

INS 22

Appendix B

Personal Insurance

COURSE LEADER HANDBOOK

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Appendix B

Quizzes

Introduction

One quiz per assignment is provided in this section. A sample answer key is also provided. Please note that because the quiz is in the essay format, the answer key might not address all possible answers. If you want a longer quiz, you might want to supplement with questions from the course guide or SMART exam disk. For tips on creating quiz questions, see page 11 of the general Course Leader Handbook.

Assignment 1—Quiz Answers

1. Civil law deals with torts. List the four elements required for negligence and, using the Billpayers' case as a basis, provide a specific example of each of the elements. (8 points. One point for each of the 4 elements of negligence, and 1 point for each pertinent example.)

Answer: Duty, breach of duty, injury or damage, breach of duty are directly responsible for injury or damage.

2. Distinguish among contractual liability, statutory liability, and absolute liability. Provide one example of each. (6 points. One point for each accurate statement, and 1 point for each pertinent example.)

Answer:

Contractual—Arises when one party enters into a contract or an agreement with another party.

Statutory—Liability that exists because of the passage of a statute or law.

Absolute—Part of tort liability—Tort liability that exists whether or not there was negligence.

3. Provide 2 examples of property belonging to each of the following personal property categories. (4 points. Half a point for each accurate categorization. Sample answers. Many others may be acceptable.)

Answer:

- a. Dwelling contents:
- Livingroom furniture
 - Computers
 - TVs
 - Food in the refrigerator
- b. High-valued personal property:
- Silverware
 - Fur coat
 - Jewelry
- c. Property with unusual or intrinsic value:
- Antiques
 - Stamp collection
 - Coin collection
 - Works of art
- d. Business personal property:
- Computers used for home business
 - Briefcase

2. Billy and Bonnie Billpayer live in a state that is considering no-fault coverage as a means of handling injury to automobile accident victims. As part of the next election in the state, the Billpayers will have the opportunity to vote on whether or not to adopt no-fault. Brenda has asked them how they are going to vote. Billy and Bonnie have the answer ready, but they first need to explain some of the issues to Brenda.
- a. List 4 benefits typically included in no-fault coverages. (2 points)

 - b. List 4 typical arguments made in favor of no-fault coverages. (4 points)

 - c. List 4 arguments frequently made opposing no-fault coverages. (4 points)
3. a. What is the role of the servicing carrier in a joint underwriting authority (JUA) established to provide automobile insurance to high-risk drivers? (1 point)
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- b. Both joint underwriting authorities (JUA's) and reinsurance facilities dictate how the insurance companies writing automobile insurance in the state will share some of the financial burdens of the JUA or facility. Explain how a JUA differs from a reinsurance facility in how the costs of the facility are shared. (2 points)

Assignment 2—Quiz Answers

1. There are several ways to compensate victims of automobile accidents. For each of the ways listed below, write one defining characteristic of that method and one problem with that method. (12 points. Score 2 points for each correct defining characteristic and 1 point for each appropriate problem.)

Answer:

a. Tort liability

- Characteristics:
 - Based on negligence; common law.
- Problems:
 - Contributory or comparative negligence?
 - Clogged courts.
 - Expenses of litigation.
 - Uncertainty of payment (because negligence must be proven).

b. Financial responsibility laws

- Characteristics:
 - Motorists must file appropriate evidence of financial responsibility such as automobile liability insurance after certain events, including an automobile accident, conviction of a serious offense, failure to pay a judgment from an automobile accident.
- Problems:
 - Generally does not protect the victim in the motorist's FIRST automobile accident.
 - All accident victims are not guaranteed compensation for their losses.
 - Legal system includes substantial delays.
 - Injured persons may be compensated for only part of their injuries.

c. Compulsory insurance

- Characteristics:
 - Proof of financial responsibility must be provided in advance of an accident—usually as a prerequisite to registration of an automobile.
- Problems:
 - Compensation is not guaranteed to all accident victims.
 - Protection may be incomplete for many victims.
 - Legal system includes delay in benefits reaching injured victims.
 - There will still be uninsured motorists on the roads.
 - Insurers' "rights" to select insureds who will most probably generate a profit for the insurer.
 - Rates may become too high for all drivers if the insurers are allowed to increase rates to offset the increase in losses coming from drivers whom the carrier would otherwise refuse to write.
 - Compulsory insurance does not reduce the number of automobile accidents.

d. Uninsured motorists (UM) coverage

- Characteristics:
 - The insured purchases coverage under his or her own automobile insurance policy for his or her own injury or loss caused by an uninsured operator or vehicle.
- Problems:
 - The injured person may not be fully compensated for his or her loss.
 - Legal responsibility of the other party must be proven before the insured can be compensated by the UM coverage.
 - Most states do NOT include Property Damages in UM coverage.
 - The victim is paying his own premium to protect himself or herself from others' irresponsibility.

2. Billy and Bonnie Billpayer live in a state that is considering no-fault coverage as a means of handling injury to automobile accident victims. As part of the next election in the state, the Billpayers will have the opportunity to vote on whether or not to adopt no-fault. Brenda has asked them how they are going to vote. Billy and Bonnie have the answer ready, but they first need to explain some of the issues to Brenda. (10 points)

a. List 4 benefits typically included in no-fault coverages. (2 points)

Answer:

Benefits include:

- Medical expenses
- Rehabilitation expenses
- Lost wages
- Replacement of essential services
- Funeral expenses
- Survivors' loss benefits

b. List 4 typical arguments made in favor of no-fault coverages. (4 points)

Answer:

Arguments include:

- Eliminate need to establish fault before benefits are paid.
- Eliminate inequity in claim payments.
- Correct the limited scope of the present system.
- Decrease the financial burden of claim investigation and legal costs in the premium development.
- Speed benefit payments to victims.

- c. List 4 arguments frequently made opposing no-fault coverages. (4 points)

Answer:

Arguments include:

- No-fault arguments exaggerate the defects in the tort system.
- Premium savings and efficiencies of no-fault are overstated and are unreliable.
- No-fault may penalize safe drivers.
- Pain and suffering is not included in benefits under no-fault.
- The present tort system only needs to be reformed—not replaced.

3. (3 points)

- a. What is the role of the SERVICING CARRIER in a joint underwriting authority (JUA) established to provide automobile insurance to high-risk drivers? (1 point)

Answer: The servicing carrier usually receives applications, issues policies, collects premiums, settles claims, and provides other necessary services.

- b. Both joint underwriting authorities (JUA's) and reinsurance facilities dictate how the insurance companies writing automobile insurance in the state will share some of the financial burdens of the JUA or facility. Explain how a JUA differs from a reinsurance facility in how the costs of the facility are shared. (2 points)

Answer: JUA—All auto insurers in the state pay their own proportionate share of underwriting losses and expenses based on their share of the voluntary automobile insurance written in the state. Reinsurance facility—All automobile insurers operating in the state share underwriting losses.

Assignment 3—Quiz

1. Malvern is in a state that does not require no-fault insurance. Massachusetts does require no-fault. Will the Billpayers' policy respond to the need for no-fault should there be an accident involving the Billpayers and another operator in Massachusetts? If not, why not, and how could the Billpayers remedy the problem? If the current policy does respond to the need for no-fault, how does it do so, and to what extent? (3 points)

2. Marion and Lorraine are both volunteers at the local library. One Day, Marion borrows Lorraine's van to pick up a collection of books, donated by an area service club. On her way back to the library, in a moment of inattention, Marion rear-ends a compact car in which an elderly couple are driving. Although Marion is uninjured, there is damage to the van and both of the occupants of the car suffer injuries. How would liability coverage under a PAP apply in this situation? (3 points)

3. Explain whether or not Billy's employer is entitled to any benefit under the Billpayers' policy if the other operator sues them as well as Billy. (1 point)

Assignment 3—Quiz Answers

1. Malvern is in a state that does not require no-fault insurance. Massachusetts does require no-fault. Will the Billpayers' policy respond to the need for no-fault should there be an accident involving the Billpayers and another operator in Massachusetts? If not, why not, and how could the Billpayers remedy the problem? If the current policy does respond to the need for no-fault, how does it do so, and to what extent? (3 points. 1 point for identifying that coverage will be available, 1 point for identifying that the coverage will come from the supplementary payments, and 1 point for identifying that the required benefits would be paid in full.)

Answer: Their policy will respond. The supplementary payments increase the coverages under the policy to automatically meet the coverages and limits required in any state other than the state where the covered auto is usually garaged. The Massachusetts no-fault requirements will be met in full with no additional endorsements or premiums for the Billpayers.

2. Marion and Lorraine are both volunteers at the local library. One Day, Marion borrows Lorraine's van to pick up a collection of books, donated by an area service club. On her way back to the library, in a moment of inattention, Marion rear-ends a compact car in which an elderly couple are driving. Although Marion is injured, there is damage to the van and both of the occupants of the car suffer injuries. How would liability coverage under a PAP apply in this situation? (3 points)

Answer: Marion would have liability coverage under her PAP for her use of a nonowned auto. Because neither Marion nor the library owns or hired Lorraine's van, Marion's PAP will also defend the library against allegation of its liability for the injury to the elderly couple and pay any damages for which the nursing home might be held responsible.

Although Marion's PAP provides coverage for both her and the library, Marion's coverage would be excess over any coverage Lorraine has on her van. Marion's insurer would not pay a liability loss unless it exceeded the liability limit on Lorraine's policy is primary.

3. Explain whether or not Billy's employer is entitled to any benefit under the Billpayers' policy if the other operator sues them as well as Billy. (1 point)

Answer: If the employer is legally responsible for Billy's use of the auto, the employer may be entitled to defense and damage payments.

Assignment 4—Quiz

1. The Billpayers have the following Physical Damage Coverages:

2004 SUV	Collision	\$1,000 deductible
	Other Than Collision	\$500 deductible
2001 Sedan	Other Than Collision	\$500 deductible

Answer the following questions, using the above information as appropriate.

- a. Bonnie was driving the SUV to Brenda's soccer practice when a large bird flew into the vehicle. Substantial damage occurred to the front of the SUV. The insurance company has agreed to issue a check to Bonnie. What deductible, if any, applies? Explain your answer. (3 points)

- b. Billy was driving the SUV during a snowstorm. The vehicle slid on ice. As he was gaining control of the SUV, a vehicle operated by John Smith struck Billy. Substantial damage occurred to the SUV, including a smashed windshield and damage to the fender and hood.
 - i. What deductibles apply? Explain your answer. (3 points)

 - ii. Explain how your answer would change if Billy had been driving the 2001 sedan instead and the sedan had suffered similar damage. (2 points)

- c. Billy borrowed his neighbor's pick-up truck to haul old furniture to the town dump. He gave his neighbor the keys for the 2001 sedan in case the neighbor needed to go somewhere while he was using the truck. While backing into the dump area, Billy collided with a concrete post, causing \$3,000 damage to the truck. Explain whether or not Billy's PAP will respond to the \$3,000 loss and why or why not. (2 points)

- d. Explain how, if at all, your answer to question c would change if Billy and the neighbor exchanged vehicles every weekend in the spring. (1 point)

2. What are the three reasons for deductibles? (3 points)

3. Bonnie Billpayer and her neighbor are having a heated discussion about helping their kids. Bonnie states that when she and Billy help Butch and Brenda by driving them on their respective paper routes, there is no problem with coverage for damage to the Billpayer's vehicle (usually the SUV) they are riding in. Bonnie's neighbor says she heard that using a car on a business, even one like delivering newspapers, can reduce or eliminate collision or other-than-collision coverage under a PAP. Bonnie is upset and calls you for your opinion. What will you tell her and why? (2 points)

4. List the 5 steps in the appraisal process as described in the PAP. (5 points)

Assignment 4—Quiz Answers

1. The Billpayers have the following Physical Damage Coverages:

2004 SUV	Collision	\$1,000 deductible
	Other Than Collision	\$500 deductible
2001 Sedan	Other Than Collision	\$500 deductible

Answer the following questions, using the above information as appropriate. (11 points)

- a. Bonnie was driving the SUV to Brenda's soccer practice when a large bird flew into the vehicle. Substantial damage occurred to the front of the SUV. The insurance company has agreed to issue a check to Bonnie. What deductible, if any, applies? Explain your answer. (3 points. 1 point for the correct answer, and 2 points for the correct explanation.)

Answer: The Other than Collision deductible of \$500 will apply. Colliding with a bird or an animal is NOT collision.

- b. Billy was driving the SUV during a snowstorm. The vehicle slid on ice. As he was gaining control of the SUV, a vehicle operated by John Smith struck Billy. Substantial damage occurred to the SUV, including a smashed windshield and damage to the fender and hood.
- i. What deductibles apply? Explain your answer. (3 points. 1 point for correct deductible, and 2 points for a correct explanation.)

Answer: The \$1,000 collision deductible will apply. Because the glass breakage was the result of the collision, Billy MAY elect to have the glass breakage considered part of the collision; thus, only 1 deductible will apply for the 1-collision event.

- ii. Explain how your answer would change if Billy had been driving the 2001 sedan instead and the sedan had suffered similar damage. (2 points for a correct explanation.)

Answer: Because the sedan only has Other Than Collision coverage, the \$500 deductible will apply, but there is only coverage for the broken windshield, not any other damage.

- c. Billy borrowed his neighbor's pick-up truck to haul old furniture to the town dump. He gave his neighbor the keys for the 2001 sedan in case the neighbor needed to go somewhere while he was using the truck. While backing into the dump area, Billy collided with a concrete post, causing \$3,000 damage to the truck. Explain whether or not Billy's PAP will respond to the \$3,000 loss and why or why not. (2 points)

Answer: Billy's policy will respond by making Collision available. The fact that Billy was using the truck instead of the sedan (Other than Collision coverage, only) does not matter. Billy's policy will make the BROADEST coverage available for an accident in which Billy is operating a non-owned vehicle. The collision coverage from Billy's policy will be excess over any insurance available from the vehicle owner's coverages.

- d. Explain how, if at all, your answer to question c would change if Billy and the neighbor exchanged vehicles every weekend in the spring. (1 point)

Answer: Because this looks like regular use of the truck by Billy, Billy's policy will NOT respond in this case.

2. What are the three reasons for deductibles? (3 points)

Answer: Deductibles reduce small claims, hold down premiums, and encourage the insured to be careful in protecting his or her car against damage or theft.

3. Bonnie Billpayer and her neighbor are having a heated discussion about helping their kids. Bonnie states that when she and Billy help Butch and Brenda by driving them on their respective paper routes, there is no problem with coverage for damage to the Billpayer's vehicle (usually the SUV) they are riding in. Bonnie's neighbor says she heard that using a car on a delivery business, even one like delivering newspapers, can reduce or eliminate collision or other-than-collision coverage under a PAP. Bonnie is upset and calls you for your opinion. What will you tell her and why? (2 points)

Answer: Delivery is NOT "livery." Livery includes carrying people or things, but for the general public—not delivery of specific product (newspapers) to specific places (the routes). The PAP does not apply while the covered auto is used as a public or livery conveyance. Delivering newspapers is NOT use as public or livery. There is no problem under the PAP Physical Damage coverages for Bonnie on the paper routes.

4. List the 5 steps in the appraisal process as described in the PAP. (5 points)

Answer:

The 5 steps are as follows:

- 1) Each party selects a competent appraiser.
- 2) The two appraisers select an umpire.
- 3) If the appraisers cannot agree on the actual cash value and the amount of loss, any differences are submitted to the umpire.
- 4) A decision by any two is binding on all.
- 5) Each party pays its own appraiser and shares equally the expense of the appraisal and the umpire.

Assignment 5—Quiz

1. The Billpayers discovered that their cottage in New Hampshire had been broken into sometime between their last winter weekend and their first summer stay. Several items of personal property were stolen. Billy and Bonnie need to know if the theft of the items is covered under their HO-3 policy on the home in Malvern, PA. Explain why there is or why there is not coverage under the policy on their primary residence. (5 points)

2. This year, the Billpayers took their week-long vacation in Seattle. When they returned to Malvern, PA, they discovered that vandals had entered their premises in Malvern and caused a variety of damages. Presume that the Billpayers have an HO-3 policy with no endorsements and that the limits they carry are adequate.

For each of the losses described below, explain whether or not each will be covered by the HO-3 and, if covered, what limitations may apply. Ignore any deductibles that may apply.

- a. The vandals uprooted one of the decorative shrubs near the front door and destroyed a 15-year-old elm tree Bonnie had specifically ordered for their property. Replacing the shrub will cost \$150.00. An elm tree to replace the one destroyed by the vandals will cost \$3,200.00. Billy and Bonnie want to replace both. (2 points)
- b. The toolshed in the yard was apparently dragged around behind a car. It has suffered significant damage but is repairable. Repairs to the shed have been estimated at \$500.00. The shed cost \$1,500 when it was new, two years ago. (2 points)

- c. The vandals apparently used the lawn mower to mulch parts of the shrub and elm tree. This caused extensive damage to the cutting mechanisms. When the vandals could no longer operate the mower, they repeatedly picked it up and dropped it until the motor separated from the rest of the mower. The adjuster has said there is no point in trying to repair the mower. When the mower was new, it cost \$400. The adjuster has advised the Billpayers that the actual cash value of the mower is \$300.00. (3 points)

3. Who qualifies as “you” under the homeowners policy? (4 points)

Assignment 5—Quiz Answers

1. The Billpayers discovered that their cottage in New Hampshire had been broken into sometime between their last winter weekend and their first summer stay. Several items of personal property were stolen. Billy and Bonnie need to know if the theft of the items is covered under their HO-3 policy on the home in Malvern, PA. Explain why there is or why there is not coverage under the policy on their primary residence. (5 points maximum. 1 point for each of the qualifications, 1 point for the correct conclusion, and 1 point if all 5 issues are correctly identified.)

Answer:

There is no coverage, based on the following qualifications:

- i. Personal property of the insured is covered worldwide—including the cottage in New Hampshire.
 - ii. Personal property usually located at a residence other than the described residence is limited to 10% of the Coverage C limit (so if the property stolen is usually located at the cottage, 10% of the Coverage C limit on the residence in Malvern is available for it).
 - iii. Personal property usually located at a residence of the insured other than the described residence is not covered for theft unless the insured is temporarily residing there. It appears that the insured is not residing at the cottage in New Hampshire at the time of loss.
2. This year, the Billpayers took their week-long vacation in Seattle. When they returned to Malvern, PA, they discovered that vandals had entered their premises in Malvern and caused a variety of damages. Presume that the Billpayers have an HO-3 policy with no endorsements and that the limits they carry are adequate.

For each of the losses described below, explain whether or not each will be covered by the HO-3 and, if covered, what limitations may apply. Ignore any deductibles that may apply. (7 points)

- a. The vandals uprooted one of the decorative shrubs near the front door and destroyed a 15-year-old elm tree Bonnie had specifically ordered for their property. Replacing the shrub will cost \$150.00. An elm tree to replace the one destroyed by the vandals will cost \$3,200.00. Billy and Bonnie want to replace both. (2 points. 1 point for identifying the additional coverage, and 1 point for the correct amounts.)

Answer: Additional coverage provides coverages for plants, trees, and shrubs damaged by vandals. \$500 per tree or shrub. Recovery is \$150.00 for the shrub and \$500.00 for the tree, so the total recovery is $\$150.00 + \$500.00 = \$650.00$.

- b. The toolshed in the yard was apparently dragged around behind a car. It has suffered significant damage but is repairable. Repairs to the shed have been estimated at \$500.00. The shed cost \$1,500 when it was new, two years ago. (2 points. 1 point for identifying Coverage B, and 1 point for the correct amount.)

Answer: This is covered under Coverage B—Other Structures. Repair cost is covered at \$500.00.

- c. The vandals apparently used the lawn mower to “mulch” parts of the shrub and elm tree. This caused extensive damage to the cutting mechanisms. When the vandals could no longer operate the mower, they repeatedly picked it up and dropped it until the motor separated from the rest of the mower. The adjuster has said there is no point in trying to repair the mower. When the mower was new, it cost \$400. The adjuster has advised the Billpayers that the actual cash value of the mower is \$300.00. (3 points maximum. 1 point for identifying Coverage C, 1 point for identifying valuation at ACV, and 1 point for the correct amount.)

Answer: This is covered under Coverage C—Personal Property. It is covered for the Actual Cash Value of \$300.00.

3. Who qualifies as “you” under the homeowners policy? (4 points. 1 point each.)

Answer:

“You” under the homeowners policy includes the following:

- i. The person or persons named in the declarations as “named insured.”
- ii. The resident spouse of the named insured.
- iii. Relatives who are residents of the named insured’s household.
- iv. A full-time student away from home who is a relative under the age of 24 or in the care of a named insured or resident relative and under age 21.

- d. Other property was taken out of the living room to protect it from possible damage from the fire. The Billpayers rented garage space from a friend 3 blocks away.
- i. On the day of the fire, while the property was being moved to the garage, one of the glass lamps was broken. The lamp will cost \$100.00 to replace. Explain any coverage that may apply. (2 points)

 - ii. One of the new chairs Bonnie had just bought was stolen from the garage. The chair cost \$600.00 when purchased new last week. Explain any coverage that may apply. (2 points)

 - iii. The owner of the garage was injured when he went into the garage to get his own garden rake. One of the items the Billpayers had stored there fell and struck the garageowner's foot. The owner needed X-rays and a cast. He also lost 1 week's work as a result of the accident. Explain any coverage that may apply. (2 points)
- e. As a result of the fire, Butch was allowed to stay with friends. On the second day he was there, it was discovered that he had chicken pox. There are four children in the family with whom he was staying. Neither the children, or their parents, had yet had chicken pox. In very short measure, all six have developed symptoms of the disease. The father and mother both lost work time. The family has sued Billy and Bonnie for \$500,000: \$150,000 for each adult and \$50,000 for each child. (1 point)

Assignment 6—Quiz Answers

1. A small fire occurred in the living room of the family residence. The direct loss to the dwelling by fire is estimated to be \$25,000. The fire also damaged the furniture and other personal property in the living room. Among the damaged and destroyed items were a marine aquarium and fish, an antique oil painting of Billy's aunt Natalie that hung above the fireplace, Bonnie's completed order of business cards for 3 new customers, a new home entertainment center, a 10-year-old television set, miscellaneous furniture, Billy and Bonnie's wedding album, and Butch's collection of African and Asian postage stamps. (14 points)

- a. The building inspector will not allow the Billpayers to make any repairs without bringing the wiring of the home up to present code requirements. That will add \$15,000 to the dwelling loss. Explain any coverage issues with this requirement. (2 points)

Answer:

This is an increased cost of construction due to enforcement of building codes:

- i. The additional coverage Ordinance or Law provides up to 10% of the limit applicable to the damaged property. The Dwelling is insured for \$360,000.
 - ii. Ordinance or Law coverage is available for up to \$36,000.
 - iii. The \$15,000 actual cost of the upgrade will be paid in full.
- b. The smoke from the fire spread to a neighboring home. The neighbor alleges that the smoke contained asbestos fibers and is seeking \$500,000 in damages: \$50,000 to clean the smoke from his home and \$450,000 from exposure to the potentially toxic material in the smoke. Explain whether or not there is coverage for this suit. If there are any limitations that may apply, explain them as well. (3 points)

Answer:

- i. The \$50,000 in direct costs to clean the smoke from the neighbor's property is covered.
 - ii. There is no pollution exclusion in Section II. As a result, the loss is covered.
 - All defense until the limit has been paid or settlement reached.
 - Since the limit is \$300,000, the \$50,000 in smoke clean up and the \$450,000 in pollution are all one loss. In total they are limited to \$300,000.
- c. The fish cost \$80.00 each to replace. The aquarium will cost another \$300.00. What coverage may the Billpayers expect? (2 points)

Answer:

- i. There is no coverage for the fish. Animals and pets are specifically excluded under Section I.
- ii. The aquarium is personal property—Coverage C. It is covered up to the actual cash value, which is the current replacement cost (\$300.00 minus depreciation based on the aquarium that was destroyed).

d. Other property was taken out of the living room to protect it from possible damage from the fire. The Billpayers rented garage space from a friend 3 blocks away. (6 points)

i. On the day of the fire, while the property was being moved to the garage, one of the glass lamps was broken. The lamp will cost \$100.00 to replace. Explain any coverage that may apply. (2 points)

Answer: The Additional Coverage—Property Removed provides coverage for up to 30 days for this property. There are no cause of loss exclusions. The loss is covered in full up to the ACV of the lamp.

ii. One of the new chairs Bonnie had just bought was stolen from the garage. The chair cost \$600.00 when purchased new last week. Explain any coverage that may apply. (2 points)

Answer: The Additional Coverage—Property Removed provides coverage for up to 30 days for this property. There are no cause of loss exclusions. The loss is covered in full up to the ACV of the chair. Since it was brand-new, the settlement should be \$600.00.

iii. The owner of the garage was injured when he went into the garage to get his own garden rake. One of the items the Billpayers had stored there fell and struck the garage-owner's foot. The owner needed X-rays and a cast. He also lost 1 week's work as a result of the accident. Explain any coverage that may apply. (2 points)

Answer: The garage is an insured location. As such, Medical Payments may be available to the injured owner for the medical treatments but not for the lost time. Liability coverage is available to the Billpayers up to the limit of their policy, \$300,000.

e. As a result of the fire, Butch was allowed to stay with friends. On the second day he was there, it was discovered that he had chicken pox. There are four children in the family with whom he was staying. Neither the children, nor their parents, had yet had chicken pox. In very short measure, all six have developed symptoms of the disease. The father and mother both lost work time. The family has sued Billy and Bonnie for \$500,000: \$150,000 for each adult and \$50,000 for each child. (1 point)

Answer: Communicable diseases are excluded. (If there HAD been any coverage, the limit would have been exceeded. No more than the limit, \$300,000, is available for a single occurrence, regardless of the number of plaintiffs.)

Assignment 7—Quiz Answers

1. Compare and contrast the concepts of property ownership and occupancy for condominiums and cooperatives. (3 points. 1 point for comparing, and 2 points for contrasting.)

Answer:

Compare: Both involve individual occupancy of units in a building or complex, the ownership of which is shared.

Contrast: Condominiums are owned by an association of unit owners, while cooperatives are owned by a corporation owned by the building residents. Condominium owners have specific title and right to occupy a specific unit, while cooperative owners are stockholders in the owner corporation and have a right but not title to a specific unit.

2. Describe the “agreed value” approach to property valuation, and provide one example of its use for a homeowner. (3 points. 2 points for description, and 1 point for example.)

Answer: The insurer and insured agree on the value of the object to be insured at the time the coverage is requested. The value agreed to is stated in the policy or endorsement schedule. At time of loss, the insurer pays the scheduled value. It is used to insure Fine Arts.

3. Refer to the Billpayers’ cases:

The Billpayers’ home is old. The replacement cost is \$360,000. That is also the amount of coverage they have used for Coverage A of their HO-3. A fire caused \$180,000 in damage to the dwelling. Before the family can start repairs, they need a building permit. They were informed that changes in the city’s building codes in the last 90 years would present them with some problems. Damage as extensive as that suffered by the Billpayers’ home requires demolition of the remains. (4 points)

- a. The Billpayers have an unendorsed HO-3. What kind of recovery can they expect for this loss? (2 points)

Answer: Subject to the deductible, the direct loss will be covered at \$180,000. The policy also contains the Additional Coverage: Ordinance or Law. This benefit will provide up to 10% of the limit applicable to the damaged property (10% of \$360,000 = \$36,000) to cover the costs incurred by the application of Building Codes—this includes the required demolition. The Billpayers can collect \$180,000 for direct damage and \$36,000 for Ordinance or Law, totaling \$216,000.

- b. What endorsement could they have purchased to protect themselves from this situation? How would it have changed the recovery after the loss? (2 points)

Answer: If the Billpayers had attached the Ordinance or Law—Increased Amount of Coverage (HO 04 77), they could have selected an amount that would have been sufficient to cover the costs of demolition. That amount would have been in addition to the Additional Coverage’s 10% of Coverage A and would have increased the total settlement by the amount of additional coverage needed up to the amount of additional coverage purchased.

Assignment 8—Quiz Answers

1. The Billpayers have purchased a DP-3 on the cottage in New Hampshire. The Coverage A limit is \$150,000. A summer storm caused extensive damage to the buildings and personal property the Billpayers had at the cottage. A large maple tree was blown over by the wind. It crashed into the roof over the living room and into the attached garage. The adjuster estimated replacement cost of the cottage would be \$160,000. For each of the following losses, explain whether or not the DP-3 will provide coverage and why (and for how much—ignoring any applicable deductibles) or why not. (13 points)
 - a. \$25,000 damage to the area above the living room. (3 points)

Answer: Loss is less than limit and limit is more than 80% of Replacement Cost. Therefore, loss is paid in full at \$25,000.
 - b. \$5,000 damage to the garage. (3 points)

Answer: The garage is attached. Part of Coverage A—Loss (\$25,000 plus \$5,000) is less than limit and limit is more than 80% of Replacement Cost. Therefore, loss is paid in full at \$5,000.
 - c. \$6,500 damage to the out-board motorboat and its 15 hp motor that were stored in the garage. (2 points)

Answer: This is a motorboat and motor. The DP-3 excludes coverage on any watercraft other than rowboats and canoes. Therefore, there is no coverage.
 - d. \$20,000 in damage to personal property in the living room. (2 points)

Answer: Since no limit is indicated for Coverage C, there is no coverage for Personal Property under this policy.
 - e. \$3,000 in damage to the riding lawn mower/garden tractor that the Billpayers moved into a neighbor's cottage for 25 days while their own cottage was being repaired. The neighbor's cottage suffered a small flood loss that damaged both their own property and the Billpayers' tractor. (3 points)

Answer: Presuming the mower/tractor is used to service the cottage property, it is covered under Coverage A. The Other Coverage—Property Removed provides coverage for this property for 30 days against all risks of loss including flood. Loss of \$3,000 is therefore paid in full.

2. Compare and contrast the liability coverage available under the personal liability coverage of the American Association of Insurance Services (AAIS) Farmowners program with the Insurance Services Office (ISO) Incidental Farming Personal Liability endorsement (HO 24 72). (10 points)

Answer:

ISO Incidental Farming Personal Liability endorsement (HO 24 72)	AAIS Farmowners program
Provides no property coverage—Property is covered under the HO policy to which the endorsement is attached.	Property coverage is included in the program.
Provides liability and (if selected) medical payments coverage to the insured's incidental farming activities.	Broad categories of farming are eligible, including custom farming and pick-your-own.
At the residential location or a listed and described other location.	
Coverage applies to gardening activities, grazing, or boarding animals.	Broad categories of farming are eligible, including custom farming and pick-your-own.
Farming revenues may not be the primary income for the insured.	Farm revenues MAY be the primary or sole source of revenue.
No coverage applies if the location is used for racing animals.	

3. Explain how adverse selection played a part in the creation of Fair Access to Insurance Requirements (FAIR) plans and Beachfront and Windstorm plans. Be sure to include an explanation of adverse selection in your answer. (5 points)

Answer: Adverse Selection refers to the tendency that those with the greatest probability of loss are the most likely to purchase insurance for that loss.

Fair Plans: Urban areas became difficult to insure in the 1960s. To maintain a spread of risk among urban property owners, several states established FAIR plans. These plans maintained a market for property insurance in areas where availability was limited. The spread of risks among more purchasers offset the tendency toward adverse selection.

Beachfront and windstorm plans: These plans were established to provide property insurance in areas subject to severe losses from wind- and hurricane-type losses. Individual states established plans that provide coverage for limited perils. The need for traditional insurers to provide wind coverage in these areas, was reduced and property insurance availability was maintained.

Assignment 9—Quiz

1. One of the main characteristics of inland marine floaters is that they are usually written without a deductible. Identify two other general characteristics shared by inland marine floaters. Include an example for each characteristic. (4 points)

2. Billy and Bonnie Billpayer have purchased a \$1,000,000 personal umbrella policy from Susan Miller through the Fernley Insurance Company. The umbrella policy contains a \$250.00 self-insured retention. The underlying insurance requirements of the umbrella policy are:

- i. Personal Auto Policy: \$250,000/500,000 BI
\$100,000 PD
- ii. Homeowner Section II: \$300,000
- iii. Watercraft Liability: \$500,000

The Billpayers do not own a boat. Otherwise, their PAP and HO-3 meet the underlying requirements of the Personal Umbrella policy.

Identify how much, if anything, the umbrella policy will pay, and how much the Billpayers will need to contribute, for the damages in each of the following losses—presuming the Billpayers are found to be responsible for the losses. Explain why you believe your answer is correct.

- a. The Billpayers have been sued for \$1,500,000 because of malicious comments Butch is accused of posting on the Internet about his teacher. (3 points)

- b. Billy rented a Mercedes from a local auto rental company while the family vacationed in Argentina. Because of an accident in Argentina where a pedestrian was injured by their rental car, the Billpayers have been sued for \$1,000,000. (3 points)

 - c. Billy made a significant error on one of his tax client's income tax returns. As a result, the client had to pay the government an additional \$150,000 in fines and penalties. The client is suing Billy for the entire \$150,000. (3 points)

 - d. The Billpayers purchased a small inboard-outdrive powerboat for New Hampshire. It has a 75 hp engine. They have been accused of causing \$175,000 in damage to a dock and pier at the lake when their inexperience at boating put them in a situation in which another boater had to veer sharply out of their way and, as a result, collided with the pier and dock that subsequently collapsed. (3 points)
3. Explain the difference in Personal Umbrella policies between the insured's failure to maintain underlying insurance and the insurance company's obligation to provide drop down coverage. (4 points)

Assignment 9—Quiz Answers

1. One of the main characteristics of inland marine floaters is that they are usually written without a deductible. Identify two other general characteristics shared by inland marine floaters. Include an example for each characteristic. (4 points. 1 point for each correct characteristic, and 1 point for each appropriate example.)

Answer:

Possible answers should include two of these characteristics. The examples used are for illustration purposes:

- The coverage is tailored to the specific type of property.
Examples:
 - PAF—limits scheduled for high-valued property.
 - PEF—covers property usual to travelers but only off residence, premises.
- The policyholder can select appropriate limits.
Examples:
 - Scheduled values on PAF by item.
 - PPF values by class.
- Floaters provide extensive coverage with respect to the perils they cover.
Examples:
 - PAF is special form.
 - PPF is special form but includes exclusions while property is ON residence premises.
- Most floaters provide coverage anywhere in the world.
Example:
 - PAF and PPF provide coverage anywhere in the world.

2. Billy and Bonnie Billpayer have purchased a \$1,000,000 personal umbrella policy from Susan Miller through the Fernley Insurance Company. The umbrella policy contains a \$250.00 self-insured retention. The underlying insurance requirements of the umbrella policy are:

- i. Personal Auto Policy: \$250,000/500,000 BI
 \$100,000 PD
- ii. Homeowner Section II: \$300,000
- iii. Watercraft Liability: \$500,000

The Billpayers do not own a boat. Otherwise, their PAP and HO-3 meet the underlying requirements of the Personal Umbrella policy.

Identify how much, if anything, the umbrella policy will pay, and how much the Billpayers will need to contribute, for the damages in each of the following losses—presuming the Billpayers are found to be responsible for the losses. Explain why you believe your answer is correct.

- a. The Billpayers have been sued for \$1,500,000 because of malicious comments Butch is accused of posting on the Internet about his teacher. (3 points)

Answer:

Loss is Personal Injury; no coverage under HO-3; NOT REQUIRED for Underlying. Loss paid by Umbrella—after SIR and up to limit.

SIR: \$250.00.

Umbrella Payment: \$1,000,000.

Uninsured amount remaining: \$250.00.

Total from insurance company: \$1,000,000.

Total from Billpayers: \$500.00.

- b. Billy rented a Mercedes from a local auto rental company while the family vacationed in Argentina. Because of an accident in Argentina where a pedestrian was injured by their rental car, the Billpayers have been sued for \$1,000,000. (3 points)

Answer:

Loss is BI from Auto.

PAP has required underlying, but loss is OUTSIDE Territory of PAP.

Foreign coverage was not part of Schedule of Underlying Insurance.

Insured pays SIR: \$250.00.

Umbrella pays balance up to (a) its limit or (b) amount of loss = \$1,000,000 - \$250.00 = \$999,750.00 from insurance company.

- c. Billy made a significant error on one of his tax client's income tax returns. As a result, the client had to pay the government an additional \$150,000 in fines and penalties. The client is suing Billy for the entire \$150,000. (3 points)

Answer:

Loss is professional liability. Excluded under both HO-3 and personal umbrella.

Insured pays \$150,000.

Insurance Company pays \$0.

- d. The Billpayers purchased a small inboard-out drive powerboat for New Hampshire. It has a 75 hp engine. They have been accused of causing \$175,000 in damage to a dock and pier at the lake when their inexperience at boating put them in a situation in which another boater had to veer sharply out of their way and, as a result, collided with the pier and dock that collapsed as a result. (3 points)

Answer:

Loss is watercraft liability. The watercraft does not qualify for coverage under the unendorsed HO-3, and, apparently, the Billpayers did not secure additional coverage.

The underlying requirement for Watercraft Liability is \$500,000.

The Billpayers pay \$175,000.

Umbrella carrier pays \$0.

3. Explain the difference in Personal Umbrella policies between the insured's failure to maintain underlying insurance and the insurance company's obligation to provide drop down coverage. (4 points. 2 points for each correct explanation.)

Answer: If the insured fails to maintain the required underlying insurance, the umbrella carrier will respond as if that required insurance HAD been provided. In other words, the amount of insurance required becomes the amount for which the insured is responsible.

Where the umbrella has made no requirement for underlying coverage, but the umbrella provides coverage, the insured is responsible for a self-insured retention that may be \$250.00 or \$500.00. The umbrella responds above that amount.

Assignment 10—Quiz

1. Billy and Bonnie Billpayer have agreed that Billy ought to leave his job and concentrate on building his own accounting business. He plans to operate the business from their home. He will start with his personal tax clients as a base and build the business as quickly as possible. The rapid growth will require an amount of liquid capital they do not have yet. They believe they can raise approximately \$65,000 if they sell the property in New Hampshire. They want to place that \$65,000 in a different investment that will retain the liquidity of the money and will be relatively free from the hazards of inflation. They are looking for three options and have sought your advice.

Recommend three options for them and explain how well you think each option meets their stated objectives. (6 points)

2. Two of the strategies for retirement investing are to consider “Dollar Cost Averaging” and to change the allocation of assets over the life cycle before retirement. Explain the benefits of each of these two strategies. (4 points)

3. There are two basic types of pension plans: Defined Contribution Plans and Defined Benefit Plans. Explain the key differences in how these plans work. (2 points)

4. a. What does the acronym OASDHI stand for? (1 point)
- b. Billy Billpayer is 38 years old. Bonnie is approaching her late-thirties. For purposes of the Social Security program, Billy is considered fully and currently insured.
- i. Explain what the status “fully and currently insured” means. (2 points)
- ii. Briefly describe the kinds of survivor benefits Bonnie and the children are entitled to if Billy should die today. (4 points)

Assignment 10—Quiz Answers

1. Billy and Bonnie Billpayer have agreed that Billy ought to leave his job and concentrate on building his own accounting business. He plans to operate the business from their home. He will start with his personal tax clients as a base and build the business as quickly as possible. The rapid growth will require an amount of liquid capital they do not have yet. They believe they can raise approximately \$65,000 if they sell the property in New Hampshire. They want to place that \$65,000 in a different investment that will retain the liquidity of the money and will be relatively free from the hazards of inflation. They are looking for three options and have sought your advice.

Recommend three options for them and explain how well you think each option meets their stated objectives. (6 points. 1 point for each appropriate investment option, and 1 point for each correct explanation.)

Answer:

- 1) Regular savings—These accounts are both liquid and are insured.
 - 2) Money market mutual funds—Meet the liquidity need but are not usually insured.
 - 3) Money Market deposit accounts—Are insured and are readily accessible (liquid).
2. Two of the strategies for retirement investing are to consider “Dollar Cost Averaging” and to change the allocation of assets over the life cycle before retirement. Explain the benefits of each of these two strategies. (4 points. 2 points for each correct explanation.)

Answer: By investing a fixed amount at regular intervals, the changes in market conditions are averaged. This results in an average cost per share than the average market price of each investment.

Younger people can usually afford to take more risk in their investments because they have time to make up losses before they retire. As a person ages, less risky investments are usually appropriate to preserve capital. This indicates that as an investor approaches retirement age, the investor should reduce the proportion of retirement investments in stocks.

3. There are two basic types of pension plans: Defined Contribution Plans and Defined Benefit Plans. Explain the key differences in how these plans work. (2 points. 1 point for each correct answer.)

Answer: Defined Contribution: The amount contributed by the employer is defined by the plan, but the amount the employee will receive at retirement is not calculated until actual retirement.

Defined Benefit: The amount of benefit to the retired employee is guaranteed but the cost of the plan (the amount the employer pays into the plan) varies based on the amount needed to meet the plan’s guarantees.

4. (7 points)
 - a. What does the acronym OASDHI stand for? (1 point)

Answer: Old-Age, Survivors, Disability, and Health Insurance.

b. Billy Billpayer is 38 years old. Bonnie is approaching her late-thirties. For purposes of the Social Security program, Billy is considered fully and currently insured.

i. Explain what the status “fully and currently insured” means. (2 points. 1 point for each correct explanation of ‘insured’ status.)

Answer: Fully insured: Billy has at least 40 credits (40 quarters of coverage) OR must have worked full time for at least 10 years.

Currently Insured: Billy must have at least 6 quarters of coverage out of the 13 quarters immediately preceding any Social Security claim.

ii. Briefly describe the kinds of survivor benefits Bonnie and the children are entitled to if Billy should die today. (4 points. 1 point for each correct benefit listed.)

Answer:

Because Billy is fully and currently insured, the family would be eligible to receive:

- Survivor benefits until each of the children reaches age 18.
- Survivor benefits to Bonnie until the youngest child (Butch) reaches age 16.
- Survivor benefits to Bonnie at age 60 or older.
- A lump-sum death benefit.

Assignment 11—Quiz

1. a. Define the Billpayer family based on the family structure. (1 point)

b. Describe the typical life insurance needs of this type of family structure. (2 points)

2. There are several specific needs identified in the “needs approach” to determining the amount of life insurance appropriate for a family.
 - a. Describe the need termed “Estate Clearance Fund.” (1 point)

b. Describe the need termed “Blackout Period.” (1 point)

3. Two contractual provisions found in life insurance policies are the nonforfeiture options and the settlement options.
 - a. Explain the difference between the nonforfeiture options Reduced Paid-Up Insurance and Extended Term Insurance. (2 points)

b. Explain each of these settlement options:
 - i. Interest Option (1 point)

ii. Life Income Options (2 points)

Assignment 11—Quiz Answers

1. (3 points)

- a. Define the Billpayer family based on the family structure. (1 point)

Answer: The Billpayer family is a two-income family with children.

- b. Describe the typical life insurance needs of this type of family structure. (2 points)

Answer: Premature death of Billy or Bonnie can cause financial uncertainty for the surviving family members because both incomes are normally needed to maintain the family's customary standard of living. Billy and Bonnie both have a great need for life insurance.

2. There are several specific needs identified in the “needs approach” to determining the amount of life insurance appropriate for a family. (2 points)

- a. Describe the need termed “Estate Clearance Fund.” (1 point)

Answer: Cash needed immediately for funeral expenses, uninsured medical bills, car loans and installment debts, and estate administration expenses.

- b. Describe the need termed “Blackout Period.” (1 point)

Answer: Social Security survivor benefits are paid to a surviving spouse until the youngest child reaches age 16. Benefits do not resume until the spouse reaches age 60. Additional income during this blackout period might be needed.

3. Two contractual provisions found in life insurance policies are the nonforfeiture options and the settlement options. (5 points)

- a. Explain the difference between the nonforfeiture options Reduced Paid-Up Insurance and Extended Term Insurance. (2 points)

Answer:

Cash values in the policy can be used to purchase either

- 1) A policy that will last the lifetime of the insured without any more premiums ever being paid for it but that has a face amount lower than the original contract (reduced paid-up), or
- 2) A policy that has the same face amount but which will expire at a stated later time—paid-up Term insurance (Extended Term insurance).

- b. Explain each of these settlement options:

- i. Interest Option (1 point)

Answer: The insurer retains the death proceeds and pays interest periodically to the beneficiary.

- ii. Life Income Options (2 points)

Answer: Death proceeds are paid to the beneficiary in installments for either the life of the beneficiary or for a specified number of years. If the primary beneficiary dies before receiving all of the guaranteed payments, the remaining payments are paid to a contingent beneficiary.

4. Billy and Bonnie have made wise decisions about their own life insurance programs. Now they are considering the purchase of insurance on Butch and Brenda. One of the factors they have been asked to consider is the fact that they could add a Guaranteed Insurability Rider to policies on Butch or Brenda. Explain the Guaranteed Insurability Rider. (2 points)

Answer: The insured's insurability in the future is guaranteed, even though he or she might become uninsurable because of poor health. The option permits the insured to purchase additional amounts of insurance every three years without evidence of insurability. The benefit ends at some stated age.

5. List and define each of the 4 possible underwriting decisions for life insurance. (4 points)

Answer:

The 4 possible underwriting decisions for life insurance are as follows:

- 1) Applicant rated as standard. Premium charged is the normal premium.
 - 2) Applicant rated as substandard. Premium charged is higher than normal premium.
 - 3) The applicant may be rejected.
 - 4) Applicant may be accepted as a preferred risk. Premium charged is reduced if the amount of insurance meets the carrier's minimum for eligibility for the discount.
6. Billy's accounting firm has asked him to explore the possibility of providing group life insurance for all the firm's employees. Because this is a small group, Billy will need to satisfy the underwriting company that the firm's interest in the product is great enough to overcome the two issues especially pertinent to small group life insurance. Identify and describe these two characteristics of small group life insurance. (2 points)

Answer:

Two characteristics of small group life insurance are as follows:

- 1) Small groups usually incur relatively higher administrative expenses than larger groups.
 - 2) The carrier must be confident that the employer or a major stockholder is not interested in group life insurance because of his or her own serious medical problems.
7. Part of the life insurance program the Billpayers have established is a whole-life insurance policy on Bonnie. The policy has a fixed-period of 20 years. The face amount of the policy is \$500,000. The Billpayers added a catastrophic illness rider and an accidental death benefit rider to the policy when they applied for the insurance. The policy has a \$70,000 cash value. Explain the benefits available under this policy if Bonnie develops cancer and dies within 12 months. (3 points)

Answer: The entire face amount of \$500,000 is payable from the policy. The Billpayers could have elected to use the catastrophic illness rider to collect part of the face amount to offset some of the medical expenses.

In either case, the residual face value (either the \$500,000 or the \$500,000 minus any payments made from it under the catastrophic illness rider) is paid to the beneficiaries over a 20-year period.

Assignment 12—Quiz

1. Explain two ways in which self-insured health insurance plans are different from Blue Cross and Blue Shield plans. (2 points)

2. Brenda Billpayer was seriously injured while playing soccer with her cousins. Her injuries required restorative surgery for facial lacerations as well as treatment for a fractured collarbone and broken left wrist. The medical costs of \$57,000 were submitted to the Billpayers' comprehensive major medical carrier. The plan contains a \$1 million lifetime limit and an 80% coinsurance clause. The calendar year deductible is \$500.00.

Explain how the medical costs will be shared by the insurer and by the Billpayers. (2 points)

3. Billy Billpayer has contemplated leaving his employer and starting his own accounting business. One of the issues he has needed to consider is the loss of his group medical insurance. This is especially important because of the active life styles enjoyed by the two children. Billy has heard that the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) may provide some benefit for him if he does leave his employer.

Explain 2 of the major provisions of COBRA that may be pertinent to Billy. (9 points)

Assignment 12—Quiz Answers

1. Explain two ways in which self-insured health insurance plans are different from Blue Cross and Blue Shield plans. (2 points.)

Answer:

Characteristics of Self-Insured plans:

- Benefits for part or all of the health benefits provided by the employer may be self-insured.
- Employers purchase stop-loss insurance to cover excess losses. This allows payment from a commercial insurer on claims in excess of specified amounts of loss and up to a specified maximum limit.
- Employers typically hire a third party administrator (TPA) to manage the plan—pay claims, enroll employees, keep records, do reporting, etc.

Characteristics of Blue Cross and Blue Shield plans:

- Programs are purchased by the employer to insured hospital benefits (Blue Cross) and/or Physician or surgeon benefits (Blue Shield).
- The Blue Cross and Blue Shield sponsor HMO's and PPO's.
- Administration of plan, other than claim payments, is retained by the employer.

2. Brenda Billpayer was seriously injured while playing soccer with her cousins. Her injuries required restorative surgery for facial lacerations as well as treatment for a fractured collarbone and broken left wrist. The medical costs of \$57,000 were submitted to the Billpayers' comprehensive major medical carrier. The plan contains a \$1 million lifetime limit and an 80% coinsurance clause. The calendar year deductible is \$500.00.

Explain how the medical costs will be shared by the insurer and by the Billpayers. (2 points)

Answer:

\$57,000 for a covered event and procedures

\$ 500 calendar year deductible

\$56,500 remaining

80% paid by comprehensive major medical carrier = $0.80 \times \$56,500$

= \$45,200 payable from the carrier

Payable by Insured: \$500 deductible

$\$56,500 \times 20\% = \$11,300$ coinsurance paid by insured

$\$11,300 + \$500 = \$11,800$ payable by insured

3. Billy Billpayer has contemplated leaving his employer and starting his own accounting business. One of the issues he has needed to consider is the loss of his group medical insurance. This is especially important because of the active life styles enjoyed by the two children. Billy has heard that the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) may provide some benefit for him if he does leave his employer. Explain 2 of the major provisions of COBRA that may be pertinent to Billy. (9 points maximum. 2 points for identifying both items i and ii, and 1 additional point for each correct fact.)

Answer:

- i. Employees and covered dependants can elect to remain under the employer's plan for a limited period after a qualifying event occurs that results in a loss of coverage:
 - Qualifying events include termination of employment, death of the employee, divorce or legal separation, attainment of a maximum age for a covered dependant.
 - Terminated employees and insured dependants can elect to remain in the group plan for up to 18 months.
 - If the employee dies, is divorced or legally separated, or had a child who is no longer eligible for coverage, insured dependants can elect to remain in the plan for up to 36 months.
 - Insureds who elect to remain in the plan can be required to pay up to 102% of the group rate.
 - ii. After the COBRA protection expires, the Act guarantees the availability of individual health insurance to eligible individuals who meet the following criteria:
 - They had employment-based health insurance for at least 18 months.
 - They are ineligible for COBRA or have exhausted their COBRA coverage.
 - They are ineligible for coverage under any other employment-based health plan.
4. List four of the provisions found in dental insurance plans that are designed to control costs. (4 points)

Answer:

Four provisions designed to control costs in dental insurance plans include:

- Maximum limits on benefits.
- A waiting period for new employees.
- A waiting period for employees after their eligibility period expires.
- Exclusions for cosmetic dental work, duplicate dentures, and expenses covered by workers' compensation.
- Predetermination-of-benefits provision if the estimated cost of treatment exceeds a certain amount, such as \$200.00.

5. Long-term care plans contain a “gatekeeper” provision which state the requirements an insured must meet in order to receive benefits. Explain this “gatekeeper” provision. (1 point)

Answer: Gatekeeper provisions state the requirements a person must meet to receive benefit under a long-term care policy. A common requirement is that the insured be unable to perform a specified number of activities of daily living (ADLs). ADLs include eating, bathing, walking, dressing, moving from the bed to a chair, using the toilet, and maintaining continence.

6. “Total disability” is defined under individual disability plans. Social Security also defines a “disabled worker.” Which definition is the MOST restrictive? Explain your answer. (2 points)

Answer:

Individual Disability plan definitions:

Either the insured is unable to perform the major duties of his or her own occupation, or the insured is unable to perform the duties of any gainful occupation for which he or she is reasonable suited by education, training, and experience.

Social Security disability definition:

Worker must have a physical or mental condition that prevents him or her from doing any substantial gainful work, and the condition must be expected to last at least 12 months or to result in death.

7. Explain the two major eligibility requirements a worker must meet to qualify for health or disability benefits under Workers’ Compensation. (2 points)

Answer:

The two eligibility requirements are as follows:

- 1) The worker must be working in a covered occupation.
- 2) The worker must have an injury or disease that arises out of and in the course of employment.