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ABSTRACT

These two issues are designed to provide secondary school educators with a greater knowledge of insurance and access to teaching materials regarding insurance and to provide students with information about insurance and insurance careers. The following feature articles are included in the newsletters: "Life Insurance: Why and When People Buy It" (D. P. Marsh); "You, Too, Can Teach Teens about Insurance--With No Yawns!" (Ellen Thrower); "Families, Automobiles and Homes of the Future" (State Farm Insurance Companies); "Toni Goes from Office Help to Officer during Oregon Mutual Career" (Julie Laverde); "What Is a Reinsurance Company?" (John Foulds); "Why High Rates Happen to Good Drivers" (California State Automobile Association); "Graduated Licensing: Is This an Answer?" (Insurance Institute for Highway Safety); "Before You Pack for College, Check Your Insurance Coverage" (Esther Peterson); "Insurance Education Foundation's National Advisory Council of Secondary Teachers Inaugural Meeting"; "Embraced by Affectionate Family" (Ayako Yamamoto); "Revitalizing Neighborhoods across the Nation" (Insurance Information Institute); and "Trends in Costs of Goods, Services and Insurance" (reprinted from the "Insurance Information Institute 1995 Fact Book"). Both newsletters contain annotated lists of classroom resource materials and news briefs from the Insurance Education Foundation. (MN)

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The Insurance Educator

volume IV

1995

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The Insurance Educator

The purpose of this semi annual newsletter is to provide secondary educators with a greater knowledge of insurance, access to teaching materials, new ideas and insurance career information for students.

Volume IV Number 1 · January 1995

If there are other teachers in your school district that could benefit from the Insurance Education Foundation programs to help them teach insurance, please share the enclosed card.

LIFE INSURANCE: WHY AND WHEN PEOPLE BUY IT

by D. P. Marsh, Senior Vice President, Life Operations
Auto-Owners Insurance Company
Columbus, Ohio

Teachers may want to copy and distribute the following article before classroom discussion about when, in their future lives, they may be faced with the need for life insurance.

Life insurance, like all other forms of insurance, is money. Just as automobile insurance provides money to fix a car damaged in an accident or fire insurance provides money to repair a home damaged by fire, life insurance provides money to an insured's survivors when he or she dies.

Most people work for a living. They earn an income. That income is used to buy things and pay for a variety of essential needs. Some of it is also saved to meet future financial needs. Unfortunately, when that income is taken away because of death, survivors who were dependent on that income can fall on hard times. That's why life insurance is so valuable. Life insurance dollars allow those survivors to meet their many different cash and income needs at a time when they will need it most.

Let's examine more closely some of the cash and income needs of survivors:

1. Final expenses incurred by a family at the death of a loved one can amount to a considerable sum. The costs of a funeral are just one element. If there was an illness prior to death, there may also be medical bills. While medical insurance will likely pay for most of these costs, there still could be a hefty amount not covered.

2. The need to pay off debts is another cash requirement created by a person's death. People borrow money to buy homes, automobiles, boats, vacation property, a child's education and for many other reasons. In some cases lenders require that the entire loan balance be paid in full at the borrower's death. Even if they do not, it is often helpful to have debts paid off so that the surviving family members can use <u>their</u> income for current living expenses rather than making monthly loan payments for past purchases.

IN THIS ISSUE

YOU, TOO, CAN TEACH TEENS ABOUT INSURANCE-- WITH NO YAWNS!

by Ellen Thrower, Ph.D.
President, The College of Insurance
New York, New York and
Member, Board of Directors
Insurance Education Foundation

As educators, we care deeply about the things our students learn from us. Little time is available to ponder these thoughts, but it is at the heart of all that we are and should be doing in our classrooms. Of all the things we can teach young people today and all the ways in which we can have a positive impact on their lives, one of the most significant is enabling them to function wisely as consumers.

Learning to manage one's resources intelligently throughout a lifetime is a critical skill. In most homes, it appears that teenagers learn little about making wise consumer decisions regarding insurance and personal finance. A key responsibility of high schools is to help prepare teenagers to make wise use of money. Experience and comfort with financial service areas such as credit, consumer loans, savings/checking accounts and mortgages enable most teachers to teach those topics confidently. Unfortunately, a vital financial service that most high school educators find confusing and difficult, if not impossible, to teach is insurance.

Further adding to these difficulties is the fact that insurance is a big yawn to teenagers. They do not perceive it as applicable to their young lives, and this presents a special challenge to teachers. The good news is that both of these negatives--limited teacher knowledge about the subject of insurance and student disinterest--can be reversed in your classroom. Nearly 800 high school teachers across the United States who were once in the same boat with you and dreaded teaching about insurance in their classes are now looking forward to teaching this topic! The difference is the impact that the educational programs of the Insurance Education Foundation have had on those teachers and, more importantly, their students.

To help you acquire a sound understanding of insurance and ways to make this topic more interesting and relevant for you and your students, the Insurance Education Foundation provides free teaching aids as well as full scholarships for summer workshops at five college and universities. More detail about these programs is provided in this issue of *The Insurance Educator*. You are invited to join the hundreds of teachers who have taken advantage of these opportunities to help you help your students. In the process, you will also become a better consumer of insurance yourself!

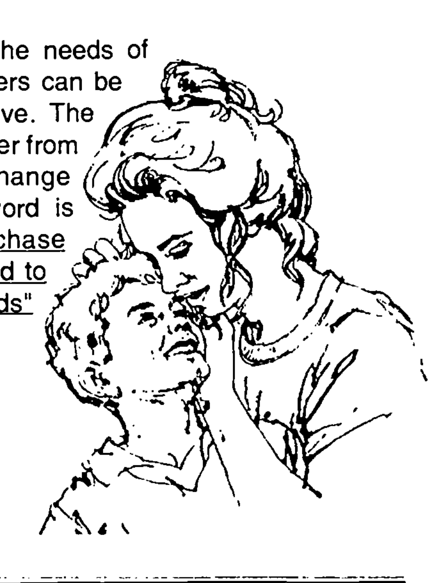
LIFE INSURANCE: WHY AND WHEN PEOPLE BUY IT

Continued from page 1

3. A college education can mean a great deal to a child. But college or vocational education costs money. Sources of money to pay for college or vocational education include parents' income, savings, loans and scholarships. While some combination of these sources will likely provide enough money while parents are alive, what happens if a parent dies? That's where life insurance is so valuable. It provides the money that will fulfill a parent's educational hopes for a child.

4. So far we have reviewed several lump sum cash needs of a surviving family. A family also has a need for regular weekly and monthly amounts to meet everyday living expenses. Such expenses include food, clothing and the cost of day care. In addition, there is the cost of utilities for the family home, property taxes, home maintenance costs, car repair, gasoline, medical care and the costs of automobile, home, medical and life insurance on survivors.

As you can see, the needs of surviving family members can be extensive and expensive. The needs of one family differ from another, and they change over time. The key word is "needs." <u>People purchase life insurance when and to the extent that "needs" exist.</u>



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FAMILIES, AUTOMOBILES AND HOMES OF THE FUTURE

Reprinted from the Public Affairs Report with permission from State Farm Insurance Companies, Bloomington, IL

> *Teachers may want to discuss these predictions with students and have them brainstorm about how these changes will impact insurance rates and products in the decades ahead.*

A panel of experts peered into the future and tried to foresee what it holds for insurers at the recent 33rd annual Insurance All-Industry Day sponsored by the Central Illinois Chapter of Chartered Property and Casualty Underwriters (see article on CPCU in *The Insurance Educator*, Volume II, No. 1, January, 1993). The implications of what economists, marketing specialists and others with access to demographic data have to say about population and social trends are enormous to all of us. Following are excerpts of what we might expect to continue into the first half of the 21st century.

According to Dr. Susan H. Mott, Director of Individual Life and Health Marketing at Nationwide Insurance, future trends in America's populations will reflect:

- splintering into fragmentary subgroups
- an aging population
- changing household structures
- growing ethnic diversity
- a widening gap between rich and poor
- slower growth in the labor force
- barely more than half of households in the year 2000 will be headed by married couples

Mott pointed out that the non-Hispanic white birth rate in the United States is below the replacement level, while the birth rates of minorities, especially Hispanics, are above the replacement level.

Dr. Joseph L. Candela, Property Training Supervisor for Vale National Training Center, Inc. looked at future developments in home-building materials and practices. Candela believes that America is now in its last years of home construction based on wood. "The era of plentiful wood in this country is ending," he said. "We are now in the wood imitation stage, which occurs at the end of the wood construction cycle."

Candela expects America to do what the rest of the world did when it ran out of wood: turn to masonry construction. He pointed out that the Greeks and Romans used wood homes early in their histories. When their forests were gone, they went to brick and stone houses. The same happened in most of Europe during the modern age. Candela foresees the electronic systems in homes becoming far more advanced as time goes by. "Eventually, homes will be alive electronically," he said.

Ben C. Parr, automobile industry liaison in State Farm's Research Department in Bloomington, Illinois, said the trends in cars will be toward greater safety, more fuel efficiency, and less pollution. Parr predicted these changes:

- All-weather windows that won't need wipers or defrosters
- Better brake lights
- Daytime visibility lighting
- Better signaling and perimeter lighting
- Collision warning systems
- Advanced passenger compartment environments
- Voice-activated controls and indicators
- A roadside emergency communicator
- Route guidance systems
- Self-sealing tires
- Mirrors with a wide field of view

Michael J. Brady, an attorney with the Ropers, Majeski, Kohn, Bentley, Wagner & Kane law firm in San Francisco, California, believes that a break may be ahead in the cloud of litigation hanging over the United States. America has been hit by a litigation explosion over the last 35 years that has multiplied economics costs enormously, he said. No other nation is burdened with our costly legal system. America can't compete economically with other nations as long as it has its expensive system and they don't. Brady thinks that America's shock over its loss of competitiveness will force it to reform its legal system.

This is already happening in California, where the litigation explosion began and reached its most extreme form, Brady believes. He says California courts have recognized the economic harm that the state is suffering because of its high litigation costs. In recent years, they have started reducing these costs. He expects that trend to expand to other states in the next 10 years.

TONI GOES FROM OFFICE HELP TO OFFICER DURING OREGON MUTUAL CAREER

Teachers may want to copy and distribute this article to students and share it with the school library or careers resource center.

by Julie Laverde,
Human Resources
Oregon Mutual
Insurance Company
McMinnville, Oregon

Toni Chodrick (pronounced kō´ drĭk) always knew she wanted to work for the Oregon Mutual Insurance Company, one of the oldest insurance companies in the west. It is considered by many as an exceptional place to work. Situated in McMinnville, Oregon, a small town of 20,000 just 30 miles from Portland, Oregon, this company recently celebrated its 100th anniversary. Securing a job there, however, proved to be somewhat of a challenge.

It was 1964 when Toni first interviewed with the personnel manager with whom she was acquainted. Toni and her family were well known in McMinnville. Her great grandparents had moved to Oregon in 1843 on a wagon train and settled in McMinnville! Toni was determined, but so was the personnel director who had other ideas for Toni--college. He cared enough not to hire her at that time and encouraged her to go to college.

Unfortunately, Toni's family could not afford to send her to college, so she attended a business school in Salem, Oregon. When another large insurance company offered her a position, Toni called the same Oregon Mutual personnel director to let him know of the offer. He hired her over the phone!

That determination led Toni on the successful career path that took her from key punch operator to Corporate Secretary and an officer of the company in less than ten years. Actually, the key punch position lasted only two months, after which Toni said, "This is boring. What else can I do?" Her answer came when she volunteered to work in Policy Support and began her climb up the corporate ladder. Toni went on to work in Accounting, Research and Development, Casualty Underwriting, Rates and Forms and Marketing before eventually moving to Administration.

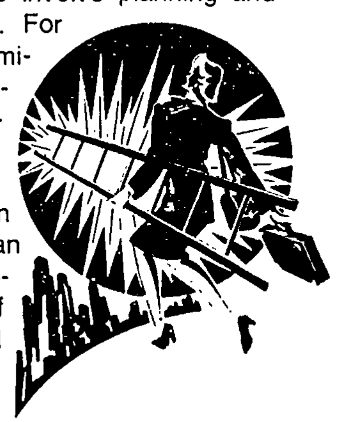
Toni's current position as Corporate Secretary primarily entails working with the Board of Directors and other officers. She is responsible for agendas, board meeting planning, corporate documents, the recording of board sessions, and taking action on Board decisions. "Basically, I am responsible for any function that helps make the Board and officers more effective," says Toni. And there are always various company projects that come along.

The company's recent Centennial is a good example of the variety of a Corporate Secretary's duties. "The Centennial project ties in to another of my responsibilities, that of dealing with the public and community relations," comments Toni. "This is a natural for me based on my history with McMinnville." She is involved on the Boards of the Chamber of Commerce, United Way, Linfield College Steering Committee and volunteers for Hospice and the American Cancer Society. Community involvement is a must in this kind of position.

"As a result of working for OMI, I have been able to do things that I otherwise never could have done in my lifetime, such as being president of the National Association of Insurance Women," says Toni. NAIW is an association of 15,000 insurance professionals dedicated to the development of leaders within the insurance industry. "Because of my affiliation with NAIW, I am on a first-name basis with many interesting and incredible people all across the United States and Canada." Toni credits OMI's Chairman James Osborne for encouraging her to pursue the NAIW presidency.

A climb up the corporate ladder in the insurance industry involves another challenge--continuing education. Toni's list of certifications attests to her commitment to professionalism with designations of CPS (Certified Professional Secretary), AIM (Associate in Management) and CPIW (Certified Professional Insurance Women). She is currently enrolled in classes to qualify for the CPCU (Certified Professional Casualty Underwriters) designation.

Successful insurance careers involve planning and implementation of many factors. For Toni Chodrick, it has been determination, hard work, ambition, professional development, community involvement, continuing education and supportive management. Her NAIW campaign slogan embodies her philosophy: "I am an ordinary person, but ordinary people can do extraordinary things if they believe in themselves and what they want to accomplish."



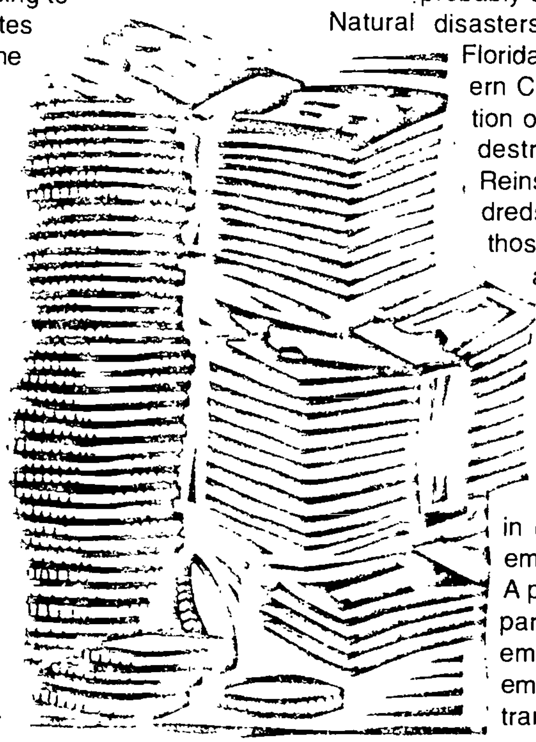
WHAT IS A REINSURANCE COMPANY?

By John Foulds, Second Vice President
General Reinsurance Corporation
Stamford, Connecticut

Teachers may want to refer to this information when students ask about insuring very large and/or expensive items. Or it could be used by students preparing special reports

"I know what insurance is, but what is reinsurance?" This is a question I get asked frequently, either away from work or by young people applying for jobs at our Company. It is understandable that people are unfamiliar with reinsurance since our industry does not sell to the individual consumer, limits its advertising to trade journals, and generally operates on a commercial level away from the view of the general public. Nevertheless, reinsurance is a major factor in the world insurance market.

Reinsurance is the insurance that insurance companies buy when a risk is larger than the "primary" insurer chooses to retain. For example, if a major primary insurer sells a policy covering property damage on a $50 million high-rise office building, it may wish to retain only a portion of the risk, say $5 million, and buy reinsurance on the remainder. The primary insurer would rather have ten $5 million risks in its portfolio than one $50 million risk--it doesn't want all its eggs in one basket. By purchasing reinsurance, the primary insurance company spreads its risk and minimizes the chances of a major loss due to catastrophe. Reinsurance provides the primary insurer with additional "capacity" to assume very large and often unusual risks which it might otherwise choose not to write. The insurer and reinsurer share in the risk as well as the premium income.



As you have probably guessed, reinsurance is generally purchased when the dollar value of the potential risk is very large, typically in the millions. This could be a large, individual risk, such as a high-rise building, which is individually underwritten and known as a **facultative risk.** Ships, factories, oil rigs, art collections, or thoroughbred race horses are other examples of expensive properties that might be reinsured so that no one company has to pay a very large loss, that could result from fire, windstorm, earthquakes or other perils.

Many businesses are also concerned about financial loss resulting from personal injury and a law suit that could follow. Doctors, pharmaceutical companies, airlines and chemical manufacturers are among the many businesses that need liability insurance to protect them if a law suit occurs. Reinsurers share in the risk and thus help make this protection available. A doctor, for example, would not want to perform surgery on a patient if medical malpractice insurance were not available.

The other half of our business is called **treaty reinsurance,** wherein the reinsurance contract, or treaty, covers an entire line of similar risks, such as all of a primary carrier's homeowner policies. Automobile insurance on my Jeep would not likely be reinsured on a facultative basis, but is more probably covered under a treaty.

Natural disasters, such as Hurricane Andrew in Florida, or last year's earthquake in southern California, caused a large accumulation of losses in the form of damaged or destroyed homes and automobiles. Reinsurance companies paid for hundreds of millions of dollars in losses in those two events. Reinsurance coverage was generally provided under treaties that protected against accumulation of losses.

At a reinsurance company, relatively few people are responsible for a lot of very big business deals. For example, the General Re Corporation had premium income in excess of $3.5 billion for 1993 yet employs fewer than 2,400 associates. A primary insurance company of comparable financial size might easily employ 20,000 people because employees are working on many more transactions which are, on average, smaller in dollar value.

Reinsurers employ people with many of the same skills that you will find at insurance companies. **Actuaries** determine rates for our products and establish financial reserves for future claims. **Underwriters** analyze the risk associated with prospective business, structure the reinsurance transaction, and determine pricing. **Claims professionals** determine coverage and establish reserves for specific cases. Reinsurance transactions are typically large, often providing millions of dollars in coverage. Consequently, reinsurance professionals assume a great deal of responsibility.

IT'S TIME TO APPLY FOR IEF WORKSHOP

If you're a high school teacher, you have until April 1 to apply for a two-week workshop in insurance education. Your application must be received by the Insurance Education Foundation (IEF) by then to be considered for this intensive study of insurance and how to teach it to teenagers.

Topics covered include: general insurance principles, all kinds of insurance, insurance company operations, family financial planning, social security, and insurance careers. Lesson plans will be developed during the workshop for you to use in your classroom.

The only cost to teachers is transportation and weekend meals. IEF provides room and board, all classroom materials, and tuition for three hours of graduate credit. Any secondary educator who is teaching insurance to teenagers in any course is eligible.

Dates of the program and schools hosting this graduate-level course are: Drake University, Des Moines, Iowa (June 11-23); The College of Insurance, New York City (July 16-28); California State University, Sacramento (July 16-28); The University of Alabama, Tuscaloosa (July 16-28); and Illinois State University, Normal (July 9-21).

During the past 7 years, 760 teachers from 47 states have completed the program. For details, return the attached post card or call IEF at 317-876-6046.

Man vs. Nature

While the devastation leveled by a Hurricane Andrew or a Mississippi River flood is breath-taking, many disasters involve human error or equipment failure. According to statistics over the past 13 years from Contingency Planning Research, most disasters are not the result of Mother Nature. Here are the most common catastrophes:

Crisis	Frequency
Power Outages	15.1%
Fires	13.2%
Earthquakes	12.8%
Human Error	12.8%
Fraud/Hackers	10.7%
Computer Viruses	7.3%
Flooding from Burst Pipes	7.1%
Hardware Error	4.8%
Hurricanes	3.8%
Terrorism	3.4%

About Health Care

TEACHERS: If you need background material about health care, there is an interesting article in the October 1994 issue of *Reader's Digest.* Entitled "Five Myths About Health Care Spending," Robert M. Goldberg's article should spark good discussion in the classroom (or teacher's lounge). Costs of reproducing that article are prohibitive for us.

TIPS FOR THE HEALTH INSURANCE CONSUMER

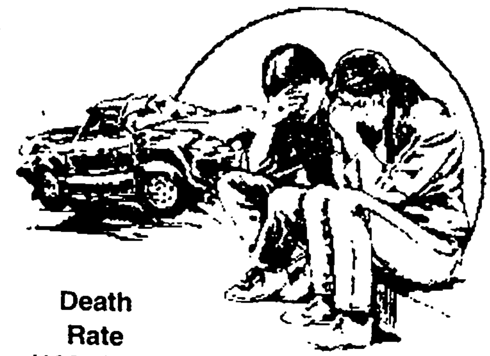
DO

- Explore group coverage *first.*
- Pay premiums for individual insurance on an annual or quarterly basis, if you can; it's cheaper than paying on a monthly basis.
- Take advantage of the "free look" provision for individual insurance; you have ten days to look a policy over and obtain a refund, if you decide it is not the one for you.
- Read your contract over every year to see if its benefits are still in line with medical costs.
- Study deductibles and co-insurance factors. If you are willing (and financially able) to absorb more medical expense, you may lower your insurance costs.
- Establish a health emergency fund to cover small expenses.
- Keep your insurance up to date with your needs and family responsibilities.
- Talk to your company benefits person or your insurance agent if you have any questions about your policy.
- Report any unresolved complaints to your state insurance department.
- Examine bills for health care services and report errors to insurer.
- Keep records of expenses.
- File claims on time with full expense documentation.
- Review your needs for dread disease or hospital indemnity insurance.

DON'T

- *Don't* replace a policy unless it is out of date: switching may subject you to new waiting periods and new exclusions. See if your policy can be updated.
- *Don't* keep policies because you've had them a long time; you don't get any special credit for being an old customer.
- *Don't* try to make a profit on your insurance by carrying overlapping coverage. Duplicate coverage is expensive and most group policies contain a "coordination of benefits clause" limiting benefits to 100% of actual expenses.
- *Don't* misrepresent facts on your application. If you fail to mention a pre-existing condition, you may not get paid when you need it.
- *Don't* buy disability policies requiring house confinement. That is not a valid element of the medical definition of disability.
- *Don't* buy "dread disease" policies (covering one disease such as cancer) BEFORE your basic and major medical plans are in place.

Motor Vehicle Safety



1988-92 Passenger Vehicles with Lowest Driver Death Rates During 1989-93

Year	Make & Model	Size and Body Style	Relative Restraint System	Death Rate (100=Avg.)
1990-92	Volvo 240 4dr	Midsize car	Air bag	0
1992	Plymouth Voyager	Large pass. van	Air bag	18
1990-92	Volvo 740/760 4 dr	Midside luxury car	Air bag	18
1988-92	Mercedes 190 D/E	Midside luxury car	Air bag	27
1991-92	Acura Legend 4 dr	Large Luxury car	Air bag	36
1990-92	Buick Riviera	Midside luxury car	Air bag	36
1992	Dodge Caravan	Large pass. van	Air bag	36
1992	Ford Aerostar	Large pass. van	Air bag	36
1989-92	Laquar XJ6	Large luxury car	Belt only	36
1990-92	Lexus LS 400	Large luxury car	Air bag	36
1990-92	Lincoln Town Car	Large luxury car	Air bag	36
1989-92	Mazda MPV	Large luxury car	Belt only	36

1988-92 Passenger Vehicles with Highest Driver Death Rates During 1989-92

Year	Make & Model	Size and Body Style	Driver Restraint System	Relative Death Rate (100=Avg.)
1990-92	Chevrolet Corvette	Small sports car	Air bag	327
1990-92	Pontiac LeMans 2 dr	Small car	Belt only	300
1989-92	Isuzu Amigo	Small Utility vehicle	Belt only	291
1990-92	Ford Mustang	Midside sports car	Air bag	264
1990-92	Ford Festiva 2 dr	Small car	Belt only	236
1988-92	Nisson pickup 4x4	Small pickup truck	Belt only	218
1991-92	Ford Escort 2 dr	Small car	Belt only	209
1990-92	Geo Metro 2 dr	Small car	Belt only	209
1988-92	Chevrolet S10	Small pickup truck	Belt only	200
1988-92	Dodge Ram50 4x4	Small pickup truck	Belt only	200
1988-92	Nissan pickup	Small pickup truck	Belt only	200

Source: Insurance Institute for Highway Safety

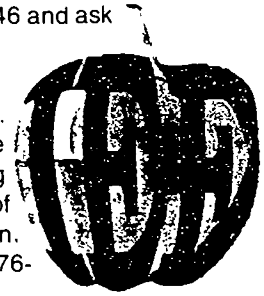
CLASSROOM RESOURCES

Enhancing the Financial Literacy of Older Youth (video & resource packet). Videoconference about personal finance education for teenagers and young adults. Topics include financial planning, managing income & credit, owning & protecting assets (insurance), etc. Resource packet $5, 2-hour video $29.95 + $3 S&H from University of Idaho, Ag Communications, Moscow, ID 83844-2332 OR borrow video from Insurance Education Foundation, P.O. Box 68700, Indianapolis, IN 46268.

Choice-Chance-Control: That's Life and That's Insurance, Too! (20-minute video, lesson plans, teacher's guide, activity sheets). Teaches what insurance is and how it works. Lesson plans appropriate for consumer economics, business, math, social studies, driver education, etc. Request via attached post card. Free to teachers.

People Who work for Insurance Companies Do a Lot More Than Sell Insurance (8-page pamphlet). Produced by the Insurance Information Institute. Brief description of 7 insurance careers. Limited copies available from IEF (call 317-876-6046) or request from Insurance Information Institute (call 800-331-9146 and ask for Media Department)

A Consumer's Guide to Life Insurance (32-page booklet). Basic information needed to make informed decisions about life insurance. Explains policy types, costs comparisons, choosing company, etc.; has glossary. Produced by American Council of Life Insurance, 1001 Pennsylvania Avenue, N.W., Washington, DC 20004-2599. Limited copies available from IEF (call 317-876-6046).



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Volume IV, Number 2 - September, 1995

The purpose of this newsletter is to provide secondary educators with a greater knowledge of insurance, access to teaching materials, new ideas and insurance career information for students.

This publication is available free of charge to secondary educators who teach insurance in any subject. Please share it with colleagues.

IN THIS ISSUE

Why High Rates Happen to Good Drivers

Reprinted from Motorland magazine, courtesy of the California State Automobile Association

We encourage teachers to duplicate this article for students and suggest that they share this with their parents. A lack of understanding by the general public about this fundamental operation of insurance is, in the opinion of many, a key factor behind the disturbing statistic that nearly 20 percent of recently surveyed Americans think it is acceptable to pad their insurance claims when a loss has occurred.

Why did my auto insurance rates go up when I haven't had any accidents?" The question is a familiar one.

While few people wake up in the morning with a burning desire to study insurance, most of us want to understand our own policies. Many good drivers, who are careful about maintaining safe driving records, wonder why their rates seem to go up each year.

Shouldn't rates go up only for those with accidents? Shouldn't rates go down for drivers without them?

Unfortunately, the answer is no. Here's why:

When you buy insurance, you're joining a group of drivers who agree to share the costs of all accidents that occur to those within the group.

Some people think of insurance as a banking arrangement. They pay their premiums to an insurance company which, they believe, "banks" the money to pay for accidents they may suffer in the future. Obviously, if this were true, someone without accidents should have plenty of money in the "bank." Until those savings were exhausted, no rate increase would be needed. But your premiums are not banked to pay for your future losses. They're used to pay for accidents happening right now.

When you buy insurance, you're put into a group with people like you, people who have similar driving records, use their cars in the same way, drive in the same areas and so on. If your insurance company has done a good job assessing risk, at the beginning of the year you will be in a group whose members all have the same likelihood of being in an accident in the upcoming year.

No one knows which members of the group will have accidents, but experience indicates a certain number will. And experience, when interpreted by actuaries (professionals who compile and interpret insurance statistics), can predict what those accidents are likely to cost.

Each year, an insurer must earn enough income from collecting and investing premiums to pay for the losses suffered by policyholders during the year, to pay expenses, and to establish a reserve to be used during unforeseen catastrophes such as hurricanes and earthquakes.

Armed with this information, and facing a rate increase, many drivers wonder, "Who are those bad drivers I'm subsidizing with my premiums? After all, good drivers aren't involved in accidents, so the drivers in my group must be bad drivers, right?"

Unfortunately, no. All drivers, even safety-conscious ones, can be involved in accidents.

In fact, the overwhelming majority of accidents involve good drivers—those who drive responsibly and have a low likelihood of suffering an accident. While speeding and alcohol are primary causes of serious accidents, most accidents are caused not by gross negligence but by simple human error.

Driving is a complex task involving 200 observations and 20 decisions per mile. That complexity leads to one error every two miles for the average driver. Eventually, those mistakes result in accidents, even for conscientious drivers.

And when accidents happen, insurance is there to repair cars, treat injuries and repair damaged property.

Percentage of Fatal Crashes with Various Characteristics, by Driver Age, 1993

[illegible]	[illegible]	[illegible]	[illegible]
Driving Error	82	74	62
Speeding	37	33	23
Single Vehicle	44	37	29
3+ Occupants	33	27	18
0.10+ % BAC*	5	28	48
Female Driver	34	27	29

* *BAC: Blood alcohol concentration. In most states, 0.10 percent or more defines the offense of alcohol-impaired driving. Courtesy of the Insurance Institute for Highway Safety*

Lessons For The Teacher

Graduated Licensing: Is This An Answer?

Reprinted with permission from the Insurance Institute for Highway Safety

The Insurance Institute for Highway Safety (IIHS) is an independent, nonprofit, scientific and educational organization. It is dedicated to reducing the losses—deaths, injuries, and property damage—resulting from crashes on the nation's highways. In the quest to reduce teenage fatalities, IIHS advocates graduated licensing. Teachers may want to introduce the subject of graduated licensing as an approach to curbing the devastating losses caused by teen driver fatalities. See Classroom Resources on page 8 for video about this topic.

Graduated licensing systems are designed to phase in young beginning drivers to full driving privileges as they mature and develop their driving skills, ensuring that initial experience is accumulated under lower-risk conditions. Graduated licensing systems exist in New Zealand; Victoria, Australia; and in Ontario and Nova Scotia, Canada. Each is different, but all have in common three stages—a required length of time in a learner's period with supervised driving practice allowed under certain conditions; a restricted license for a set period of time with unsupervised driving allowed in some circumstances but not others; and then a full, unrestricted license, provided the driver has remained free of violations or crashes. Restrictions may include night driving curfews, limits on the number and ages of passengers transported, and a low or zero blood alcohol concentration.

Laws in U.S. states include elements of graduated licensing systems. For example, nine states have night driving curfews. However, in most states where unrestricted licenses can be obtained at an early age, requirements for the pre-licensure period are often minimal, and full driving privileges are typically bestowed upon initial licensure. The resulting high crash rate for the youngest drivers (the crash rate per million miles driven for 16-year-olds is 8 times as high as it is for older drivers) has led states to consider adopting graduated licensing.

How do graduated licensing systems help beginning drivers?

Graduated licensing is basically a system for introducing beginners into the driving population in a low-risk manner, protecting both them and others they meet on the roads. Graduated licensing systems could apply to all first-time drivers, not just the youngest, as they do outside the United States. In the United States, however, young people make up the majority of beginning drivers, and graduated licensing systems now being considered in some states would focus on these drivers. It should be noted that young people are subject to a variety of legal restrictions. This is the case with voting, alcohol purchases, and financial obligations such as signing contracts.

The rationale for special policies for young drivers is that their crash risk is particularly high. Teenage drivers have the highest crash rate of all: 20 reported crashes per million miles driven, compared with a rate of 5 per million miles for all other ages combined. However, the rate for 16-year-olds is by far the highest (43), followed by 17-year-olds (30). Older teenage drivers have substantially lower crash involvement rates: 16 per million miles driven for 18-year-olds, 14 for 19-year-olds. It is the very youngest who are most likely to engage in risky behavior such as speeding and tailgating. Because of their inexperience, beginners are least able to cope with hazardous situations. When this is combined with their aggressive driving style, a high crash rate results.

Why are teenage drivers targeted as a group?

We know some of the characteristics of younger drivers who are more likely than others to be in crashes, but it is not possible to identify such people adequately on an individual basis and attempt to intervene before they get into crashes. Many licensing systems in the United States impose greater and/or earlier penalties on young people for traffic infractions than they do on older drivers, but most young drivers in fatal crashes do not have prior traffic violations or crashes on their records.

The logic of addressing all young people is that they are all beginners when they start to drive, and every novice needs time to develop driving skills in low-risk settings.

Does driver education provide adequate preparation for licensure?

A good driver education course, emphasizing on-the-road driving, is an effective way to learn basic vehicle control skills. But extensive research studies have indicated that high school driver education does not lead to lower crash involvement compared with other ways of learning to drive. Attitudes, decision-making skills, risk-taking tendencies, and other factors that may not be affected much by driver education programs contribute in an important way to crashes. As indicated in a 1994 National Highway Traffic Safety Administration Report to Congress, experts agree that "current novice driver education is not doing a very good job in motivating youngsters to drive safely."

Should teenagers be allowed to drive to school, work, and extracurricular activities?

Graduated licensing systems, in enhancing safety, do affect some of the mobility needs and desires of young people. The ability to drive without supervision affords teenagers independence and peer recognition. Being able to drive at night with their friends in the car is particularly important for teenagers, but nighttime is the most dangerous time for beginners to be on the road, especially when they are with their peers. Thus, night driving curfews are an important element of graduated licensing systems. Most night driving curfews in force in the United States allow exemptions for driving to work or school during the restricted hours. And to the extent that graduated licensing systems delay full licensure, there is evidence to suggest that this does not significantly hinder social activities. A 1987 Institute survey of more than 50,000 high school students in 7 states indicated that 16-year-olds have largely similar lifestyles, in terms of social, dating, and work patterns, whether they live in states where many, few, or no -year-olds are licensed.

Do parents favor graduated licensing?

Many parents want their children licensed early so they no longer have to transport them to various school, work, or social activities; but they also worry about the risks involved. Parents are strongly in favor of graduated licensing. A 1994 Institute survey of 1,000 parents of 17-year-olds found that 90 percent favored a minimum period of supervised driving before full licensure, 74 percent favored night driving curfews, 43 percent favored restricting teenage passengers during the first few months of driving, and 97 percent favored a zero BAC for teenagers. Fifty-eight percent said they favored a graduated licensing package including many months of supervised driving practice before licensing, a night driving curfew and prohibitions against transporting teenagers until a good dr ng record has been demonstrated for 6 to 12 months.

Will graduated licensing work in the United States?

Graduated licensing systems are not a panacea, but they can reduce the motor vehicle injury problem for young people. In the states that now have elements of graduated licensing, the safety benefits are evident. Studies of night driving curfews indicate that crash reductions of 60 percent or more can be achieved during curfew hours. Low BAC thresholds for young drivers also reduce the problem. No state in the United States has a licensing system that includes all the components of graduated licensing, which would be expected to provide additional safety benefits.

Before You Pack for College, Check Your Insurance Coverage

By Esther Peterson

The following information is valuable to the parents of college-bound students. We recommend that copies be distributed to seniors to give to their parents.

Sending your kids to college is expensive. That's why it's important to protect yourself from additional, unanticipated expenses.

Does your insurance cover your child's health expenses while away at school? Does your homeowners policy cover damage or theft of personal possessions in the dormitory?

Here are some things to check before your college student moves on campus.

Homeowners Insurance

Review your homeowners insurance to determine exactly what's covered in your policy. Remember that there are coverage limits on certain items. More students these days think computers and mini-refrigerators are necessities in their dorm rooms. If the value of dormitory possessions exceeds the specific figure in your standard policy, you should consider buying additional coverage.

Make a list of the possessions your son or daughter is taking to college. Note the items, original cost and date purchased. You may want to photograph the items that are uncommon or particularly valuable.

It is recommended that you engrave valuable items such as televisions, stereos and computers with a Social Security number or other identification. This will help return the items in case they are stolen.

In the case of theft or damage, notify your insurance company or agent immediately.

Health Insurance

Talk with your insurance agent or company to check if you should continue coverage of your child on your policy or purchase a college-sponsored policy.

Remember that college-sponsored coverage usually expires on the date of graduation. It could be several months after graduation until the graduate gets a job and is eligible for a group health plan.

If students are covered by their parents' individual policy, the students often have the right to purchase the same coverage in their own name after graduation. Coverage through an individual policy generally ends when the child is 19 years old, even if the child is a student.

In general, under a group policy, children are covered until age 23, as long as they are still single, financially dependent and full-time students.

When you pack up your college-bound students and send them off with their possession, do so with peace of mind and accurate information on insurance coverage.

Esther Peterson is a former White House Special Assistant on Consumer Affairs and consumer advisor to the National Association of Professional Insurance Agents.

IEF News

Insurance Education Foundation's National Advisory Council of Secondary Teachers Inaugural Meeting

Late this summer, 27 high school teachers met for the first time to advise the staff and Board of Directors of the Insurance Education Foundation about how they can expand IEF's education programs to provide even more assistance to secondary educators. This foundation is interested in some very specific input about education programs for those of you who are teaching insurance in your courses—input about current and future programs.

United under the label of IEF's National Advisory Council of Secondary Teachers (NACST), 25 American and 2 Canadian teachers brainstormed through the August 5-6 weekend in St. Louis, Missouri. Teachers invited to serve on the advisory council attended one of IEF's Insurance Education Workshops for High School Teachers between 1988 and 1994 and have used the foundation's teaching kit, Choice-Chance-Control. Members of NACST are business, social studies, math, or consumer economics teachers representing urban, suburban and rural schools in 21 states and the province of Ontario.

Choice-Chance-Control is being used by nearly 29,000 teachers in all 50 states and Puerto Rico; a Canadian version of the kit has been provided by the Insurance Institute of Canada in Toronto to 3,000 high school teachers in Canada.

Council members are Evelyn Beenenga, Auburn High School, Auburn, Illinois; Michael Bennett, Xaverian High School, Brooklyn, New York; Murray Blasz, Tottenville High School, Staten Island, New York; Lillian Bonin, Beau Chene High School, Arnaudville, Louisiana; Jan Bradbury, Emporia High School, Emporia, Kansas; Marcia Cunningham, Cunningham & Gregory, Toronto, Ontario; Gaye Flamme, Riverside University High School, Milwaukee, Wisconsin; Kay Frazier, Eastern Hills High School, Fort Worth, Texas; Linda Harper Johnson, Bland High School, Merit, Texas; Ann Hicks, Naperville Central High School, Naperville, Illinois; DeLane Isaak, Clark High School, Clark, South Dakota; Carol Jean Laferty, Bath County High School, Owingsville, Kentucky; Carolyn Ann Lyon, Blackfoot High School, Blackfoot, Idaho; JoAnn Mann, Hanford Joint Union High School, Hanford, California; Glen March, Pomona High School, Arvada, Colorado; Dana Melcher, Grinnell High School, Grinnell, Iowa; Terry Murphy, Frontenac Secondary School, Kingston, Ontario; Catherine O'Horo, E.E. Smith High School, Fayetteville, North Carolina; Marva Pelander, Clover Park High School, Tacoma, Washington; Tad Randolph, Battle Creek Central High School, Battle Creek, Michigan; Patricia Roberts, Open Campus High School, Atlanta, Georgia; David Sampson, Kofa High School, Yuma, Arizona; Raymond Shepherd, Kearns High School, Kearns, Utah; Mike Shireman, Upland High School, Upland, California; Carol Ann Strader, High School III, Cheyenne, Wyoming; Mike Sunderman, Madison High School, Madison, Nebraska; and Barbara Wark, Ridley High School, Folsom, Pennsylvania.

Embraced by Affectionate Family

by Ayako Yamamoto, Hibitsu Junior High School, Nagoya City, Japan

Our "Grand-ma in Shima (Peninsula)" was a very hard worker. Once or twice a month, she would send us vegetables harvested in her garden in a big corrugated cardboard box which sometimes contained sea fish as well. In the box, we also usually found a lovely bag which had cakes and pocket money for us children inside. I remember that my younger brother and I competed with each other for opening such a box with scissors, and we struggled with each other for the cakes whenever it was delivered. There were also letters in it, telling us "Please come to see me next summer vacation," or "I will be waiting for your visit on New Year's day with a good table prepared."

Though we only had a few opportunities in a year to see her, each time she was really pleased to see me and said, "You are just like my daughter. I am glad to become a young mother again." At that time I was only a mere child, so I could not catch [understand] her. Now I understand that she must have felt very lonely with her only daughter married off in a remote city. I was told that, while we stayed at grandmother's place, she always took me everywhere she went, saying "my lovely, lovely child."

Such an affectionate grandmother came to an untimely end in an accident when I was a fourth year pupil in primary school.

She was injured under [covered by] a policy of a life insurance company, and was paid, I was told, double the face amount because her death was caused by an accident. However, my mother said with tearful eyes "I really know now that we cannot buy human life with money. How much happier we would feel if she were here now instead of this money."

Three years after her death, I entered junior high school. Presenting me with some money, my mother said that it was a congratulatory gift from Grand-ma for my entrance into junior high school. I wondered how it could be possible: she was already dead. Then mother showed me a life insurance policy on which I saw my beloved Grand-ma's handwriting.

Grandmother had bought a life insurance policy called "juvenile insurance" for me, when I was born. The benefit will be paid under this policy if I am hospitalized because of an accident or sickness. What pleased me was that I could get congratulatory money every time I entered a higher level school starting from elementary school.

In addition, I was told, I would be paid educational annuity even if something happened to my father who is the policyholder, so I can continue my study up to the age of 22 without any worries. The same arrangement has also been made for my younger brother. Fortunately, my brother and I have been able to live healthy lives without needing financial help [from] the policy as yet.

After grandmother's death, my father has been paying insurance premium for us. My family has bought several other insurance policies in the names of my father and mother. They are more of the money-saving types and have been in good health so far, but they started to reconsider the necessity of having life insurance after encountering Grand-ma's accident.

I am really grateful to my parents and grandmother, who really consider our future and our happiness. After grandmother died, she is still giving us precious gifts every three years.

Now I am in the last year of junior high school, and studying hard to pass the entrance examination for a senior high school next spring. I am looking forward to a marvelous present which will be given by Grand-ma, who is now in heaven.

The Japan Institute of Life Insurance (JILI) was established in 1976 based on a report by the Insurance Council of the Ministry of Finance. The purpose of JILI is to promote mutual understanding between the public and the life insurance industry. For more than 30 years, Junior High School students have participated in an insurance essay contest. The 1993 winner was selected from 29,000 entries from 880 schools throughout Japan. With this essay, a ninth year student at Hibitsu Junior High School in Nagoya City, Japan, won a national prize (certificate and scholarship) as well as equipment for her school. We extend our congratulations to Ayako Yamamoto for this honor.

Revitalizing Neighborhoods Across the Nation

Reprinted from Impact (Vol. 1, No. 1) published by the Insurance Information Institute, New York, New York

The insurance industry is a strong supporter of NeighborWorks® programs, a national network with a history of rebuilding and revitalizing low- and middle-income neighborhoods across the nation. Teachers may find the following article helpful from a personal standpoint. Should the subject surface in the classroom, this summary will provide students with an overview of how the insurance industry invests in crime prevention and the availability of affordable housing.

he NeighborWorks® story began in the late 1960s on the Central North Side of Pittsburgh, where Dorothy Richardson, a homemaker, and a small group of her neighbors decided to improve their part of the city. They were sick of terrible houses, slum landlords, rats and roaches. They needed money to make their neighborhood livable again. It took them a year to convince financial institutions to set up a loan fund. Finally, in July 1968 they were able to hire a director, set up an office in a trailer and offer home repair loans and estimates, contracting information, and architectural advice. That was the start of Neighborhood Housing Services (NHS).

The success of the partnership of local leaders and bankers in Pittsburgh made it the model for other cities that sought to rebuild their neighborhoods. By 1972 there were NHS groups in four other cities—Washington, D.C.; Plainfield, New Jersey; Oakland, California; and Cincinnati, Ohio. In 1974 Neighborhood Housing Services of America (NHSA) was established to strengthen the financial capability of the local NHS organizations. As a national secondary market, NHSA buys the loans that the local organizations make from their own revolving loan funds and provides local organizations with interim real estate development financing.

In the late 1970s Senators William Proxmire and Jake Garn introduced legislation to carry NHS forward through the Neighborhood Reinvestment Corporation Act. The Corporation is Congressionally chartered and funded and is helping the 173 local nonprofits in the NeighborWorks® network intensify their efforts through a $650 million homeownership initiative. NHSA has been asked to bring in $200 million of the $650 million initiative. Through the years NeighborWorks® organizations have invested more than $6.5 billion in neighborhoods that were once written off as lost to deterioration, salvaged more than 114,000 housing units for lower-income Americans, made homeownership possible for hundreds of low-income families and financed thousands of critically needed home repairs.

Insurance companies support NeighborWorks® programs with dollars and leadership

Insurance companies support NeighborWorks® programs by contributing $1.5 million to the network annually. Companies also contribute personal leadership on local boards of directors and operating committees. Insurance company support makes it possible for a local NeighborWorks® organization to provide insurance counseling to its clients and to conduct education programs.

In June 1994 the two largest home insurance companies—State Farm and Allstate—had pledged $54.5 million in low cost capital to NHSA. State Farm pledged $30 million and Allstate $24.5 million. These investments will be used to recapitalize loan funds so that loans can be made to persons from lower-income neighborhoods who don't meet normal credit standards. The borrowers on these loans are mainly low income (72 percent) and minority persons (56 percent).

State Farm has provided human and financial capital to NeighborWorks® organizations in over 50 cities. State Farm employees and agents have served on NeighborWorks® boards, volunteered for neighborhood beautification projects and conducted insurance seminars for residents.

Allstate has worked for over 15 years to create affordable housing through the NeighborWorks® network. Thousands of Allstate employees participate in the Helping Hands volunteer program, cleaning up abandoned properties and getting houses ready for renovation.

During the past dozen years, Nationwide has contributed more than $400,000 to the NHS.

The St. Paul Companies and St. Paul Fire & Marine have contributed well over $300,000 to support NHS projects in Minneapolis and St. Paul.

SAFECO has made annual grants for the past 10 years supporting the loan, homeowner education and rehab assistance programs of the NeighborWorks® organizations in cities including St. Louis, Chicago, Los Angeles, Kansas City and Oakland. SAFECO also provides funds to employees in its 14 branch communities to work with NHS to develop projects to fight crime.

Since 1981 Continental Insurance has supported more than one dozen NHS affiliates with grants totaling more than $250,000 for neighborhood preservation.

Help from insurers has allowed organizations in the Greater Los Angeles area to rehabilitate more than 850 units of housing, benefiting indirectly more than 250,000 residents in 9 neighborhoods.

Insurance companies, including Aetna, Allstate, GEICO, Metropolitan Property & Casualty and State Farm, have formed an insurance advisory committee with the NHS of New York City. With the financial help of insurers, the NHS has hired an insurance coordinator, James Reaves, a former broker, and charged him with finding insurance for inner-city residents. Working with the New York City Police Department and the NHS of Bedford-Stuyvesant, the insurance industry has established a pilot crime prevention program under the direction of Dr. Georgette Bennett, a leading expert on community crime prevention.

The insurance industry's association with NHS in Chicago has ranged from direct volunteer labor to the provision of private sector insurance. In one neighborhood, the percentage of homes insured by private insurance companies increased from 76 to 87 percent. Insurance companies and the NHS of Richmond, California, have several projects underway. In one, five insurance companies provided 20 to 30 volunteers each to paint homes in a section of the city. Insurers and the NHS of St. Louis are trying to make underwriters more familiar with the needs of inner-city residents and homeowners aware of the insurance products available to them.

The Neighborhood Reinvestment Corporation is actively seeking the involvement of insurance companies in its local programs. Its newly created National Insurance Task Force has 45 members, including Aetna, Allstate, American Family, Automobile Club of Southern California, CNA, Farmers, GEICO, ITT Hartford, Kemper, Liberty Mutual, Metropolitan, Nationwide, Prudential, SAFECO, The St. Paul Companies, State Farm, Travelers and USAA. The Task Force was established to identify issues surrounding the provision of insurance coverage in low- and middle-income communities. Task Force information may be obtained from Todd Pittman at 404-414-0750.

Trends in Costs of Goods, Services and Insurance

Reprinted from The Insurance Information Institute 1995 Fact Book

Teachers may find the following helpful when teaching budgeting. A bulletin board and/or enlarged copies of the graph might be helpful for students.

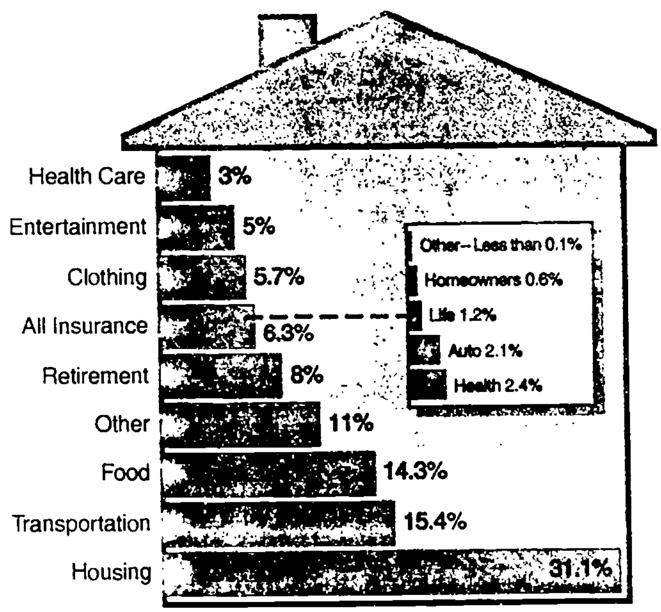
Bureau of Labor Statistics (BLS) data on household expenditures show how U.S. households spend their money. As the chart below shows, expenditures for all kinds of insurance in 1992 represent 6.3 percent of all household spending. Household expenditures for insurance rank behind housing, transportation, food, and contributions to pension plans (which include Social Security taxes).

Auto insurance accounts for an average of 2.1 percent of total household spending, while homeowners insurance amounts to 0.6 percent. Life and health insurance account for 1.2 and 2.4 percent, respectively, of household spending.

Household location often affects what is spent on auto and homeowners insurance. Rural households spend less than urban households on auto insurance; regional variations in the market value of homes affect spending on homeowners insurance. In addition to number and type of cars, where they are driven and by whom, auto insurance costs are influenced by such factors as how rates are set (by the state or in a competitive market), how claims are handled (no-fault or by the tort system), and how the insurer markets the product.

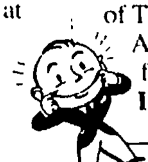
The cost of all types of insurance is heavily influenced by the cost of materials and services paid by insurers to meet insurance claims.

Insurance Expenditures as a Percentage of Total Household Spending, 1992



Calculated using data from the U.S. Bureau of Labor Statistics, Consumer Expenditure Survey

Douglas Marsh, Senior Vice President of Life Operations at Auto-Owners Insurance Company in Lansing, Michigan was kind enough to write the lead article, "Life Insurance: Why and When People Buy It" for the January issue of The Insurance Educator. And then we printed the incorrect location for Auto-Owners Insurance Company! We're embarrassed about this major faux pas. Our sincere apologies to Mr. Marsh and **AUTO-OWNERS INSURANCE COMPANY in LANSING, MICHIGAN.**

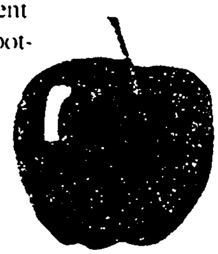


One Earthquake: Not If But When (15-minute video). Dramatizes what would happen when a severe earthquake hits the New Madrid Fault and illustrates the impact on the global economy. Good to stimulate classroom discussion about the importance of insurance to personal and economic stability. Write to IEF, P.O. Box 68700, Indianapolis, IN 46268 or call 317-876-6046 to borrow a copy.

Young Drivers: The High Risk Years (15-minute video). Explores major factors in fatal automobile crashes of teenagers and makes the case for graduated licensing. Free video loan (or $25 purchase) with multiple copies of accompanying brochure from: Communications Department, Insurance Institute for Highway Safety, 1005 North Glebe Road, Arlington, VA 22201 or call 703-247-1500.

Auto Insurance: Getting the Best Value (16-page booklet). Explains segments of an automobile policy, how rates are determined, what to do after an accident, etc. Limited to one copy per teacher. Write to: The USAA Foundation, Attention: Jo Ann Higle, USAA Building D-3-E, San Antonio, TX 78288.

Streetwise: An Introduction to Scooter Riding (28-minute video, teacher's guide, student booklets). Motor scooter driving tips. Produced by Honda Motor Company. A master video will be sent to make a copy.



Write for free materials to: Video Outreach, 77 Arkay Drive, Suite 2B, Hauppauge, NY 11788.

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