Chapter 12   Health and Disability Insurance

12.1   Background on Health Insurance

1) Health insurance protects net worth by minimizing the chance that you will have to reduce savings or incur debt when you require medical attention.
   Answer: TRUE
   Diff: 1
   Question Status: Previous edition

2) Hospitals, doctors, and patients have enough incentive to make the most economical use of health care services.
   Answer: FALSE
   Diff: 1
   Question Status: Previous edition

3) Technological advances are one of the things helping to keep the cost of health care from escalating further.
   Answer: FALSE
   Diff: 2
   Question Status: Previous edition

4) The cost of health care has risen dramatically in recent years due to all of the following, except
   A) people living longer and requiring attention for longer periods of time.
   B) the high cost of technology in health care.
   C) reduced litigation costs.
   D) the bureaucratic processes of reimbursement and claim handling.
   Answer: C
   Diff: 1
   Question Status: Previous edition

5) Which of the following is not true as it relates to the cost of health care?
   A) Fraudulent claims by patients and health care providers add to the cost.
   B) People are living longer and their health care costs are higher.
   C) Better claim handling and processing has helped reduce the cost of health care.
   D) Technology used in medicine is very expensive and has added to the cost.
   Answer: C
   Diff: 2
   Question Status: Previous edition
6) Which of the following statements regarding health insurance is not true?
A) It limits your potential liabilities and helps you receive the necessary medical care.
B) Health insurance is offered by private insurance companies and the government.
C) There are many more options available for homeowner's insurance than for health insurance.
D) Blue Cross and Blue Shield is the nation's largest health care insurer.
Answer: C
Diff: 2
Question Status: Revised
Use the following two columns of items to answer the matching questions below:

A) covers health care expenses incurred by policyholders to limit their potential liabilities and ensure that they will receive the necessary medical care
B) the nation's largest health care insurer

7) health insurance
   Diff: 1
   Question Status: Revised

8) Blue Cross
   Diff: 1
   Question Status: Revised

Answers: 7) A 8) B
9) Which of the following is not a difference between health insurance and other types of insurance like home and auto?
A) Health insurance covers specific medical bills beyond a deductible.
B) Health insurance helps protect your net worth.
C) Health insurance often includes and out-of-pocket maximum amount you will be required to pay in any year.
D) Health insurance does not include any liability coverage.
Answer: B
Diff: 2
Question Status: New

12.2 Private Health Insurance

1) Private health insurance plans contain hospital insurance, physician insurance, and surgical insurance.
Answer: TRUE
Diff: 1
Question Status: Previous edition

2) Most people obtain health insurance through group plans offered by employers.
Answer: TRUE
Diff: 1
Question Status: Previous edition

3) Buying health insurance through employer-sponsored plans is somewhat more expensive than buying your own policy individually.
Answer: FALSE
Diff: 1
Question Status: Previous edition

4) Although indemnity plans are less flexible than managed care plans, they charge lower rates.
Answer: FALSE
Diff: 2
Question Status: Previous edition

5) Compared to indemnity plans, managed health care plans impose more restrictions on the specific health care providers.
Answer: TRUE
Diff: 2
Question Status: Previous edition

6) In most HMOs, if a person sees a specialist without being referred by the primary care physician, the HMO will not pay for the treatment.
Answer: TRUE
Diff: 1
Question Status: Previous edition
7) Health care providers who are part of an HMO are paid a predetermined amount of compensation per month for each patient who participates in the plan.
Answer: TRUE
Diff: 1
Question Status: Previous edition

8) A PPO health insurance plan allows individuals a better selection of health care providers, but is more expensive than an HMO.
Answer: TRUE
Diff: 2
Question Status: Previous edition

9) Private health insurance plans contain all of the following coverage, except
A) hospital insurance.
B) nursing home insurance.
C) physician insurance.
D) surgical insurance.
Answer: B
Diff: 1
Question Status: Revised

10) When comparing auto insurance and health insurance,
A) you have fewer options with health insurance than with auto insurance.
B) both types of policies have deductibles.
C) the government has very little involvement in either of these areas.
D) All of the above are true.
Answer: B
Diff: 2
Question Status: Previous edition

11) Which one of the following benefits is most often available through an employer?
A) Disability insurance
B) Health insurance
C) Dental insurance
D) Vision insurance
Answer: B
Diff: 1
Question Status: Previous edition

12) Which of the following is usually not offered as part of a benefits package to employees?
A) Auto insurance
B) Health insurance
C) Retirement benefits
D) Disability insurance
Answer: A
Diff: 1
Question Status: Previous edition
13) Since health insurance is expensive,
A) most employers pay for the entire cost as an employee benefit.
B) employees are usually required to pay the entire cost of the insurance.
C) the employer and employee typically share the cost of the health insurance.
D) the government along with the employer helps to subsidize employee health insurance costs.
Answer: C
Diff: 1
Question Status: Previous edition

14) Indemnity health plans
A) greatly restrict the choice of health care providers.
B) may require you to pay the doctor and then get reimbursed.
C) require you to get approval to see a specialist.
D) are the least expensive of all health care plans.
Answer: B
Diff: 2
Question Status: Revised

15) Indemnity health care plans have
A) more flexibility and choices than managed care plans.
B) lower costs than managed care plans.
C) fewer health care professionals to choose from compared to HMOs.
D) less bill-related paperwork than other plans.
Answer: A
Diff: 2
Question Status: Previous edition

16) Compared to indemnity plans, what is an advantage of managed health care plans?
A) You will have lower insurance premiums.
B) There are no out-of-pocket expenses required.
C) You have greater choices of health care providers.
D) They are very efficient in their handling of paperwork.
Answer: A
Diff: 2
Question Status: Previous edition

17) Which of the following statements about an HMO is not true?
A) You will pay the same monthly premium whether you use the plan or not.
B) You need to be referred to see a specialist or the HMO may not pay.
C) Individuals usually pay a small fee for a visit to a physician or for a prescription.
D) The health care providers are compensated on the basis of each visit by a patient.
Answer: D
Diff: 3
Question Status: Revised
18) Which of the following is an advantage of a PPO compared to an HMO?
A) The premiums are lower.
B) There are more choices of specialized health care providers.
C) There are no out-of-pocket expenses.
D) No approval is needed to see a specialist.
Answer:  B
Diff: 2
Question Status:  Previous edition

19) _______ insurance serves as a backup for expenses not covered by basic health insurance.
A) Excess hospitalization insurance
B) Surgical expense insurance
C) Major medical insurance
D) Physician expense insurance
Answer:  C
Diff: 2
Question Status:  Previous edition

20) When considering an HMO or PPO, which of the following would you not consider regarding the cost of the plan?
A) Monthly premiums
B) Coinsurance
C) Number of doctors accepting new patients
D) Maximum out-of-pocket expenses per year
Answer:  C
Diff: 2
Question Status:  Previous edition

21) An arrangement in which the preferred provider organization (PPO) pays the provider a specific sum for each day a patient is hospitalized is called a
A) discount on charge arrangement.
B) per diem rate arrangement.
C) co-payment.
D) flat-fee arrangement.
Answer:  B
Diff: 2
Question Status:  Previous edition

22) Under a discount on charge arrangement, the provider receives
A) a flat fee.
B) more than what it would normally charge for a particular service.
C) less than what it would normally charge for a particular service.
D) an amount equal to the charge for the service.
Answer:  C
Diff: 2
Question Status:  Previous edition
23) Patients receive a(n) ________ from the PPO that lists the total charges, the total amount owed to the provider, and the total amount billed to the patient.
A) remittance advice
B) statement of charges
C) invoice
D) explanation of benefits
Answer: D
Diff: 2
Question Status: Previous edition

24) How much would be owed by the patient on a $3,000 bill if a PPO uses a discount on charge arrangement wherein the percentage paid to the provider is 70% and the patient's co-pay, as specified by the PPO, is 20 percent?
A) $600
B) $700
C) $420
D) $200
Answer: C
Explanation: C) $3,000 × 0.7 × 0.2 = $420
Diff: 2
Question Status: Previous edition

25) How much of a $2,000 medical bill would you pay if your policy contains a $400 deductible and a 10% coinsurance clause?
A) $200
B) $400
C) $160
D) $560
Answer: D
Explanation: D)
Bill $2,000
Less deductible $400
$1,600
Coinsurance amount—10% × 0.10
Coinsurance amount $160
Plus deductible $400
Total amount paid $560
Diff: 2
Question Status: Previous edition

26) A(n) ________ plan requires that individuals pay health care providers and then put in a claim for reimbursement.
Answer: indemnity
Diff: 1
Question Status: Previous edition
27) The managed health care plan with the lowest premiums and also the least choice of health care providers is the ________.
Answer: HMO
Diff: 1
Question Status: Previous edition

28) The managed health care plan with higher costs, but a greater choice of health care providers is the ________.
Answer: PPO
Diff: 1
Question Status: Previous edition
Use the following two columns of items to answer the matching questions below:

A) a health care plan where individuals pay the provider and then seek reimbursement for expenses
B) a prepaid health care plan using a limited number of health care providers
C) a managed plan that allows a greater choice of health care providers

29) indemnity plan
   Diff: 1
   Question Status: Previous edition

30) HMO
   Diff: 1
   Question Status: Previous edition

31) PPO
   Diff: 1
   Question Status: Previous edition

Answers: 29) A 30) B 31) C
32) Which of the following is not a disadvantage of an HMO plan versus a PPO plan?
A) The HMO plan may be less expensive.
B) The HMO plan is more restrictive on which doctors the patient is able to use.
C) The HMO plan often requires a referral in order to see a specialist.
D) The HMO plan is generally more expensive for the same level of coverage.
Answer: A
Diff: 2
Question Status: New

33) Unfortunately, you have had several medical procedures in the current year with the following bills, $2,000, $9,200, $18,000, $5,000, and $3,500. Your deductible is $2,400, after which your co-pay is 10%. Your policy also includes a $6,000 out-of-pocket maximum clause. How much of the total bills are you responsible to pay?
A) $2,400
B) $6,000
C) $5,400
D) $5,930
Answer: D
Diff: 3
Question Status: New

34) You are trying to help your aunt figure out how much she owes on a recent flurry of medical bills that resulted from her recent bypass surgery. Her company provided PPO plan includes the following provisions, $2,400 deductible, 10% co-pay and a $6,000 maximum out-of-pocket limit. You have summarized her bills as follow: doctor visits $1,500, surgeon and other docs $16,000, operating room $15,000, hospital stay $21,000, rehabilitative service $10,000. How much does she owe in total on these enormous bills?
A) $2,400
B) $61,100
C) $6,000
D) $8,510
Answer: C
Diff: 3
Question Status: New
12.3 Contents of Health Care Insurance Policies

1) One of the problems with changing jobs is that you will immediately lose your health insurance and may not be able to get new insurance right away.
Answer: FALSE
Diff: 2
Question Status: Previous edition

2) Having money deducted from your paycheck and put in a flexible spending account is one of the ways you can avoid paying taxes on the amount you spend for health care expenses.
Answer: TRUE
Diff: 2
Question Status: Revised

3) Usually plans such as dental insurance and vision insurance are good deals if they are offered through employers.
Answer: TRUE
Diff: 1
Question Status: Previous edition

4) Additional types of insurance commonly offered through employers include
A) dental insurance.
B) fitness insurance.
C) vision insurance.
D) Both A and C are correct
Answer: D
Diff: 1
Question Status: Previous edition

5) Which of the following is not true regarding government regulations to allow individuals who change jobs to maintain health insurance coverage?
A) You may continue your health insurance provided through an employer’s plan for 18 months after you stop working for that employer.
B) Even if you retire, you may continue coverage for 18 months unless you qualify for Medicare.
C) If you change jobs, a new insurance company cannot deny you coverage based on your health, medical condition, previous claims, or disability.
D) When changing jobs, you are allowed to stop and start health care plans whenever you need to and still be guaranteed insurance coverage by a new provider.
Answer: D
Diff: 2
Question Status: Previous edition
6) Health insurance policies may provide coverage for all of the following except
A) cosmetic surgery.
B) rehabilitation.
C) mental health.
D) pregnancy.
Answer: A
Diff: 2
Question Status: Previous edition

7) An account that allows employees to use pre-tax income to pay for medical expenses is a
A) HMO.
B) PPO.
C) flexible spending account.
D) medical savings account.
Answer: C
Diff: 1
Question Status: Previous edition

8) Regarding a flexible spending account, which of the following is not true?
A) You may put a predetermined amount of your pre-tax salary in the account monthly.
B) The money may be used throughout the year to pay medical or dental expenses tax-free.
C) If you don't use the funds during the year, you lose them.
D) Your employer will match your funds dollar-for-dollar.
Answer: D
Diff: 2
Question Status: Previous edition

9) One disadvantage of a flexible spending account is
A) the amount is not subject to federal, state or local taxes.
B) funds allocated to the account cannot be rolled over into the next year.
C) funds are available to pay for out-of-pocket expenses.
D) it allows you to budget for uncovered medical expenses.
Answer: B
Diff: 1
Question Status: New
10) What would be the out-of-pocket cost to an individual whose health care policy includes a 20% co-pay for all long-term illnesses. The policy has a stop loss provision of $40,000. A current long-term illness has resulted in total expenses of $250,000.
A) $8,000
B) $40,000
C) $50,000
D) $210,000
Answer: B
Explanation: B) $250,000 \times 0.2 = $50,000 which exceeds the stop loss of $40,000, therefore $40,000 would be paid.
Diff: 2
Question Status: Revised

11) If you are in the 20% federal and 5% state income tax brackets, how much do you save each year by allocating $200 per month to your flexible spending account assuming you have zero funds left over at the end of the year?
A) $600
B) $400
C) $20 per month
D) $2,400
Answer: A
Diff: 2
Question Status: New

12) Assuming you were in the 25% federal and 5% state income tax brackets last year, and you allocated $200 per month to your flexible spending account, how much did you save if there was $1,000 remaining in the account at the end of the year?
A) You lost $1,000
B) You saved $720
C) You lost $280
D) Not enough information to accurately determine the answer
Answer: C
Diff: 2
Question Status: New
12.4 Government Health Care Plans

1) Medicare is a government health insurance program for those over 65 years of age who can show need for financial assistance.
Answer: FALSE
Diff: 2
Question Status: Previous edition

2) Medigap insurance, intended to supplement Medicare, is sold and serviced by the federal government.
Answer: FALSE
Diff: 2
Question Status: Previous edition

3) Medicaid is health insurance for people with low income and is administered by each state within certain broad federal requirements and guidelines.
Answer: TRUE
Diff: 1
Question Status: Revised

4) Part D of Medicare represents a combination of Part A and Part B provided through private insurance companies.
Answer: FALSE
Diff: 1
Question Status: Previous edition

5) You must have Parts A and B of Medicare in order to qualify for Part D.
Answer: TRUE
Diff: 1
Question Status: Previous edition

6) ________ is the government program that provides health insurance to individuals who are 65 years of age or older.
A) Medicaid
B) Medicare
C) HMO
D) Blue Cross and Blue Shield
Answer: B
Diff: 1
Question Status: Previous edition
7) Medicare basic coverage (Part A) covers
A) hospital expenses, including surgeries.
B) outpatient hospital care.
C) physical therapy.
D) All of the above.
Answer: A
Diff: 3
Question Status: Previous edition

8) Which of the following is true regarding Medicare?
A) Eligibility for the plan is based on both need and age.
B) The entire plan is free to qualified participants.
C) Part of the program is optional and has a charge.
D) Virtually all medical expenses are paid for those covered.
Answer: C
Diff: 2
Question Status: Previous edition

9) Regarding Medicaid, which of the following is true?
A) It is a program totally funded and run by each state.
B) It provides free unlimited health care for low income individuals and families.
C) It is a federal program administered by each state.
D) It is a program funded and run by the federal government.
Answer: C
Diff: 2
Question Status: Previous edition

10) The part of Medicare that provides coverage for prescription drugs is
A) Part A.
B) Part B.
C) Part C.
D) Part D.
Answer: D
Diff: 2
Question Status: Previous edition

11) Which of the following statements about the Medicare Prescription Drug Improvement and Modernization Act of 2003 is not true?
A) Seniors may purchase various forms of coverage for prescription drugs.
B) The act provides coverage for seniors and people with disabilities.
C) Low-income seniors are subject to a $250 deductible.
D) Individuals can establish a health-savings account.
Answer: C
Diff: 2
Question Status: Previous edition
12) ________ insurance is provided by private insurance companies to cover medical expenses that are not covered by Medicare.
Answer: Medigap
Diff: 1
Question Status: Previous edition
Use the following two columns of items to answer the matching questions below:

A) federal program that provides health care to those over 65 who qualify for Social Security benefits  
B) a government program providing health care for those with low incomes or in need of public assistance

13) Medicaid  
Diff: 1  
Question Status: Previous edition

14) Medicare  
Diff: 1  
Question Status: Previous edition

Answers: 13) B 14) A

15) In addition to social security tax withholding, wage earners also pay a 1.45% withholding tax on all gross salary and wages for  
A) supplemental social security tax.  
B) medicaid tax.  
C) medicare tax.  
D) the supplemental college loan fund.  
Answer: C  
Diff: 1  
Question Status: New

12.5 Legislation Affecting Health Care Insurance

1) Certain federal regulations ensure that individuals can maintain continuous health care coverage.  
Answer: TRUE  
Diff: 2  
Question Status: Previous edition

2) Because of COBRA, you can continue to remain covered by your employer's health insurance plan for no more than one year after you stop working for your employer.  
Answer: FALSE  
Diff: 2  
Question Status: Previous edition
3) In order to remain eligible for protection under HIPAA, a person must maintain continuous enrollment in a health care plan.
Answer: TRUE
Diff: 2
Question Status: Previous edition

4) The Affordable Care Act allows young adults to continue on a parent's health insurance plan until age 19 at which time they must obtain their own coverage.
Answer: FALSE
Diff: 2
Question Status: Revised

5) Beginning in 2014, health insurers will not be able to deny applicants based on pre-existing conditions.
Answer: TRUE
Diff: 2
Question Status: Previous edition

6) Which statement regarding COBRA is true?
A) The act applies to private firms and agencies of state government but not to federal government agencies.
B) COBRA allows you to continue your health coverage for two years after you stop working.
C) The act was passed in 2010.
D) If you retire and are not yet eligible to receive Medicare, you are not covered by COBRA.
Answer: A
Diff: 2
Question Status: Previous edition

7) Which act established provisions that require U.S. citizens to obtain health insurance?
A) Medicaid
B) Consolidated Omnibus Budget Reconciliation Act
C) Health Insurance Portability and Accounting Act
D) Affordable Care Act
Answer: D
Diff: 2
Question Status: Previous edition

8) If you are no longer covered under your parents' or guardian's health insurance plan, the Affordable Care Act requires you to
A) visit the university's infirmary at least once per semester for a check-up.
B) purchase a prescription coverage plan.
C) purchase an individual health insurance plan or face a tax penalty.
D) purchase an individual health care plan from medicaid.
Answer: C
Diff: 1
Question Status: New
12.6 Long-Term Care Insurance

1) Basic health insurance policies and Medicare will not cover stays in nursing homes or assisted living centers for very long.
Answer: TRUE
Diff: 1
Question Status: Previous edition

2) Policy premiums for long-term care insurance are relatively low, even for those over 60 years old.
Answer: FALSE
Diff: 2
Question Status: Previous edition

3) Which of the following is not a true statement?
A) More than half of all individuals in the United States will need long-term care in some period during their life.
B) Medicare covers most of the expenses associated with long-term care.
C) The cost of an aide providing basic care at home can exceed $1,000 per week.
D) For individuals who enter a nursing home, the cost is about $46,000 per year on average.
Answer: B
Diff: 2
Question Status: Previous edition

4) The federal law that allows you to continue health insurance coverage through your former employer's plan for 18 months after you stop work is
A) HIPAA.
B) COBRA.
C) Social Security.
D) Medicare.
Answer: B
Diff: 1
Question Status: Previous edition

5) Long-term care policies
A) commonly have an elimination period (waiting period) of between 60 and 90 days before the policies will begin to pay.
B) are relatively inexpensive and are a good value for those over 60.
C) are never adjusted for inflation, so care must be taken to estimate future costs.
D) All of the above are true.
Answer: A
Diff: 2
Question Status: Revised
6) All of the following will lower the premium of long-term care insurance, except
A) having a longer waiting period before the policy goes into effect.
B) having a higher stop-loss provision.
C) waiting until you are retired to obtain the insurance.
D) choosing to receive benefits for a limited period.
Answer: C
Diff: 1
Question Status: Revised

7) One of the newest types of health care insurance is ________ insurance, which provides coverage to those in a nursing home, assisted living facility, or at home.
Answer: long-term care
Diff: 1
Question Status: Previous edition

8) What are some of your considerations in choosing a long-term care insurance policy?
Answer: You should look at your family's health history and try to determine what your chances will be of needing long-term care coverage. You should also consider your future income and see if living in a nursing home or needing assistance at home would be financially affordable. If you need a long-term care policy, it is best to get one while you are younger so the premiums will be lower. Employers often offer these policies as part of a group plan. You would want a policy with a reasonable amount of coverage per day and coverage that will increase with inflation. You would also want to ensure that you will receive benefits for a long enough period of time to cover your needs. Like other forms of insurance, there is a trade-off between cost and coverage.
Diff: 1
Question Status: Previous edition

12.7 Disability Insurance

1) Generally, disability income policies with shorter waiting periods have lower premiums.
Answer: FALSE
Diff: 1
Question Status: Previous edition

2) The best disability plans pay you if you are not able to work at any job, not just your regular job.
Answer: FALSE
Diff: 2
Question Status: Previous edition

3) Since most workers have employer-sponsored disability coverage and are also eligible for Social Security and worker's compensation, there is very little demand or need for individual disability insurance.
Answer: FALSE
Diff: 1
Question Status: Previous edition
4) Social Security is the easiest disability coverage to qualify for benefits.
Answer: FALSE
Diff: 2
Question Status: Previous edition

5) Which of the following statements is not true of disability insurance?
A) You should have it even if you are retired and living on a pension.
B) The amount of coverage should equal your disposable income.
C) If you are self-employed you should have disability insurance.
D) All of the above are true of disability insurance.
Answer: A
Diff: 3
Question Status: Previous edition

6) The definition of disability can be defined as all of the following, except
A) you are unable to perform the duties required of your occupation.
B) you cannot perform the duties of any job that fits your education and experience.
C) you are unable to perform the duties of your job due to a work-related injury.
D) you are unable to do your job for an initial period.
Answer: C
Diff: 3
Question Status: Revised

7) Regarding the definition of disability,
A) it is the same for all disability policies.
B) it varies from one disability policy to another.
C) the same definition is used by the insurance industry and Social Security.
D) the meaning can change over the life of your disability policy.
Answer: B
Diff: 2
Question Status: Previous edition

8) Sources of disability income do not include
A) federal disability insurance.
B) individual disability insurance.
C) employer disability insurance.
D) insurance from Social Security.
Answer: A
Diff: 1
Question Status: Previous edition
9) Before you decide to take out an individual disability policy, you should consider all of the following except A) amount of home mortgage. B) cost of gasoline commuting to and from work. C) employer disability insurance policy. D) dividends received from stock portfolio. Answer: B
Diff: 2
Question Status: Previous edition

10) Which of the following is not true regarding employer disability insurance? A) Disability benefits are provided for very long periods, usually up to 30 years. B) About half of all large and medium-sized firms offer an optional disability plan through an insurance company. C) The premiums charged through group plans are normally low. D) A typical disability policy covers about 60% of the employee's salary. Answer: A
Diff: 2
Question Status: Previous edition

11) Disability insurance would probably cost the most for which of the following people? A) A certified public accountant (CPA) B) An office worker C) A construction worker D) A telemarketer Answer: C
Diff: 1
Question Status: Previous edition

12) In purchasing disability insurance, you should consider all of the following except the A) waiting period. B) probationary period. C) length of the benefits. D) cost of the policy. Answer: B
Diff: 1
Question Status: Previous edition

13) Disability insurance policies usually cover A) actual expenses incurred. B) a minimum dollar amount. C) a percentage of your income before you were disabled. D) Any of the above. Answer: C
Diff: 2
Question Status: Previous edition
14) Disability income is
A) taxed at the long-term capital gains rate.
B) taxed as ordinary income.
C) tax-free if you pay the disability insurance premiums.
D) taxed at the short-term capital gains rate.
Answer: C
Diff: 1
Question Status: Previous edition

15) Based on the following information, how much disability insurance coverage per month would be required:

- Mortgage payment - $1,600/month
- Household insurance - $100/month
- Car insurance - $200/month
- Gas and oil - $90/month ($30 commuting to and from work)
- Food - $200/month ($70 represents lunch at work which would be reduced by half if the meals were prepared at home)

Employer disability insurance would provide $500/month and it is doubtful that anything would be received from either Social Security or worker's compensation.

A) $1,525
B) $2,190
C) $1,495
D) $1,625

Answer: D
Explanation: D)
Home mortgage $1,600
Household insurance $100
Car insurance $200
Gas and oil, excluding commuting to work $60
Food, excluding additional cost of lunch at work $165
Less employer's disability $500

$1,625

Diff: 2
Question Status: Previous edition
16) Tom purchased disability insurance that will provide $1,400 per month in benefits. His employer carries a disability policy on Tom that will provide an additional $600 per month in benefits. If Tom's monthly budget is $2,500 and Tom is anticipating no additional disability benefits from any other source, what is Tom estimating as his work-related monthly expenditures.
A) $500
B) $600
C) $2,000
D) $2,500
Answer: A
Explanation: A) $2,500 - $1,400 - $600 = $500
Diff: 2
Question Status: Previous edition
Use the following two columns of items to answer the matching questions below:

A) provides income to policyholders in the event they are no longer able to work
B) the time from when you are disabled until you begin to receive disability income benefits

17) waiting period
Diff: 1
Question Status: Previous edition

18) disability insurance
Diff: 1
Question Status: Previous edition

Answers: 17) B 18) A

19) Which of the following is not true about disability insurance?
A) Employer paid disability insurance policies continue in force after you have separated from the employer.
B) Disability insurance protects your net worth.
C) Private disability insurance pays over and above social security disability should you become disabled.
D) A, B and C are all true.
Answer: A
Diff: 1
Question Status: New
12.8 How Health and Disability Insurance Fit Within Your Financial Plan

1) What could happen to you if you had a serious health problem and no health insurance?
Answer: Health services are limited for those with no insurance. Hospitals and doctors are not willing to give away their services. If you had the resources, the cost of medical care would soon exhaust your financial assets.
Diff: 1
Question Status: Previous edition

2) What steps would you take to evaluate and choose health care insurance options?
Answer: First, you should check with your employer to see what types of policies, if any, are offered. Employers often subsidize the premiums for health insurance or sometimes pay it altogether. Larger employers often have a choice of several health insurance policies. Using the employer's policy as a base, you should then look into additional private health care insurance if needed. You should keep in mind that private health care policies are quite expensive and you may need to consider the trade-off of how much insurance you need or want versus how much you can afford.
Diff: 1
Question Status: Previous edition

3) If you are disabled and have insurance, what types of resources, including those from your present job, do you have to cover the waiting period?
Answer: Sick leave is first used to cover the waiting period. If you are covered by an employer's disability plan, coverage may start fairly soon. You may have to use your assets such as savings accounts and investments to live on until the disability insurance starts to pay.
Diff: 1
Question Status: Previous edition

4) As you develop your long term personal financial plan, consideration of purchasing disability insurance and paying the premiums is very important when
A) you are raising a family and have significant financial responsibilities.
B) you are nearing retirement and want to protect your net worth.
C) you begin collecting social security as a way to supplement your retirement income.
D) you begin to feel ill.
Answer: A
Diff: 1
Question Status: New