's insurance policy liability coverage and a \$650,000 liability judgement to cover damages and injuries to others, a \$1 million umbrella insurance policy would pay for the entire claim.

OBJECTIVES

Students will be able to:

- ◆ Describe the costs and benefits of renter's insurance.
- ◆ Calculate the approximate value of their personal possessions.
- ◆ Apply knowledge gained about renter's insurance to a case study scenario.
- ◆ Describe the liability coverage portion of renter's and homeowner's insurance.
- ◆ Appreciate the financial risk of having no or inadequate renter's or homeowner's insurance.

NEW JERSEY PERSONAL FINANCIAL LITERACY STANDARD

- ◆ Standard 9.1.12.G.5: Differentiate the costs and benefits of renter's and homeowner's insurance. See <http://www.state.nj.us/education/aps/cccs/career/FLFAQ.htm#gradcredit> and <http://www.state.nj.us/education/cccs/2014/career/91.pdf> for information about Standard 9.1

TIME REQUIRED

45 to 180 minutes (depending upon student progress and content depth and number of activities used)

MATERIALS

- ◆ YouTube Video (2:42): *Renter's Insurance Policy: What Does It Typically Cover?* (Allstate Insurance): <https://www.youtube.com/watch?v=NyAIUSZBYbI>
- ◆ *Renter's Insurance Policy: What Does It Typically Cover? Debriefing Questions* activity handout
- ◆ *What's Your Stuff Worth?* Website (Allstate) and *What's Your Stuff Worth?* activity handout: <https://www.allstate.com/anon/whatsyourstuffworth/index.aspx#/items/0>
- ◆ *Renter's Insurance Coverage Calculator* (Liberty Mutual Insurance) and activity handout: <https://www.libertymutual.com/renters-insurance/renters-insurance-coverage>
- ◆ *Homeowners Insurance at a Glance* Infographic (Allstate): <https://www.allstate.com/tools-and-resources/home-insurance/homeowners-insurance-infographic.aspx> and activity handout
- ◆ *Web Quest: What Happens When You Have No Homeowner's or Renter's Insurance?* activity handout
- ◆ *Web Quest: Why Do Mortgage Lenders Require Homeowner's Insurance?* activity handout
- ◆ *Renter's and Homeowner's Insurance Quiz* (ASSESSMENT)

Teachers are encouraged to use as many of the student learning activities as time permits to provide a fuller understanding of renter's and homeowner's insurance. The activities can also be used for extra credit assignments, homework, or after-school activities.

PROCEDURE

1. To begin the class discussion about credit counseling, ask students if they know of any cases where someone received benefits from renter's or homeowner's insurance. What happened in the situation?

Answers will likely vary. Students may or may not recall a local or national story about a big fire or flood or know someone who had something stolen from their home or rental unit. In case students do not respond to the question, collect a few stories beforehand about individuals or families who have experienced property losses and whether or not they had renter's or homeowner's insurance. Share these stories to introduce the topic of insurance to cover personal possessions against loss or damage.

2. **Activity 1:** Show the video *Renter's Insurance Policy: What Does It Typically Cover?* (Allstate): <https://www.youtube.com/watch?v=NyAIUSZBYbI> and debrief the following questions with students:

What types of perils are covered by renter's insurance?

A peril is anything that can cause a financial loss. Renter's insurance covers a wide variety of perils including theft, vandalism, fire damage, smoke damage, wind damage, and water damage, excluding a flood. Flood damage requires the purchase of a special policy.

What are the three major parts of a renter's insurance policy?

Renter's insurance provides three major types of protection: 1. personal property coverage, 2. additional living expenses coverage (to pay costs to stay somewhere else if the dwelling is damaged), and 3. personal liability coverage (to provide protection against lawsuits resulting from rental property-related injuries or property damage experienced by others). The latter part includes legal defense expenses.

What are the two ways that the value of property can be calculated for insurance purposes?

The two methods are *actual cash value (ACV)* and *replacement cost*. ACV is coverage for the cost to buy (replace) an item minus depreciation (i.e., decrease in value) for the number of years that it was owned. An example is a 13-year old \$1,000 refrigerator that is worth \$133 according to an online [calculator](#). Another example is a 4-year old \$1,600 laptop computer that is worth \$400. Replacement cost is coverage for the amount of money that it would take to replace damaged or stolen property with the same or a comparable item at current prices. Renter's insurance typically pays only the actual cash value of losses unless policyholders elect to pay an additional premium amount for replacement cost coverage. Replacement cost coverage is recommended to limit out-of-pocket expenses following a loss.

Why are premiums higher for replacement cost coverage than actual cash value (ACV) coverage?

The premiums are higher for replacement cost coverage because the benefits will be higher following a loss or theft. Both types of calculations are based on the cost today to replace lost or damaged property but ACV policies have a deduction for depreciation. Insurers use various schedules to determine the decreasing market value of used personal property (depreciation) over time. One of the most common methods is to calculate an item's value as a percentage of its life expectancy. For example, a laptop computer with a four-year life span will depreciate by 25% or .25 per year. This percentage is multiplied by the number of years that an item is used to calculate its depreciation. Once a used item exceeds its expected life expectancy, it is generally assumed to have no actual cash value.

What is the maximum dollar limit on personal property?

This is the limit on personal property by group (e.g., \$5,000 for all jewelry) or for individual items (e.g., a watch) in standard renter's and homeowner's policies. People who have high-value items and want additional coverage must pay an additional premium for broader protection. They can either pay to raise their policy's coverage limit or buy a "floater" policy to buy coverage for individual items of value.

What is the deductible in a renter’s or homeowner’s insurance policy?

The deductible is a flat dollar amount (e.g., \$250, \$500, \$750, or \$1,000) or percent of insured home value (e.g., a deductible of 1% to 5% of the insured value of a home for hurricane damage) that a policyholder must pay per loss before insurance policy benefits begin.

What is “additional living expenses” coverage in a renter’s or homeowner’s insurance policy?

Additional living expenses coverage is a part of standard renter’s and homeowner’s insurance policies. It reimburses policyholders for expenses to stay somewhere else (e.g., a new apartment or a hotel) when their dwelling is damaged and is being repaired (e.g., following a fire). This coverage includes payments for food, shelter, and other related expenses (e.g., storage fees, laundry, mileage, and pet boarding). Receipts are necessary to document expenses. For example, people can’t claim that they stayed at a hotel and pocket extra cash when they actually moved in rent-free with relatives. Of course, like all aspects of insurance, there is an overall limit. Additional living expenses are typically capped at 20% of the dwelling coverage. For example, up to \$60,000 for a home insured for \$300,000.

What is liability coverage in a renter’s or homeowner’s insurance policy?

Liability is a person’s legal responsibility for the financial cost of losses or damages to other people. This typically results from a negligence judgement following a court case. In the case of renter’s or homeowner’s insurance, injuries or damages to others would have occurred at the policyholder’s dwelling (e.g., a child getting hurt on a swing set or someone tripping and falling down a flight of stairs). Of course, like all aspects of insurance, there is an overall limit. Most renter’s and homeowner’s insurance policies pay a minimum of \$100,000 up through \$500,000 in total per accident to injured persons. People who want additional coverage typically buy an umbrella liability policy.

- 3. **Activity 2:** Distribute the *What’s Your Stuff Worth?* activity handout and direct students to the *What’s Your Stuff Worth?* web site: <https://www.allstate.com/anon/whatsyourstuffworth/index.aspx#/items/0>. Show students how to move between the different categories of possessions using the tabs on top of the page or the arrows (forward and backward) on both sides. There is also a slider at the bottom of the page to identify a number of items at once or they can be clicked individually. Have students write down their ten most valuable possessions on the handout. Next, have students go online and look up the dollar value of their 10 most valuable possessions. If they own more than one of each item (e.g., a computer), they can click the upward arrow for additional quantities. A screen shot is shown below.

Debrief the activity by having students discuss their most valuable items and the estimated total value of what they own. Ask them if they were surprised with the total value figure and do they agree with it.



Answers will vary and will likely include clothing, sporting goods, and electronics. Ask students to describe what stood out to them the most as a take-away from the activity.

4. **Activity 3:** Distribute the *Renter's Insurance Coverage Calculator* activity handout and direct students to the *Renter's Insurance Coverage Calculator*: <https://www.libertymutual.com/renters-insurance/renters-insurance-coverage>. Next, have students read the following case study and use information gleaned from the calculator to recommend an amount of renter's insurance for Angela O'Brien. The calculations needed to enter the data are shown below. Then ask students to discuss the remaining questions on the worksheet and debrief them.

Angela O'Brien, 24, just moved into an apartment after two post-college years of living in her parent's basement. She owns the following items which she values at replacement value as follows: 5 coats and jackets (\$200), miscellaneous wardrobe items (\$2,000) a \$300 watch, 8 purses (\$200), luggage (\$200), laptop computer (\$1,000), computer monitor (\$200) and printer (\$100), smart phone (\$200), Kindle e-reader (\$100), bedroom furniture (\$500), ski equipment (\$1,400), and a K-cup coffeemaker and various housewares handed down from her parents; e.g., plates, pots, silverware, towels, and sheets (\$900).

The value of possessions in each category is as follows:

Electronics: Laptop (\$1,000) + monitor (\$200) + printer (\$100) + smart phone (\$200) + Kindle e-reader (\$100) = \$1,600

Furniture: Bedroom furniture (\$500)

Wardrobe: Coats and jackets (\$200) + miscellaneous wardrobe items (\$2,000) + watch (\$300) + purses (\$200) + luggage (\$200) = \$2,900

Hobby Items: Ski equipment (\$1,400)

Household Items: All items combined (\$900)

What is the total value of Angela's possessions?

The total value of Angela's possessions is: $\$1,600 + \$500 + \$2,900 + \$1,400 + \$900 = 7,300$.

What is the estimated cost to insure Angela's possessions?

The cost for renter's insurance is estimated to be \$14 per month or \$168 per year ($\$14 \times 12$).

What is the percentage of the estimated value of Angela's possessions charged for the premium?

The annual premium is a low and affordable 2.3% of the estimated value of her possessions ($168 \div 7,300$). The cost for insurance breaks down to \$3.25 weekly, about the cost of a small premium coffee.

What would the insurance policy premium be if the total value of Angela's possessions was \$30,000 instead of \$7,300?

Students can do this calculation very easily by moving the sliders for each of the five categories of possessions all the way over to the right (maximum value of \$6,000). The cost to insure property valued at \$30,000 is \$20 to \$24 a month or \$240 to \$288 per year. As is the case for all types of insurance, the premium rises as the property value being covered increases.

What steps could Angela take to lower the projected cost of renter's insurance?

Angela could purchase ACV insurance that will provide a lower benefit amount if she has a claim or she could increase her deductible, which would require a higher out-of-pocket cost if she has a loss.

5. **Activity 4:** Distribute copies of the *Homeowner's Insurance at a Glance* infographic activity handout and direct students to the infographic at <https://www.allstate.com/tools-and-resources/home-insurance/homeowners-insurance-infographic.aspx>. Ask students to work in small groups and write down three key take-aways from the infographic. Debrief the activity with the entire class.

Answers may vary a bit but will probably include the four key types of protection (dwelling, other structures, personal property, and liability), examples of things that are covered in each category, and the fact that exclusions, coverage limits, and deductibles can limit the amount of coverage provided.

6. **Activity 5:** Distribute the handout with the two *Web Quest* activities: *What Happens if You Have No Homeowner's or Renter's Insurance?* and *Why Do Mortgage Lenders Require Homeowner's Insurance?* Divide the class in half and assign a different question to each group. Allow 10-15 minutes for information discovery from non-commercial web sites and debrief the activity.

Students' answers will vary. However, for the first question, they will likely mention the fact that a landlord's insurance policy will not cover a tenant's personal possessions and that a tenant would have to personally pay current costs out-of-pocket to replace stolen or damaged items. In addition, a tenant or a homeowner without insurance will not have liability coverage for injury or damages to others and could have assets taken away as a result of a court judgement. For the second question, the answer is pretty straightforward. Lenders that issue a mortgage that is secured by the value of a home as collateral require the owner of the mortgaged property to obtain homeowner's insurance to protect their security interest. While lenders generally only require enough insurance to cover the mortgage balance, homeowners should buy enough insurance to cover their home equity as well (Example: \$150,000 mortgage balance + \$80,000 home equity = \$230,000 of homeowner's insurance) in the event of a major loss. Lenders may also require additional coverage (e.g., floods and earthquakes) in areas that are considered "high risk" for these perils.

CLOSURE

Asks students if they have any remaining questions about renter's and homeowner's insurance. Remind them that personal possessions depreciate in value rapidly (e.g., a used laptop computer) and are expensive to replace at current costs, especially if many things need to be replaced all at once following a loss. In addition, for most people, a house is the largest purchase that they will ever make. A purchase of this size (usually a 6-figure or 7-figure sum in New Jersey) needs to be protected with adequate insurance.

GLOSSARY

Actual Cash Value (ACV)- The replacement value of damaged property minus an allowance for depreciation.

Additional Living Expenses Coverage- A part of standard renter's and homeowner's insurance policies that reimburses policyholders for expenses to stay somewhere else (e.g., a new apartment or a hotel) when their dwelling is damaged and is being repaired. This coverage includes payments for food, shelter, and other related temporary living expenses (e.g., storage fees, laundry, mileage, and pet boarding) up to a specified maximum limit (typically 20% of the dwelling coverage).

Claim- A request for payment from an insurance company to cover financial losses.

Deductible- A flat dollar amount (e.g., \$500) or percent of insured home value (e.g., a 1% to 5% of the insured value of a home) that a policyholder must pay per loss before insurance policy benefits begin.

Depreciation- The expected loss of value of an item due to normal wear and tear and obsolescence (e.g., an old model cell phone replaced by a newer model). Depreciation is calculated using an item's expected life expectancy. For example, if a laptop has a life expectancy of 4 years, it loses 25% of its value each year.

Hazard- Something that increases the risk of a financial loss. Examples include an icy sidewalk, a cluttered staircase, and defective electrical wiring.

Household Inventory- A list or other documentation method (e.g., photos, digital photos, and narrated videos) of a person's personal possessions with dates of purchase and cost information.

Insurance- The transfer of the risk of financial loss to a third party (insurance company) in exchange for the payment of a premium.

Liability- Legal responsibility for the financial cost of losses or injuries to other people, often as a result of a court verdict of negligence.

Liability Coverage- Insurance that transfers the risk of incurring liability losses to a third-party insurance company up to a specified maximum amount.

Negligence- Failure to take prudent actions to prevent accidents and injuries from happening (e.g., not fencing off a swimming pool or clearing snow from a sidewalk).

Other Structures Coverage- Part of a homeowner's insurance policy that covers detached structures such as a free-standing shed or garage and landscaping including trees, shrubs, and plants.

Peril- Anything that can cause a financial loss. Renter's and homeowner's insurance covers a wide variety of perils including theft, vandalism, fire damage, smoke damage, wind damage, and water damage, excluding a flood.

Policy- A legal contract for the purchase of insurance between a policyholder and an insurance company that spells out terms and conditions of the arrangement such as the amount of coverage and the premium.

Property and Casualty (P&C) Insurance- Insurance that covers things that people own (i.e., their "stuff") including a home or condo, personal property, car, boat, all-terrain vehicle, golf cart, and snowmobile.

Replacement Cost Coverage- Insurance that pays a policyholder the cost of replacing damaged property without a deduction for depreciation, but limited to a specified maximum dollar amount.

Risk- The chance of injury or a loss of, or damage to, property.

Umbrella Liability Insurance- Enhanced liability coverage over and above the underlying liability coverage limit (e.g., \$300,000) on regular P&C insurance (auto and homeowner's) policies. Umbrella liability policies are typically available in \$1 million increments from \$1 million to \$5 million.

LEARNING EXTENSIONS

If time permits, the following activities can be used to extend the depth of this lesson:

7. Ask students to check with their parents to see if they have a personal property inventory. If they do not, encourage students to perform this task for their family using one of the following worksheets:
 - a. *Home Inventory Checklist* (State Farm Insurance):
https://static1.st8fm.com/en_US/content_pages/1/pdf/us/home-inventory-checklist.pdf
 - b. *Personal Property Home Inventory* (State of Wisconsin):
<https://oci.wi.gov/Documents/Consumers/PI-224.pdf>
 - c. *Inventory of Personal Property and Household Furnishings* (FSI Transition Center):
<https://www.state.gov/documents/organization/43095.pdf>
8. Have students walk around their house and inventory and value all of their personal possessions.
 - ◆ Invite a local property and casualty (P&C) insurance agent as a guest speaker to talk about the benefits of having adequate property insurance and what happens when people have no or low coverage.
 - ◆ Have students view and debrief additional YouTube videos about renter's and homeowner's insurance:
 - Insurance 101-Renters Insurance* (Allstate): <https://www.youtube.com/watch?v=8y23U2VkYDA>
 - How to Buy Homeowner's Insurance* (Howcast): <http://www.youtube.com/watch?v=luoRjGjUQqY>
 - Homeowners Coverages* (Central Insurance): <https://www.youtube.com/watch?v=bic4qOuJJoI>
 - Homeowners [Insurance] Limits* (Central Insurance):
https://www.youtube.com/watch?v=J0Eqt_X34RU
 - Renters Insurance Policy: What Does It Typically Cover?* video (Allstate):
<https://www.youtube.com/watch?v=NyAIUSZBYbI>
 - How to Buy Renters Insurance* (Howcast): https://www.youtube.com/watch?v=COvw1h_Mbr4
 - Renters Insurance* (Insurance Information Institute):
<https://www.youtube.com/watch?v=IMB2GOuPWW0>
 - ◆ Have students use the *Depreciation Calculator* at <https://www.claimspages.com/tools/depreciation/> to gain a better understanding of how various items lose value over time.
 - ◆ Have students write a summary of what they learned about renter's insurance for the school newspaper.
 - ◆ Use all or part of the following lesson plans about renter's insurance:
 - Renter Insurance Lesson Plan* (Missouri Department of Insurance):
<https://insurance.mo.gov/Contribute%20Documents/RenterIns.LessonPlan.pdf>
 - Renters Insurance Module Lesson Plan* (NW Insurance): http://nwinsurance.org/renters_module.pdf
 - Renters Insurance Lesson Plan* (Griffith Foundation): <http://www.griffithfoundation.org/k-12/curriculum-online/homeowners-insurance/homeowners-insurance-renters-insurance/>
 - Renter's Insurance Lesson Plan* (Nationwide/Aspira):
<http://www.aspira.org/sites/default/files/Renters.pdf>

ASSESSMENT: Renter's and Homeowner's Insurance Quiz

Instructors are encouraged to use the questions below for content review or as a pre-and/or post-test to determine gains in student knowledge about renter's and homeowner's insurance after teaching this lesson.

Correct answers to the multiple choice and True-False questions are shown in boldface type.

Multiple Choice Questions

1. Purchasing an insurance policy allows a policyholder to _____ the risk of a financial loss
 - a. Assume
 - b. Transfer**
 - c. Avoid
 - d. Self-insure
2. The term used to describe not plowing snow after a storm and having people fall on your driveway is
 - a. Peril
 - b. Hazard
 - c. Negligence**
 - d. Risk
3. The term used to describe anything that can cause a financial loss (e.g., theft and wind damage) is
 - a. Peril**
 - b. Hazard
 - c. Negligence
 - d. Risk
4. Which of the following items does homeowner's insurance *not* cover?
 - a. Personal property
 - b. A stand-alone shed or garage
 - c. Additional living expenses
 - d. A car parked at home in a policyholder's garage**
5. The type of insurance that covers injuries to other people in a home accident caused by the policyholder is
 - a. Injury insurance
 - b. Liability insurance**
 - c. Lawsuit insurance
 - d. Negligence insurance

True-False Questions

1. Renter's insurance coverage is risk protection (**TRUE: When policyholders buy a renter's insurance policy, they are transferring the risk of financial losses (e.g., theft or destruction of personal property and liability for injuries or damage caused to others) to a third party (the insurance company) in exchange for the payment of a premium**)

2. A copayment is the amount that a policyholder has to pay out-of-pocket before an insurance company pays on a claim (**FALSE: The definition provided here is for a deductible, not a copayment. A deductible is paid before any insurance benefits begin. A copayment is paid each time a person receives a routine health care service such as a doctor's office visit or a prescription drug refill**)
3. An umbrella insurance policy can be used as a substitute for a traditional renter's or homeowner's insurance policy (**FALSE: Umbrella insurance is used to extend (increase) the liability coverage limits of underlying property and casualty insurance policies; e.g., renter's/homeowner's insurance and auto insurance. It is typically sold in \$1 million increments**)
4. You can generally reduce the cost of renter's or homeowner's insurance by increasing your deductible (**TRUE: A deductible is a form of "self-insurance" and it affects the amount of premium charged for a given amount of coverage. The higher a deductible is, the lower the premium will be because the policyholder is "on the hook" personally for a larger amount of money before insurance pays**)
5. Homeowner's insurance excludes detached structures such as an outdoor storage shed (**FALSE: Homeowner's insurance includes detached structures such as a shed, garage, gazebo, swimming pool, and fence up to a specified maximum amount; e.g., 10% to 20% of the dwelling limit**)

REFERENCES AND RESOURCES

Home Insurance-Teacher's Guide (Horace Mann): <https://www.horacemann.com/teacher-lounge/resources-for-educators/lessons-on-insurance/home-insurance-teachers-guide>

Homeowner's Insurance (NJ Department of Banking and Insurance): http://www.state.nj.us/dobi/division_consumers/insurance/homeowner.htm

Homeowners and Renters Insurance (Insurance Information Institute): <http://www.iii.org/insurance-topics/homeowners-and-renters-insurance>

Insurance for the Family (Utah Education Network): <http://www.uen.org/Lessonplan/preview.cgi?LPid=28969>

Kapoor, J.R., Dlabay, L.R., Hughes, R.J., & Hart, M.M. (2016). *Focus on Personal Finance*. New York, NY: McGraw Hill Education.

Renter's Insurance (Nationwide/ASPIRA Insurance Education Initiative): <http://www.aspira.org/sites/default/files/Renters.pdf>

The Basics of Renters Insurance (Insure.com): <http://www.insure.com/home-insurance/renters.html>

What is Covered by Standard Homeowners Insurance? (Insurance Information Institute): <http://www.iii.org/article/what-covered-standard-homeowners-policy>

What is Homeowners Insurance? (Insurance Information Institute): <http://www.iii.org/article/what-homeowners-insurance>

What is Renters Insurance? (Allstate): <https://www.allstate.com/tools-and-resources/renters-insurance/what-does-renters-insurance-cover.aspx>

What You Need to Know About Renter's Insurance (Insurance Information Institute): <http://www.iii.org/article/what-you-need-know-about-renters-insurance>

Renters Insurance: What Does It Typically Cover?

Debriefing Questions

After watching the YouTube video *Renters Insurance: What Does It Typically Cover?*, answer the following questions:

What types of perils are covered by renter's insurance?

What are the three major parts of a renter's insurance policy?

What are the two ways that the value of property can be calculated for insurance purposes?

Why are premiums higher for replacement cost coverage than actual cash value (ACV) coverage?

What is the maximum dollar limit on personal property?

What is the deductible in a renter's or homeowner's insurance policy?

What is "additional living expenses" coverage in a renter's or homeowner's insurance policy?

What is liability coverage in a renter's or homeowner's insurance policy?

Renter's Insurance Case Study Activity

Instructions: Read the following case study. Then group Angela's possessions into the five categories shown in the box below. Then use information gleaned from the *Renter's Insurance Coverage Calculator* at <https://www.libertymutual.com/renters-insurance/renters-insurance-coverage> to recommend an amount of renter's insurance for Angela O'Brien and to answer the five questions at the bottom of this page.

Angela O'Brien, 24, just moved into an apartment after two post-college years of living in her parent's basement. She owns the following items which she values at replacement value as follows: 5 coats and jackets (\$200), miscellaneous wardrobe items (\$2,000) a \$300 watch, 8 purses (\$200), luggage (\$200), laptop computer (\$1,000), computer monitor (\$200) and printer (\$100), smart phone (\$200), Kindle e-reader (\$100), bedroom furniture (\$500), ski equipment (\$1,400), and a K-cup coffeemaker and various housewares handed down from her parents; e.g., plates, pots, silverware, towels, and sheets (\$900).

Expense Category	Items	Dollar Value
Electronics		
Furniture		
Wardrobe		
Hobby Items		
Household Items		

What is the total value of Angela's possessions?

What is the estimated cost to insure Angela's possessions?

What is the percentage of the estimated value of Angela's possessions charged for the premium?

What would the insurance policy premium be if the total value of Angela's possessions was \$30,000 instead of \$7,300?

What steps could Angela take to lower the projected cost of renter's insurance?

Homeowners Insurance at a Glance

Instructions: Work together in a small group to write down three key take-aways from the *Homeowners Insurance at a Glance* infographic from Allstate shown below or available online at

<https://www.allstate.com/tools-and-resources/home-insurance/homeowners-insurance-infographic.aspx>.

WHAT DOES HOMEOWNERS INSURANCE COVER?

Homeowners insurance may help protect your house, your belongings and even you if the unexpected occurs. Typical policies include four key types of protection — dwelling, other structures, personal property and liability coverage. Not all policies are alike, and it's important to remember that coverage limits and deductibles may apply.

DWELLING COVERAGE

If your home is damaged, dwelling coverage may help pay to repair or rebuild the home. Some of the risks that are typically covered include:

- FIRE & SMOKE
- WIND
- LIGHTNING STRIKES
- HAIL

OTHER STRUCTURES COVERAGE

Other structures coverage may help pay to repair or replace certain components that are not attached to your home after a covered loss. This coverage may extend to items such as:

- A SHED
- A DETACHED GARAGE
- A FENCE

PERSONAL PROPERTY COVERAGE

Personal property coverage may help reimburse you for the value of your belongings or pay to replace your belongings after a covered loss. Examples of what personal property coverage may help protect include:

- FURNITURE
- ELECTRONICS
- CLOTHING

LIABILITY COVERAGE

No matter how careful you are, accidents can happen. Liability coverage may help pay for costs resulting from an injury to someone else or damage to their property if you are found liable. For instance, liability protection may help cover:

- A GUEST'S MEDICAL BILLS
- YOUR LEGAL EXPENSES IF SUED
- AN INJURED PARTY'S LOST WAGES
- COSTS OF REPAIRING DAMAGE YOU ACCIDENTALLY CAUSED TO SOMEONE ELSE'S PROPERTY

Allstate. You're in good hands.

Contact a local Allstate agent for an insurance quote or for help reviewing or adjusting your existing coverages. www.allstate.com/tools-and-resources

Key Take-Aways

- 1 _____
- 2 _____
- 3 _____

Web Quest #1:

What Happens You Have No Homeowner's or Renter's Insurance?

In this activity, you will conduct an online search to learn what happens when people lack renter's and homeowner's insurance and experience a loss. Go to an online search engine (e.g., Google, Bing) and search for articles (not paid advertisements) on this topic, especially those with stories about real people who lacked coverage. When you are done reading, complete the table below by listing key pieces of information that you found. Be prepared to discuss the information that you found with the entire class.

Information Source	Information About People Who Lack Property Insurance

Web Quest #2:

Why Do Mortgage Lenders Require Homeowner's Insurance?

In this activity, you will follow the same steps listed above to research the second *Web Quest* question.

Information Source	Information About Why Mortgage Lenders Require Property Insurance

Renter's and Homeowner's Insurance Quiz

Multiple Choice Questions:

Circle the correct answer from among the four answers provided.

1. Purchasing an insurance policy allows a policyholder to _____ the risk of a financial loss.
a. Assume b. Transfer
c. Avoid d. Self-insure
2. The term used to describe not plowing snow after a storm and having people fall on your driveway is
a. Peril b. Hazard
c. Negligence d. Risk
3. The term used to describe anything that can cause a financial loss (e.g., theft and wind damage) is
a. Peril b. Hazard
c. Negligence d. Risk
4. Which of the following items does homeowner's insurance *not* cover?
a. Personal property
b. A stand-alone shed or garage
c. Additional living expenses
d. A car parked at home in a policyholder's garage
5. The type of insurance that covers injuries to other people in a home accident caused by the policyholder is
a. Injury insurance b. Liability insurance
c. Lawsuit insurance d. Negligence insurance

True-False Questions:

Mark "T" for True or "F" for False in the space before each question.

- ____ 1. Renter's insurance is risk protection.
- ____ 2. A copayment is the amount that a policyholder has to pay out-of-pocket before an insurance company pays on a claim.
- ____ 3. An umbrella insurance policy can be used as a substitute for a traditional renter's or homeowner's insurance policy.
- ____ 4. You can generally reduce the cost of renter's or homeowner's insurance by increasing your deductible.
- ____ 5. Homeowner's insurance excludes detached structures such as an outdoor storage shed.

The Costs and Benefits of Renter's and Homeowner's Insurance lesson plan was written by Dr. Barbara O'Neill, CFP®, Extension Specialist in Financial Resource Management for Rutgers Cooperative Extension (boneill@njaes.rutgers.edu).

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