



Insuring Your Health

Chapter 9

Learning Goals

LG1

Discuss why having adequate health insurance is important and identify the factors contributing to the growing cost of health insurance.

LG2

Differentiate among the major types of health insurance plans and identify major private and public health insurance providers and their programs.

LG3

Analyze your own health insurance needs and explain how to shop for appropriate coverage.

LG4

Explain the basic types of medical expenses covered by and the policy provisions of health insurance plans.

LG5

Assess the need for and features of long-term-care insurance.

LG6

Discuss the features of disability income insurance and how to determine your need for it.



How Will This Affect Me?

- ▶ **Having adequate health insurance is critically important to your financial plan.** Health care costs have grown dramatically in recent years, and a major illness or accident could wipe you and your family out financially if you are uninsured. Yet health insurance policies are complicated to price and to compare. This chapter explains the importance of health insurance and the key determinants of its costs. The various types of public and private health insurance are described and a framework for decision making is provided. This includes discussions of how to analyze your health insurance needs, how to make sense of common policy features, and policy buying tips. The implications of the Patient Protection and Affordable Care Act of 2010 are considered. This chapter also discusses how to determine whether you need long-term care insurance or disability income insurance. After reading this chapter, you should understand how to insure your health most effectively and economically.

Financial Facts or Fantasies?

- ▶ *Health care insurance coverage should be viewed as an essential component of your personal financial plans.*
- ▶ *The difference between a health maintenance organization (HMO) and a preferred provider organization (PPO) is that the HMO offers a wider range of choices of physicians, hospitals, and so forth.*
- ▶ *With health care insurance that covers the whole family, children may be included up to age 26 as long as they are full-time students.*
- ▶ *Health reimbursement accounts (HRAs) and health savings accounts (HSAs) are both funded by employers to help their employees cover health-related costs – and any unused money is the employee's to keep.*
- ▶ *Hospital insurance is the most comprehensive type of medical insurance you can buy.*
- ▶ *Disability insurance is helpful only if you make a lot of money – and then only if you are out of work for a long period of time (at least six months to a year).*



Importance of Health Insurance

- Next best thing to good health is good health insurance
- Major illness can destroy your financial wealth
- About two-thirds of bankruptcies are due to problems paying health costs
- Yet about 13% of the country does not have health insurance, though that number is decreasing



Causes of High Medical Care Costs

- Advances in medical technology
- Aging US population
- Poor demand-and-supply distribution of health care facilities
- Greater administrative costs
- Increase regulation and compliance costs
- Insurance fraud

Average Annual Premiums 2010-2014

Year	Single Coverage	Family coverage
2010	\$5,049	\$13,770
2011	\$5,429	\$15,073
2012	\$5,615	\$15,745
2013	\$5,884	\$16,351
2014	\$6,025	\$16,834



Health Insurance Plans

- Private Health Insurance Plans
 - Available to singles or families
 - Provided as group health insurance plans through various employers or for purchase by individuals
- Two categories
 - Traditional indemnity (fee for service) plans
 - Managed care plans



Traditional Indemnity (fee for service) Plans

- Typically offer unlimited choice of doctors and hospitals
- Pay deductible plus a percentage of eligible costs
- Reimbursements based on “usual, customary and reasonable” (UCR) charges
- Health care services separate from insurer



Managed Care Plans

- Monthly payments made directly to organizations that provide health care such as HMOs, PPOs and other
- Designated doctors and hospitals provide services
- Hold down costs by controlling amount of care provided and emphasizing prevention
- Charge copayments
- Most medical services including preventive and routine care are covered



Types of Managed Care Plans

- **Health Maintenance Organizations (HMOs)**
- Organization including hospitals, physicians, and other health care providers that provides comprehensive health care
- Group HMOs provide services for members from a central facility
- Individual Practice Associations (IPAs) contract with physicians who operate out of their own offices and community hospitals



Preferred Provider Organizations (PPOs)

- Insurance company or other organization, contracts with a network of physicians and hospitals to provide services for negotiated amount
- Patient can go to providers out of network, but pay a higher price



Other Managed Care Plans

- Exclusive provider organization – provides reduced costs services but only from affiliated provider. Services from non-affiliated providers must be pay 100% by patient.
- Point-of-service plan is a hybrid plan from a HMO that allows out-of-network services paid like an indemnity plan (plan pays a percentage of fee)



Blue Cross/Blue Shield Plans

- Originally plans were not Insurance but prepaid hospital and medical plans
- Many are now for-profit organizations that provide health insurance like all other insurance companies



Government Health Insurance Plans

- Medicare—Provides health insurance for individuals over 65 or disabled, funded by the Medicare tax
- Basic hospital coverage (Part A)
- Supplementary medical insurance (Part B) covers services of physicians and other services not included in Part A. Monthly fee varies based upon income plus an annual deductible
- Medicare Advantage plans – similar to Medicare except provided by private providers rather than government
- Part D provides prescription drug coverage; requires monthly fee with annual deductible



Medicaid

- ▶ State run public assistance program that provides health coverage for eligible individuals
- ▶ Eligibility varies by state
- ▶ More than 62 million people covered by Medicaid
- ▶ Primarily paid by states with federal assistance



Workers' Compensation Insurance

- Compensates workers injured on the job or have work related illness
- Premium paid by employer and varies based upon claims
- Covers most health costs and rehabilitation costs
- Pays lump-sum for death and certain injuries



Rational for Health Care Reform

- U.S. economy spends about 17 cents of every dollar on health care
- Outcomes for infant mortality, life expectancy, and heart attack survival rates are worst than the average for countries who are members of the Organization for Economic Cooperation and Development
- Drivers of US expensive health care are:
- Health costs are deductible for income tax
- Providers paid on fee for service basis, thus encourages unnecessary services



Patient Protection and Affordable Care Act of 2010

- ▶ Two key goals:
- ▶ Reduce the number of uninsured citizens
- ▶ Reduce the increases in health care costs by providing a “state based” health insurance exchange in each state



Patient Protection and Affordable Care Act of 2010

- To reach goals:
- Required purchase of health insurance or pay tax of the greater of \$695 or 2.5% of the family income in 2016
- Employers of more than 50 employee required to provide insurance or pay penalty/tax
- Health insurance sold must provide coverage for ten listed “essential health benefits”



Patient Protection and Affordable Care Act of 2010

- Require health insurance plans to provide following:
- Cover pre-existing conditions
- Children may be covered by parent's plan until age 26
- No lifetime dollar limits on total coverage
- Must cover preventive care and medical screenings
- Insurance companies must spend at 80% of premiums on claims



Patient Protection and Affordable Care Act of 2010

- Insurance exchanges to be available in each state either provided by state or by federal exchange
- Four level of benefits may be provided
- **Bronze** plan covers 60% of benefit costs
- **Silver** plan covers 70% of benefit costs
- **Gold** plan covers 80% of benefit costs
- **Platinum** plan covers 90% of benefit costs



Patient Protection and Affordable Care Act of 2010

- Premium assistance -- Eligible individuals receive a tax credit to cover part of premiums
- Additional taxes to pay for plan – 0.9% of salaries over \$250,000 and 3.8% of net investment income for taxpayers with AGI over \$250,000.
- “Cadillac Plans” costing more than \$27,500 are prohibited beginning in 2018



Health Insurance Decisions

- Evaluate healthcare cost risk, consider:
 - Medical care and rehabilitation expenses
 - Loss of income from disability
- Determine available coverage and resources
- Choose a health insurance plan



Medical Expense Coverage and Policy Provisions: Hospitalization

- ▶ Pays a portion of per-day room and board charges
- ▶ Use of hospital facilities
- ▶ Selected other services



Medical Expense Coverage and Policy Provisions

- Surgical expenses
 - Pays cost of surgery in or out of hospital
 - Not all procedures are covered such as cosmetic or experimental surgery
- Physician expenses
 - Pays physician fees for nonsurgical hospital care
 - Includes consultation with specialists and lab tests



Medical Expense Coverage and Policy Provisions

- Major medical insurance--Broad coverage for illnesses and catastrophic injuries
- **Comprehensive** major medical insurance
 - Combines major medical with basic hospital, surgical and physicians expense coverage
 - Available through group plans, with low deductible



Medical Expense Coverage and Policy Provisions

➤ Dental services:

- Covers necessary dental care and some dental injuries
- Mostly offered through group insurance plans



Other Types of Health Plans

- Accident policies—Cover certain accidents
- Sickness policies (dread disease policies) –Coverage limited to specific disease or illness, such as cancer
- Hospital income policies—Guarantee a per-diem for hospital stays



Policy provisions of Medical Expense Plans

- **Deductible**
 - Initial amount not covered
 - Determined on an calendar-year or per-incident basis
- **Participation (Coinsurance):**
 - Company only pays a portion of medical expenses after a deductible, patient pays the coinsurance amount, such as \$25 per doctor visit
 - Plan may include a stop-loss provision to cap out-of-pocket expenses



Policy provisions of Medical Expense Plans

- ▶ **Internal limits**—Limits amount paid on certain items to usual, customary, and reasonable charges even if cost is within the norms
- ▶ **Coordination of benefits**—Eliminates double payment when coverage provided under more than one policy



Terms of Coverage

- **Persons and Places Covered:** Children covered on parents plan to age 26
- **Cancellation:** Policy may be cancelled by company unless provision provides no cancellation if premiums paid
- **Pregnancy and Abortion:** Policy may limit coverage or require family policy for coverage. Maternity and new born care is one of the essential benefits under ACA
- **Mental illness:** May provide a reduce benefit, but is one of the essential benefits under ACA



Terms of Coverage

- **Rehabilitation Coverage:** One of the essential benefits under ACA, covers counseling, occupational therapy, and perhaps some education or job training
- **Continuation of Group coverage:** Under Consolidated Omnibus Budget Reconciliation Act (COBRA) passed by Congress in 1986, an employer must allow an employee to continue coverage for up to 18 months if employee leaves. Employee must pay up to 102% of premium.



Cost Containment Provisions

- Preadmission certification
- Continued stay review
- Second surgical opinions
- Waiver of co-insurance
- Limitation of insurer's responsibility



Long-term Care Insurance

- Covers medical and personal care, other than hospitalization, to persons with chronic medical conditions, including nursing home care
- Does not cover “assisted living” care
- Private nursing home care average over \$91,250 (\$250/day) in 2015
- Average length of stay is three years
- Premium is expensive, 65 year old male, \$2,800 per year for a policy with three years benefits of \$150/day



Do you Need Long-term Care Insurance?

- Do you have many assets to preserve for your dependents?
- Can you afford the premiums? Premium may be 5 – 7 percent of income
- Is there a family history of disabling disease?
- Are you male or female?
- Do you have family who can care for you?



Typical Provisions in Long-term Care Insurance Policies – Exhibit 9.4

- ▶ Services covered – Skilled, intermediate, and custodial care; home health care; adult day care (often)
- ▶ Benefit eligibility – Physician certification/medically necessary
- ▶ Daily benefit - \$100-\$450/day, nursing home; \$50-\$250, home health care
- ▶ Benefit period - 3-4 years; Maximum period – 5 years to unlimited
- ▶ Waiting period before benefits start – 0 – 100 days
- ▶ Renewability – Guaranteed
- ▶ Inflation Protection – Yes with additional premium
- ▶ Deductibility - 0 to 100 days
- ▶ Alzheimer's disease coverage – Yes
- ▶ Age limits for purchasing – 40-84



How to Buy Long-Term-Care Insurance

- Buy policy when you are healthy
- Only buy coverage you need
- Understand what the policy covers and when it pays benefits

Disability Income Insurance

- Insurance that provides families with weekly or monthly payments to replace income when the insured is unable to work because of a covered illness, injury, or disease.

1. Estimate current monthly <i>take-home</i> pay		\$ _____
2. Estimate existing monthly benefits		
a. Social Security benefits	\$ _____	
b. Other government program benefits	_____	
c. Company disability benefits	_____	
d. Group disability policy benefits	_____	
3. Total existing monthly disability benefits (2a + 2b + 2c + 2d)		\$ _____
4. Estimated monthly disability benefits needed ([1] - [3])		\$ _____



Disability Insurance Provisions and Costs

- Definition of disability - “own occupation”
- Benefit amount and duration
- Probationary period
- Waiting period
- Renewability
- Other provisions - (COLA), guaranteed insurability option, and waiver of premium