
Lesson 4 - Why Renter's Insurance?

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OVERVIEW

This lesson focuses on a question that many of your students will face in college and/or in their first job as they live in apartments: Should they buy renter's insurance? Many students do not know what renter's insurance covers or even that it is available.

The lesson begins with the students doing an inventory of their possessions and determining the replacement cost of each item. For many of your students, this inventory will demonstrate how valuable their possessions are. The students will use their inventories as the class covers various aspects of renter's insurance, including why it is important, types of coverages, factors that affect the premiums and how to shop for this type of insurance.

NOTE: None of the activities involve having the students compare or contrast their inventories. They can and should keep their inventories confidential.

CONCEPTS

Cash-value coverage
Deductible
Depreciation
Landlord
Liability
Renter's insurance
Replacement-cost coverage
Tenant

CONTENT STANDARDS

Economics

1. Productive resources are limited. Therefore, people cannot have all the goods and services they want; as a result, they must choose some things and give up others.
5. Voluntary exchange occurs only when all participating parties expect to gain. This is true for trade among individuals or organizations within a nation, and among individuals or organizations in different nations.

Personal Finance

Money Management

1. Explain how limited personal financial resources affect the choices people make.
6. Describe how insurance and other risk-management strategies protect against financial loss.

OBJECTIVES

The students will:

1. Develop an inventory of their possessions, and determine the replacement cost of each item.
2. Explain why having an inventory of possessions is important for insurance purposes.

3. Describe what is covered and what is not covered in a typical renter's insurance policy.
4. Differentiate between replacement-cost and cash-value coverage.
5. Describe the factors that affect the premiums for renter's insurance.
6. Evaluate whether they should buy renter's insurance in the future.

TIME REQUIRED

60 minutes

MATERIALS

1. Visuals 4.1 and 4.2
2. One copy of Activities 4.1, 4.2, 4.3 and 4.4 for each student
(NOTE: The students must complete Activity 4.1 before the lesson can begin.)

PROCEDURE

1. In order for the students to understand their probable future need for renter's insurance, they must comprehend that their possessions have considerable worth. They can best arrive at this understanding if they discover it themselves; this is the purpose of the first activity.

Distribute Activity 4.1 about a week before doing this lesson. Tell the students to assume that they will move into a studio apartment when they get their first job and will take all of their current possessions with them. Tell them they should inventory what they have in their bedroom: clothing, furniture and equipment such as stereos and computers. Have them include sports, recreational, electronic and musical equipment they would take, even if it isn't currently in their bedroom.

Tell them first to list the items and write down how many of each they would take.

Then they should figure out the **replacement cost** for each item: what it would cost now to buy it. They will need to use catalogs, stores and the Internet to get an idea of replacement costs. Finally they should calculate the total value of all the items they would take with them. Tell them to be sure they do all this prior to the start of the lesson.

2. On the day they bring in their completed inventories, ask the following questions:
 - A. Were you surprised at the total replacement cost of your possessions? *Answers will vary, but most of the students will say yes.*
 - B. What difficulties did you have in completing this assignment? *Answers will vary, but the biggest difficulty probably was finding the replacement cost of the items.*
 - C. How did you determine the replacement cost of each item? *Answers will vary.*
3. Ask the students if there are any other items they will need to buy to set up housekeeping on their own. *Some of the students may want to purchase a television set or couch or other items they didn't have in their bedroom.* Ask the students to estimate roughly how much these additional items will cost. *Answers will vary depending on the items but will probably total several hundred dollars more than the original inventory.* On the third day of their new job, they leave the apartment in a hurry and forget to lock the door. While they're at work, someone steals almost everything of value. Ask them what financial impact this theft will have on them and why. *Most, if not all, will say the theft causes a financial disaster because they must replace the stolen items.*
4. Ask them if they think the landlord (the person from whom they are renting) will reimburse them for the stolen items. *Answers will vary.* Show Visual 4.1 and

go over the first paragraph with the students, telling them to note especially the first sentence: "Landlords (people who own the property) are liable to the tenants (people renting from them) for losses when the loss is caused by the landlord's negligence." Ask the students if the landlord would be **liable**, or legally responsible, to them in the situation they just discussed. *No, the landlord would not be liable because he or she provided a lock for the door, but they didn't use it.*

5. Tell the students to read the five situations on Visual 4.1 and decide whether they believe the landlord is liable in each one. Ask them to explain their answers.

A. Fire breaks out, destroying your possessions. An investigation clearly determines that faulty wiring was the cause. *Landlord is liable because he or she is responsible for the wiring in the building.*

B. A nearby explosion causes your building to catch on fire, destroying many of your possessions. *Landlord is not liable because the explosion was outside the building and beyond the landlord's control.*

C. A friend of yours is seriously injured when she trips on a rug in your apartment and falls down. She has medical bills because of the accident. *Landlord is not liable because your rug caused her accident.*

D. The weight of ice on the roof of the building causes the ceiling to leak, ruining some of your furniture. *Unless you can prove that the leaks were caused by faulty construction — which the landlord knew about — or poor maintenance, the landlord would not be held responsible for the damages.*

E. A pipe freezes in your apartment during very cold weather, causing flooding that destroys a lot of your furniture. *Generally an unusual situation such as very cold weather is not the landlord's responsibility, so he or she would not be liable.*

6. Reread the first paragraph of Visual 4.1 with the students. Emphasize that the landlord is often not liable for perils that ruin your possessions. Also, it is difficult in many cases to prove that the landlord is liable. Renters can transfer part of this risk to an insurance company by purchasing renter's insurance. Renter's insurance is like homeowner's insurance except that there is no insurance on the building because you do not own it.
7. Distribute Activity 4.2, which lists some perils covered by a renter's insurance policy. Go over the list with the students, and explain each coverage.
 - The difference between **vandalism** and **theft** is that vandals damage or destroy an object but do not take it. A thief takes the item from the premises.
 - **Loss of use** coverage pays for hotel expenses and food if you have to move because the rental unit is not habitable. This coverage has a maximum amount: Generally it does not cover the full cost that you must pay to live and eat somewhere else.
 - **Liability** coverage makes payments to someone else because an accident that's your fault happens on your property.
8. Point out that a typical renter's insurance policy does not cover some perils, such as floods, earthquakes, nuclear accident, wear and tear, dry rot and termite or insect damage. You can get insurance from other sources for some of these perils. You can purchase flood-damage insurance, for example, from the federal government.
9. Display Visual 4.1 again. Ask the students if these situations would be covered by a renter's insurance policy.
 - A. Would be covered if the landlord's policy does not cover the full amount of damages*
 - B. Would be covered because it was an explosion*
 - C. Would be covered because it is a liability claim*

D. and E. Would be covered because both were caused by cold temperatures and snow/ice

10. Have the students answer the questions on Activity 4.2, and discuss their answers. In each case, the students must determine if the situation is covered by a typical renter's insurance policy.

A. The stove in the apartment next door catches fire, and many of the items in your apartment have smoke damage: a very smoky smell. *Yes*

B. An earthquake occurs, and your possessions are buried. *No*

C. There is massive flooding in your area because of many weeks of rain. Your apartment is in the basement, and many of your possessions are ruined. *No, water damage from leaking, overflowing or freezing of pipes is included but not water damage caused by flooding.*

D. A violent windstorm takes down a tree in the yard, which smashes one of the windows of your apartment, ruining some of your possessions. *Yes*

E. There is civil unrest in your town. One night there is a riot and some looting. Your apartment is broken into, and some of your possessions are stolen. *Yes*

F. A friend of yours slips on your wet floor and hurts himself, requiring medical care. He wonders if you can cover the medical costs. *Yes*

G. A fire breaks out in your building, and you cannot live in your apartment. You move to a nearby hotel until the repairs are made. Your hotel room has no kitchen, so you must eat out a lot more. Are some of your expenses covered? *Yes, living expenses outside the rental unit are covered, provided the rental unit is deemed uninhabitable because of the peril.*

11. Show Visual 4.2, and explain that renter's insurance is written with the provision that damaged, destroyed or stolen possessions are reimbursed at either **replacement cost** or **cash value**. Replacement-

cost coverage is based on the cost to replace the item with a comparable new item. Cash-value coverage reimburses for damages according to what the item was worth at the time it was damaged, destroyed or stolen. In other words, cash-value coverage takes into consideration the depreciation on the item: how much it has decreased in value over the years.

Have the students look again at their inventory. Remind them that they valued the items at replacement cost. Now they should imagine that, on average, the items they lost in the unlocked apartment-door scenario were valued at three-fifths of the replacement cost. Ask: How much will the insurance company pay if your possessions are valued at three-fifths of the replacement cost? *Answers will vary because the values of the possessions are different, but the amount will be less than the amount the company would have paid with replacement-cost coverage.*

Now ask: How could you replace the items you lost if you received only three-fifths of the replacement cost? *Answers will vary and include they could buy fewer items, which means that they would have fewer possessions, or they could buy many of the items secondhand.*

Point out that the premium for replacement-cost coverage is higher than the premium for cash-value coverage because the insurance company will have to pay higher claims with the replacement-cost coverage. Tell the students we will look at a case later that demonstrates the difference in the premium. (You may need to explain that a premium is the fee a policyholder pays for insurance protection.)

12. Point out that rates for renter's insurance differ from person to person based on several factors. Distribute Activity 4.3, and have the students decide if the premium would be higher or lower for each situation. You may have to define the term

deductible, which is a set amount an insured person must pay per loss before the insurance company will pay a claim.

A. You move to an apartment in an area with less crime. *Lower, because you are less likely to make a claim for theft or vandalism*

B. You change the deductible from \$500 to \$100. *Higher, because the insurance company will have to pay more if you make a claim*

C. You change from cash-value coverage to replacement-cost coverage. *Higher, because the insurance company will have to pay more if you make a claim*

D. You move to an apartment building that is new from one that is 50 years old. *Lower, because you are less likely to make a claim in a newer building*

E. You move to an apartment that is 10 miles away from a fire and police station. Your previous apartment was five blocks away from the station. *Higher, because of greater risk of loss caused by the increased distance*

F. You switch your automobile insurance coverage to the same company that provides your renter's insurance. *Lower, because of lower administrative costs*

G. You increase the amount of coverage on your personal possessions. *Higher, because the insurance company will have to pay more*

Point out that rates also differ from one insurance company to another. This is why it is important to comparison shop for renter's insurance coverage.

13. Distribute Activity 4.4, which asks the students to compare real renter's insurance policy quotes: two for an apartment in a rural area and one for an apartment in an urban neighborhood. Each policy provides the same amount of coverage: \$20,000 on contents, \$300,000 for liability, \$8,000 for loss of use and a \$250 deductible. The difference between the two rural quotes is that one is for cash value and the other is for replacement cost. Have the students answer the questions and discuss

their answers.

A. Suppose someone burglarized your apartment and took about \$10,000 worth of possessions. How much would you receive, considering that you are insured at \$20,000? *You would receive \$9,750: the amount of the loss less the \$250 deductible; \$20,000 is the maximum you can get from a particular loss.*

B. What's the difference between the premiums for Policies 1 and 2? Why do you think is there a difference? *\$30; Policy 1 is for cash-value coverage, which is less expensive than replacement-cost coverage.*

C. Why does the deductible reduce the premium? *The insurance company does not have to pay the first \$250 of a loss. For a loss valued at less than \$250, the insurance company would not make any payment.*

D. Which type of coverage — replacement cost or cash value — would you choose and why? *Answers will vary. Probably most of the students will believe it's advisable to buy replacement-cost coverage because the premium-cost difference is only \$30 and they would get more money from the insurance company if they have a loss.*

E. Why is the insurance policy for the urban apartment more expensive? *Because of the potential for more claims for destroyed, damaged or stolen possessions*

F. Notice that the charge for replacement-cost coverage in the urban neighborhood (\$46) is higher than the charge in the rural area (\$30). Why might this be the case? *The possibility of loss is greater in an urban setting than a rural area. Replacement costs might be higher in the urban area than in the rural area.*

G. Are you surprised at the cost of renter's insurance? Is it higher or lower than you anticipated? *Answers will vary about whether they are surprised. Probably most students will be surprised at the relatively low cost of renter's insurance.*

14. Emphasize that all renters and homeowners should have an inventory of their possessions. Ask why this is important. *So that the policyholder and the insurance company have some reference point for figuring out the losses* Personal finance experts recommend that policyholders keep a copy of the inventory someplace outside the home or apartment, such as in a safe deposit box at a bank. Why do they recommend this? *So that it does not get destroyed, damaged or stolen along with the possessions*

CLOSURE

15. Ask the following questions to determine whether the students understand the key points of the lesson.
- A. Why do many renters not bother with renter's insurance? *They believe the landlord's insurance will cover them and their possessions aren't worth very much. They don't realize that it will cost them a substantial amount of money to replace their possessions.*
- B. Why is an inventory important to both the consumer and the insurance company? *The inventory helps the consumer realize the actual value of the items he or she has and helps him or her to buy sufficient coverage. It also helps the insurance company determine what it will pay if the policyholder makes a claim.*
- C. Name at least three types of coverages generally included in a renter's policy. *Protection of possessions against the perils of fire, lightning, windstorms, hail, volcanic eruptions, smoke damage, falling objects, ice, snow, sleet, explosions, vandalism and water damage from plumbing system. Protection against liability suits if someone is injured on the property. Living-cost expenses if the rental unit is deemed uninhabitable for a period of time*
- D. What is the difference between replacement-cost and cash-value coverages? Which type of coverage is more

expensive? *With replacement-cost coverage, the insurance company will provide reimbursement on the basis of replacing the destroyed or stolen item with a new item. Cash-value coverage provides reimbursement on the basis of what the item was worth just before it was destroyed or stolen — considering the depreciated value of the item. Replacement-cost coverage is more expensive because the insurance company must pay more in case of a loss.*

E. Name three factors that affect the premiums a policyholder pays for renter's insurance. *Distance to fire and police departments, replacement-cost or cash-value coverages, amount of deductible, value of possessions, crime rate in area, whether policyholder has multiple policies with the same insurance company, amount of coverage*

ASSESSMENT

Multiple-Choice Questions

- A renter's insurance policy has coverages similar to a
 - health-insurance policy.
 - homeowner's insurance policy.
 - life-insurance policy.
 - automobile-insurance policy.
- Which of the following statements is true about the difference between replacement-cost coverage and cash-value coverage?
 - Replacement-cost coverage provides greater reimbursement for damaged or stolen possessions.
 - Replacement-cost coverage provides less reimbursement for destroyed or stolen possessions.
 - Replacement-cost coverage has lower premiums.
 - Replacement-cost coverage carries a lower deductible, which means the insured gets more reimbursement.
- What are two ways to cut the premium on your renter's insurance?

A. Move to a rental unit in an area with a lower crime rate and reduce your deductible.

B. Purchase replacement-cost coverage instead of cash-value coverage and change to a higher deductible.

C. Move closer to a police station or fire department and change to a higher deductible.

D. Buy automobile and renter's insurance from same insurance company, and change to replacement-cost from cash-value coverage.

Essay Questions

1. Why can't you count on the landlord to reimburse you for damages to your possessions if they are damaged, destroyed or stolen? *Landlords are responsible only for damages that result from something that is their fault, such as a fire that breaks out because of faulty wiring or a roof that leaks because it should have been replaced years ago. In many cases, it is difficult to prove that the landlord is at fault. A second reason renters shouldn't count on landlords is because landlords might not have enough resources (insurance and personal resources) to fulfill all of the claims against them. A third reason is that sometimes the tenant is at fault, which means the tenant is responsible for the damages that may result from actions such as not locking the apartment door.*
2. Why is it a good idea to have an inventory of your possessions for insurance purposes? *An inventory will help you assess what was damaged, destroyed or stolen so the insurance company can determine the number and value of the items included in the claim. The inventory also helps you determine the amount of coverage you need.*

VISUAL 4.1

WHAT IS THE LIABILITY OF LANDLORDS TO TENANTS?

Landlords (people who own the property) are liable to the tenants (people renting from them) for losses when the loss is caused by the landlord's negligence. Even if a landlord is negligent, he or she might not have enough insurance or resources to cover the cost of all the damages from the loss. Additionally, it is often difficult to determine legally that the landlord is at fault. Is the landlord liable, or legally responsible, in these situations? Explain your answers.

A. Fire breaks out, destroying your possessions. An investigation clearly determines that faulty wiring was the cause.

B. A nearby explosion causes your building to catch on fire, destroying many of your possessions.

C. A friend of yours is seriously injured when she trips on a rug in your apartment and falls down. She has medical bills because of the accident.

D. The weight of ice on the roof of the building causes the ceiling to leak, ruining some of your furniture.

E. A pipe freezes in your apartment during very cold weather, causing flooding that destroys a lot of your furniture.

VISUAL 4.2

REPLACEMENT-COST COVERAGE OR
CASH-VALUE COVERAGE?

Replacement-cost coverage is based on the cost to replace the item with a comparable new item.

Cash-value coverage reimburses for damages according to what the item was worth at the time it was damaged, destroyed or stolen. Cash-value coverage takes into consideration **depreciation** on the item: how much it has decreased in value over the years.

ACTIVITY 4.1

WHAT DO I HAVE AND WHAT IS ITS REPLACEMENT COST?

Imagine that you have just received a job offer in a city. You will move to a studio apartment, which is generally an oversized bedroom with a sitting area, a small kitchen and bath. To furnish the apartment, you have decided to take all of the items in your bedroom, as well as any musical instruments (except grand pianos!) and sports or recreational equipment you have. Inventory what is in your bedroom according to the categories below. Include the musical instruments and sports equipment even if they are stored in another part of your home. Then find out the replacement cost for each item: what it would cost to buy it now. This will take some research, including going to stores, looking at catalogs and searching Web sites on the Internet. If you do not find a direct match, use the cost of a similar item. You will probably be surprised at the value of your possessions.

MY INVENTORY

Clothing (If you have multiple items for some of these categories, make sure you include the number of clothing items you have in the correct category.)

Item	Number of Items	Replacement Cost (\$)
Bathrobe		
Pajamas		
Blouse/shirt		
Coat/jacket		
Dress		
Handbag/purse		
Hat		
Jeans		
Jewelry		
Shoes		
Skirt		
Slacks		
Suit		
Sweater		
Underwear		
Other		
Total		

ACTIVITY 4.1 (continued)

WHAT DO I HAVE AND WHAT IS ITS REPLACEMENT COST?

Furniture

Item	Number of Items	Replacement Cost (\$)
Bookcase		
Bed, mattress, springs		
Chair		
Desk		
Dresser		
Table		
Other		
Other		
Other		
Other		
Total		

Accessories for the Room

Item	Number of Items	Replacement Cost (\$)
Bedding, sheets, pillow, blankets		
Curtains/drapes/blinds		
Carpet/rug		
Lamp		
Mirror		
Plant		
Wall hanging/picture		
Other		
Other		
Other		
Other		
Total		

ACTIVITY 4.1 (continued)

WHAT DO I HAVE AND WHAT IS ITS REPLACEMENT COST?

Equipment

Item	Number of Items	Replacement Cost (\$)
Computer		
Printer		
Radio		
Clock		
Stereo, CD player		
DVD player, VCR		
Television		
Telephone		
Other		
Other		
Other		
Other		
Total		

Sports Equipment and Musical Instruments

Item	Number of Items	Replacement Cost (\$)
Total		

ACTIVITY 4.1 (continued)

WHAT DO I HAVE AND WHAT IS ITS REPLACEMENT COST?

Other Items

Item	Number of Items	Replacement Cost (\$)
Book		
CD		
DVD		
Videotape		
Cassette tape		
Cosmetics		
Other		
Other		
Other		
Other		
Total		

Summary

Item	Number of Items	Replacement Cost (\$)
Clothing		
Furniture		
Accessories		
Equipment		
Sports Equipment and Musical Instruments		
Other Items		
Total		

ACTIVITY 4.2

TYPICAL PERILS COVERED BY RENTER'S INSURANCE

Read this list of typical perils that renter's insurance covers. Then read the questions below, and circle Yes or No to indicate whether renter's insurance would cover each situation.

- Fire
- Smoke damage
- Lightning
- Falling objects
- Windstorms
- Damage from ice, snow or sleet
- Hail
- Loss or damage to physical objects because of civil commotion or riot
- Explosions
- Volcanic eruptions
- Liability in case someone gets injured in the rental unit
- Theft
- Glass breakage
- Vandalism
- Loss of use of the facility
- Water damage from leaking or overflow of plumbing system

- Yes No A.** The stove in the apartment next door catches fire, and many of the items in your apartment have smoke damage: a very smoky smell.
- Yes No B.** An earthquake occurs, and your possessions are buried.
- Yes No C.** There is massive flooding in your area because of many weeks of rain. Your apartment is in the basement, and many of your possessions are ruined.
- Yes No D.** A violent windstorm takes down a tree in the yard, which smashes one of the windows of your apartment, ruining some of your possessions.
- Yes No E.** There is civil unrest in your town. One night there is a riot and some looting. Your apartment is broken into, and some of your possessions are stolen.
- Yes No F.** A friend of yours slips on your wet floor and hurts himself, requiring medical care. He wonders if you can cover the medical costs.
- Yes No G.** A fire breaks out in your building, and you cannot live in your apartment. You move to a nearby hotel until the repairs are made. Your hotel room has no kitchen, so you must eat out a lot more. Are some of your expenses covered?

ACTIVITY 4.3

HOW WILL DIFFERENT SITUATIONS AFFECT MY RENTER'S INSURANCE PREMIUM?

For each of these situations, decide how your renter's insurance premium would be affected (higher or lower) and explain why.

- A. You move to an apartment in an area with less crime.

- B. You change the deductible from \$500 to \$100.

- C. You change from cash-value coverage to replacement-cost coverage.

- D. You move to an apartment building that is new from one that is 50 years old.

- E. You move to an apartment that is 10 miles away from a fire and police station. Your previous apartment was five blocks away from the station.

- F. You switch your automobile insurance coverage to the same company that provides your renter's insurance.

- G. You increase the amount of coverage on your personal possessions.

ACTIVITY 4.4

PREMIUM QUOTES FOR RENTER'S INSURANCE

You just got a new job and are trying to decide where you will live. You've narrowed your choices to one apartment in the city where you'll be working and an apartment in a rural area that's an easy commute to the office. Before you make a final decision, you want to know how much it will cost to insure your possessions. You talk to an insurance agent, and he creates the table below, which compares three policy options.

The first policy is for the apartment in the rural area with cash-value coverage. The second is for this same apartment with replacement-cost coverage. The third is for the apartment in the city with replacement-cost coverage. All policies cover the same number and types of items. All are for locations of equal distance to a fire station and police department. Each policy has a \$250 deductible, which reduces the premium by the amount shown in the table. Use the table to answer the questions.

Coverages	Policy 1 Rural Area with Cash-Value Coverage	Policy 2 Rural Area with Replacement-Cost Coverage	Policy 3 Urban Setting with Replacement-Cost Coverage
Contents: \$20,000	\$86.00	\$86.00	\$132.00
Loss of use: \$8,000	Included	Included	Included
Personal liability: \$300,000	\$28.00	\$28.00	\$28.00
Deductible: \$250	– \$6.00	– \$6.00	– \$9.00
Replacement cost/contents	Not applicable	\$30.00	\$46.00
Total premium	\$108.00	\$138.00	\$197.00

ACTIVITY 4.4 (continued)

PREMIUM QUOTES FOR RENTER'S INSURANCE

- A.** Suppose someone burglarized your apartment and took about \$10,000 worth of possessions. How much would you receive, considering that you are insured at \$20,000?
- B.** What's the difference between the premiums for Policies 1 and 2? Why do you think there is a difference?
- C.** Why does the deductible reduce the premium?
- D.** Which type of coverage — replacement cost or cash value — would you choose and why?
- E.** Why is the insurance policy for the urban apartment more expensive?
- F.** Notice that the charge for replacement-cost coverage in the urban neighborhood (\$46) is higher than the charge in the rural area (\$30). Why might this be the case?
- G.** Are you surprised at the cost of renter's insurance? Is it higher or lower than you anticipated?