Insurance

http://www.econedlink.org/tool/231/

For many people, their home is the single biggest investment they will ever make. Because of this, it is very important for them to protect that investment. If your house is in the Midwest, for instance, thunderstorms that produce tornadoes and large hail are not uncommon. In the other regions of the country, anything from forest fires to hurricanes can destroy thousands of acres of land and property. Most homeowners would have a very difficult time paying for expensive repairs to their property if it weren't for insurance. Insurance allows individuals and firms to protect themselves against these kinds of events.

By purchasing insurance, you agree to make payments called premiums at regular intervals. Using historical statistical data on large groups of people, insurance companies determine, with some accuracy, how many people will be affected by a tornado, for instance. Using this information, they can determine what the premium needs to be to create a sufficient pool of money, so when something does happen, they can help pay for the damages that occur. Insurance is a way for individuals and businesses to share risk. In most cases, buying insurance is a choice that is made after weighing the costs and benefits.

Homeowners certainly don't want their home to be destroyed by fire, but while unlikely, it is possible. If the home was destroyed, the cost to rebuild might be far beyond the homeowner's ability to pay. Buying insurance makes the most sense when the potential financial loss is great, but the chance for every person to have a loss is much lower. In these cases, it is wise to share and transfer risk by paying premiums for an insurance policy. Homeowners is one example of insurance. Other important types of insurance are life insurance, auto insurance, health insurance, and renters insurance. All types of insurance are based upon the same principle.

Insurance is the spreading of risk over a pool of policyholders with the expectation that only a few policyholders will actually experience a loss for which claims must be made. With life insurance, every policyholder may experience a loss, so the rate is based upon life expectancy. Insurance policies typically contain a clause that relieves the provider of the insurance of responsibility for an initial loss of a specified amount. This amount, the deductible, is the responsibility of the policyholder to pay in the event of a loss. By adjusting the level of the deductible, consumers of insurance can adjust the cost of the insurance premium to best fit their personal averseness to risk as well as their budget. Policies with high deductibles generally have lower premiums than similar policies with lower deductibles. Insurance provides a way for consumers to transfer and share risk, but they must pay for this benefit or service. Each consumer must decide how much risk to share and transfer and how much risk to accept or reduce in other ways.