Neal recently received a call from the bank telling him that he was late making payments on his loan. Neal does not have a loan with that or any other bank, as he lives debt free. What problem does Neal most likely have and what steps does he need to take to correct it?

(Note: You may want to have students refer back to Chapter 4, Section 4 for review) Neal might be the victim of identity theft if his name is listed on the loan. Hopefully, he has ID theft protection. If so, he can call on his insurance company to clear up the matter. If not, he’s going to have to fix this on his own. Neal will need to get a copy of his credit report. He should then place a fraud victim alert on his credit report and file a police report. This is not his debt, and therefore he owes nothing and should pay nothing. If there is an inaccuracy, Neal can send a letter requesting it be removed. Regardless, Neal needs to be persistent until the problem is taken care of.

Ethan turned 16 and got his driver’s license. His parents bought him a beater, but he has to buy his own gas and insurance. He mowed lawns all summer and has some money, but the cost of an insurance policy is super expensive. He went to a shoddy storefront and bought minimum liability, a high deductible, and no collision. When his mom and dad found out what he’d done, they were concerned. He can’t understand why. According to the state, he has what he needs. It isn’t fair for his parents to be advising him to get a better (more expensive policy). Or is it? What do you think?

The purpose of insurance is to transfer risk, Ethan. In this case, the risk is borne by you and your parents—really more by them, because they have more to lose. The high deductible is okay if you have an emergency fund. But a reasonable interpretation of your agreement would be for you to have much higher limits than the state minimum when it comes to liability. Your parents are being fair and wise.

Dan, your cousin, has gone to work at Midwest Mutual, a huge whole life insurance corporation. When you come home from school, he’s sitting across from your parents and smiling. They’re about to buy a joint whole life policy that will pay $100,000 if your dad dies and will build savings as they pay the premiums. You want to stop him, but he’s “family,” so you can’t insult him. You decide to ask him questions that will reveal what a bad idea the policy is. What questions will you ask him, and why?

Ask your cousin how much less would $100,000 in 20-year level term cost? How much would $400,000 in 20-year level term cost? How much savings accumulates in the first three years of the policy? Twenty years from now, what will happen to the accumulated savings if dad dies? Unless your cousin lies or is uninformed, the answers will kill that whole life idea.
Allen and Grace are blessed. Their moms are still alive and self-sufficient thanks to Social Security and modest pensions. Their dads had life-long jobs from which they retired. Both died after drawn-out illnesses that depleted their assets. Neither mom has long-term care insurance, and they share a common interest in not talking about such a morbid, depressing subject. When Allen or Grace bring the subject up, they laugh and wave it off. Should Allen and Grace leave the subject alone?

Dave speaks of the “powdered-butt syndrome,” and he’s right. It’s hard to take advice from someone whose diapers you once changed. Even so, it’s time to have “the talk.” If the moms won’t buy coverage, Allen and Grace should do so themselves. Insurance shifts the risk. In this case, the real monetary risk is with Allen and Grace. They should take steps to make sure their moms are cared for.

Bill and Melinda have two young children ages 2 and 4, and they are not covered under any life insurance policy. Melinda is a full-time mom and has no income. Bill makes $50,000 a year. They are on a budget but with only one income, they do not have any extra money at the end of the month. Life insurance does not seem like a pressing issue at this time. What would you suggest Bill and Melinda do when it comes to life insurance coverage?

Bill needs to find a way to purchase term insurance as soon as possible. If something were to happen to him, his wife and children would be left with no income and in a mess. He does not need to insure his children, but his wife Melinda needs to have insurance. A full-time mom adds a lot of value to the household. The two of them could sit down together, look at the budget, and discuss ways of adding enough income to the household to cover a term insurance policy.
Case Studies

Directions: Write or discuss possible resolutions to the problems presented in the following scenarios. Remember to apply the personal finance knowledge and principles you have learned in this chapter.

1. Neal recently received a call from the bank telling him that he was late making payments on his loan. Neal does not have a loan with that or any other bank, as he lives debt free. What problem does Neal most likely have and what steps does he need to take to correct it?

2. Ethan turned 16 and got his driver’s license. His parents bought him a beater, but he has to buy his own gas and insurance. He mowed lawns all summer and has some money, but the cost of an insurance policy is super expensive. He went to a shoddy storefront and bought minimum liability, a high deductible, and no collision. When his mom and dad found out what he’d done, they were concerned. He can’t understand why. According to the state, he has what he needs. It isn’t fair for his parents to be advising him to get a better (more expensive policy). Or is it? What do you think?

3. Dan, your cousin, has gone to work at Midwest Mutual, a huge whole life insurance corporation. When you come home from school, he’s sitting across from your parents and smiling. They’re about to buy a joint whole life policy that will pay $100,000 if your dad dies and will build savings as they pay the premiums. You want to stop him, but he’s “family,” so you can’t insult him. You decide to ask him questions that will reveal what a bad idea the policy is. What questions will you ask him, and why?

4. Allen and Grace are blessed. Their moms are still alive and self-sufficient thanks to Social Security and modest pensions. Their dads had life-long jobs from which they retired. Both died after drawn-out illnesses that depleted their assets. Neither mom has long-term care insurance, and they share a common interest in not talking about such a morbid, depressing subject. When Allen or Grace bring the subject up, they laugh and wave it off. Should Allen and Grace leave the subject alone?

5. Bill and Melinda have two young children ages 2 and 4, and they are not covered under any life insurance policy. Melinda is a full-time mom and has no income. Bill makes $50,000 a year. They are on a budget but with only one income, they do not have any extra money at the end of the month. Life insurance does not seem like a pressing issue at this time. What would you suggest Bill and Melinda do when it comes to life insurance coverage?