Health Insurance

by Sophia

WHAT'S COVERED

In this lesson, you will examine the options, costs, and requirements associated with health insurance. Specifically, this lesson will cover:

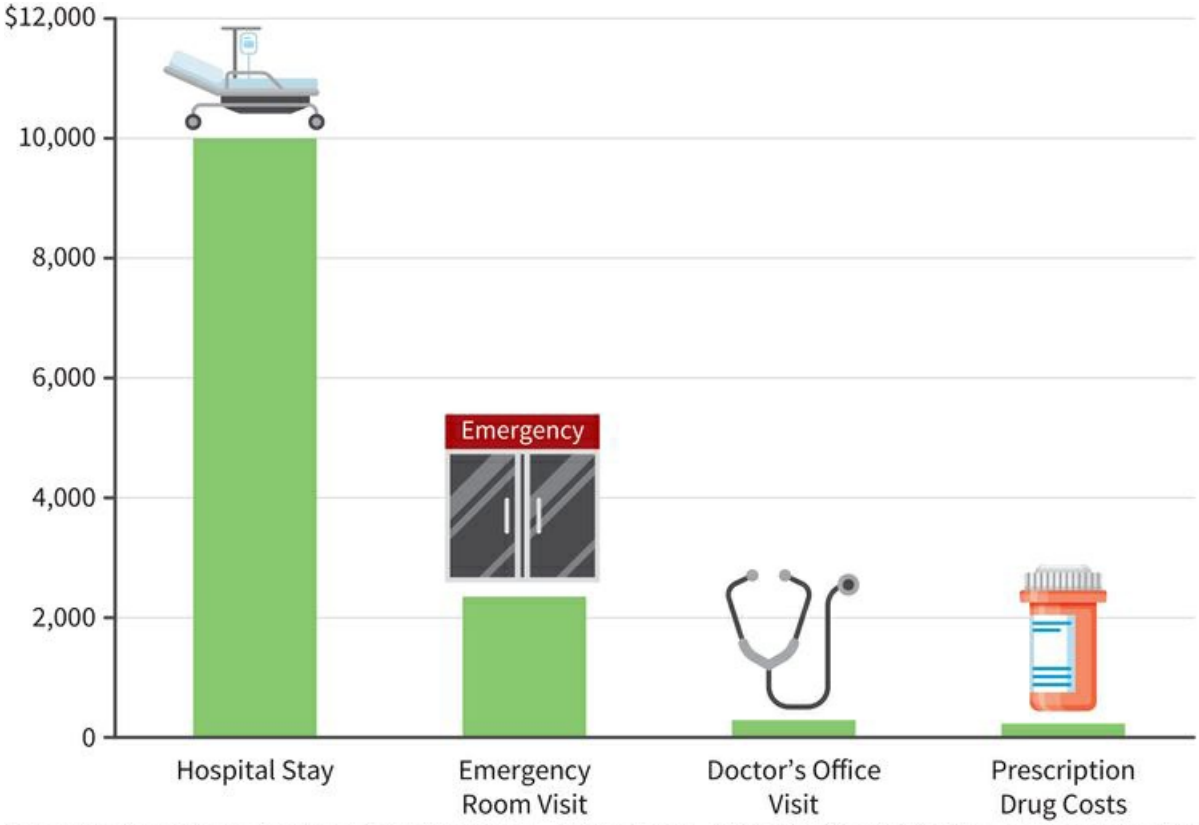
1. Overview of Health Care

1a. Healthcare Expenses

Besides housing, transportation, and taxes, healthcare expenses make up one of the most significant monthly costs for most households. The cost of a routine hospital stay can run $10,000 or even higher depending on the medical need (see the column chart below). Further, healthcare expenses – both in terms of premiums and out-of-pocket expenses (discussed later in this topic) – tend to increase as you age. If you are young, costs can be quite low.

HINT

For many young adults in their twenties, average healthcare expenses are no more than a few thousand dollars per year.



Source: National Center for Health Statistics, Health, *United States, 2013: With Special Feature on Prescription Drugs* (Hyattsville, MD: U.S. Department of Health and Human Services, 2013), Tables 78 and 87.

1b. Healthcare: The Government Perspective

Because of the potential catastrophic costs associated with healthcare needs and the resulting dire consequences for some households, the government has acted to make sure that all Americans have access to health insurance coverage.

- The decision regarding what type of insurance to purchase depends on your access to a policy, your health status, the risks you take, and the cost of health insurance coverage.
- In 2010, Congress passed the Patient Protection and Affordable Care Act, sometimes called the Affordable Care Act or Obamacare. This Act of Congress attempted to reform the healthcare system by providing more Americans with quality health insurance coverage.

HINT

It is important to stay informed on any changes to laws concerning health insurance.

It is also worth noting that the government is also involved in providing medical health insurance in other important ways.

1. **Medicare** is available to those who are age 65 or older, those who are younger but have a disability, and those with end-stage renal disease. Most often, Medicare is used by retirees who no longer have access to employer-provided health insurance plans. Premiums for Medicare are based on the coverage selected.
2. **Medicaid** is state-administered health insurance designed to provide coverage for individuals and families with low incomes and limited financial assets. Eligibility and benefits vary considerably from state to state, but generally, a family must be living below or near the poverty threshold to qualify for Medicaid.

TERMS TO KNOW

Medicare

Available to those who are age 65 or older, those who are younger but have a disability, and those with end-stage renal disease.

Medicaid

State-administered health insurance designed to provide coverage for individuals and families with low incomes and limited financial assets.

---

2. Health Insurance Costs

The cost to purchase health insurance is the monthly premium charged by your health insurance provider. Regardless of whether you need or use healthcare services, you must pay the premium throughout the year to keep your coverage active. However, having insurance does not mean you have free medical care. Although your costs will be less than if you do not have health insurance, you will generally still be responsible for at least one of the following expenses:

- Deductible
- Coinsurance
- Copayment

To see how this works out in practice, let's consider an example. Imagine that one winter day your friend Jane slips on a patch of black ice and breaks her arm. Her arm requires minor surgery to help it heal properly. Fortunately, Jane has health insurance, with a $148 monthly premium. What other costs will Jane need to pay to have her arm fixed? Let's examine Jane's **out-of-pocket expenses**, which include her deductible, coinsurance, and copayment.

Out-of-Pocket Expense

Deductible, coinsurance, and copayment.

2a. Deductibles

Jane's first out-of-pocket cost is her deductible. A deductible is the amount that the insured individual (Jane) must pay before the health insurance company will contribute any funds to pay medical bills. Keep in mind the following regarding deductible amounts:

- Deductibles vary across health insurance plans.
- Deductibles are cumulative amounts over a calendar year.
- Once the deductible has been paid, the health insurance plan will begin to pay for some of the remaining healthcare costs.

Assume that Jane's health insurance has a $500 deductible. This means that Jane is responsible for paying the first $500 of her medical expenses related to her arm injury. The deductible is a yearly expense, not a per accident expense. This may seem like a lot, but remember, without insurance Jane would be responsible for the entire expense.

2b. Coinsurance

Nearly all health insurance plans require an insured to participate in medical cost sharing. This happens using

either coinsurance or copayments (some health insurance plans require that an insured pay both a copayment and coinsurance). **Coinsurance** is the sharing of costs between the insured individual (Jane) and the health insurance company.

- Coinsurance is stated as a percentage of the claim.
- Common coinsurance rates are 80/20 and 90/10, which means that the insurance company will pay 80% (or 90%) of the remaining bill after the deductible has been met.

Say Jane's plan has an 80/20 coinsurance clause. This means that after paying the $500 deductible, she is responsible for 20% of the remaining bill. If Jane's coinsurance rate had been 90/10, she would have been responsible for 10% of all the medical bills after her deductible had been paid.

TERM TO KNOW

Coinsurance

The sharing of costs between the insured individual and the health insurance company.

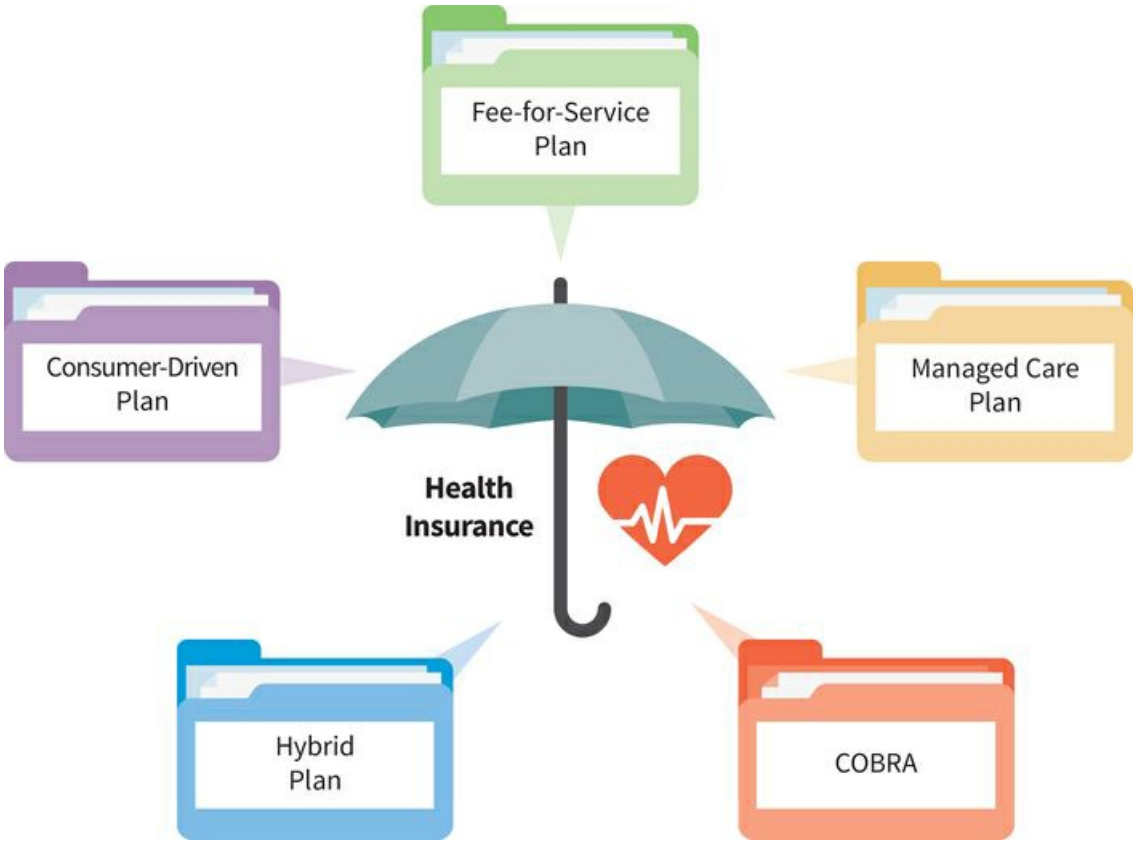
2c. Copayments

Some insurance plans use a copayment rather than coinsurance. A copayment (or copay) is a flat fee (usually around $20 to $30 for a doctor's visit) that the insured individual must pay to receive any healthcare service. Let's say that Jane's copay for an emergency room visit is $250. This means that she must pay the $250 out of her own pocket. Unlike coinsurance, a copayment can be used to fund part of a deductible (remember, coinsurance is paid after a deductible has been met).

---

3. Types of Health Insurance Policies

Health insurance plans can be classified as shown in the illustration below. We describe each in more detail next.



3a. Fee-for-Service Plan

A **fee-for-service plan** is the most flexible, and costly, type of coverage available.

- Fee-for-service coverage allows the insured to use the services of different hospitals, clinics, and doctors without prior permission.
- A preferred provider organization (PPO) is a popular fee-for-service option.
- A PPO offers reduced deductibles, copayment, and coinsurance when someone visits a medical provider who belongs to an insurance network. If services are obtained outside the network, reimbursement amounts decrease.

TERM TO KNOW

Fee-for-Service Plan

The most flexible, and costly, type of health insurance coverage available; allows the insured to use the services of different hospitals, clinics, and doctors without prior permission.

3b. Managed Care Plan

A health maintenance organization (HMO) is a popular form of a**managed care plan**.

- An HMO provides medical care through a network of physicians and hospitals located in a specified geographic area.
- Rather than charge a large upfront deductible and ongoing coinsurance, services are charged using relatively small copayments per visit.
- The intent of an HMO is to coordinate healthcare services in a way that prevents rather than treats illness.

The primary advantages associated with using an HMO are lower premiums and reduced out-of-pocket expenses.

HINT

Services provided outside an HMO network may not be covered in full. This means that out-of-pocket expenses can be very high.

An exclusive provider organization (EPO) is another type of managed care plan. EPO coverage typically only includes the use of doctors, specialists, clinics, and hospitals in the plan's network. Although there are a few exceptions for emergencies, EPOs tend to be restrictive.

TERM TO KNOW

Managed Care Plan

System of health care where patients visit doctors, hospitals, and specialists in a specified monitored network.

3c. Hybrid Plan

Hybrid plans combine elements of a fee-for-service and managed care plan.

- A popular hybrid coverage is called a **point of service (POS) plan**.
- If you have this type of plan, you will have lower out-of-pocket expenses if you use the services of network providers.
- To go outside the network, you must first receive a referral from a network provider to receive coverage.

TERM TO KNOW

Point of Service (POS) Plan

A popular hybrid health insurance coverage. Usually has lower out-of-pocket expenses if you use the services of network providers.

3d. Consumer-Driven Plan

A **consumer-driven plan** is a type of coverage designed to reduce yearly premiums by providing an incentive to the insured to pay more upfront medical expenses out of pocket. Although premiums are much lower than fee-for-service plans, out-of-pocket expenses will always be much higher.

- The most popular consumer-driven health plan is called a high deductible health plan (HDHP).
- An HDHP has a relatively high minimum annual deductible: $1,350 in 2018 for an individual and $2,700 in 2018 for a family.
- The annual out-of-pocket amount (including deductibles and copayments) cannot exceed $6,650 (individually) or $13,300 (family) in 2018.

Individuals (and families) covered by HDHPs are also eligible to open a health savings account. A health savings account (HSA) allows you to save money on a pretax basis that can then be used to pay for qualified medical expenses, such as your deductible and other out-of-pocket expenses.

HINT

If you use the money from an HSA for qualified medical expenses, the distribution is also tax-free.

If you decide to open an HDHP and an HSA, make sure that your account distributions are used for the following qualified medical expenses:

- Unreimbursed medical expenses, including deductibles and copayments.

- Long-term care insurance premiums.
- Health insurance premiums associated with a job termination.

TERM TO KNOW

Consumer-Driven Plan

A type of coverage designed to reduce yearly premiums by providing an incentive to the insured to pay more upfront medical expenses out of pocket.

3e. COBRA

Although you may love your current job, there may come a time when you might lose your job or change employers for some reason. A big fear among those who are in the process of transitioning positions is the possibility of losing healthcare coverage.

Fortunately, a federal law is in place to give most workers and their families who lose healthcare benefits the option to continue coverage for a limited period of time. This is called **COBRA**, which stands for the Consolidated Omnibus Budget Reconciliation Act. COBRA is available to anyone who works for an employer with 20 or more employees. COBRA can even be used in cases when you have a reduction in hours worked or if a death, divorce, or other life event occurs in your family. Here is how COBRA works.

- If you elect to continue coverage, you may be required to pay the entire premium for coverage up to 102% of the cost to the plan.
- Coverage is typically only good for 18 months, but in some cases, you may continue on the plan for 36 months.

TERM TO KNOW

COBRA

Consolidated Omnibus Budget Reconciliation Act; health insurance that is available to anyone who works for an employer with 20 or more employees.

SUMMARY

In this lesson, you completed an **overview of health care**. **Healthcare expenses** can be significant and they tend to increase as you age. The goal of **government** healthcare programs is to get quality health insurance to all Americans.

There are several aspects to calculating **health insurance costs**. A **deductible** is what you pay before health insurance kicks in. **Coinsurance** is the shared insurance cost between you and your employer. A **copayment** is a flat fee paid to a doctor's office or clinic for a visit. Finally, your **out-of-pocket payment** is the sum of these costs.

Aside from government programs, there are other types of health insurance policies:

- **Fee-for-Service Plans**. Includes flexible, but somewhat costly services through a network. Costs go up if you seek services outside the network.
- **Managed Care Plans**. Care provided through a network of physicians with a focus on preventative care.
- **Point-of-Service Plans**. Combines aspects of fee-for-service and managed care plans.

- **Consumer-Driven Plans**. Lower premiums, but higher out-of-pocket costs.
- **COBRA**. Continuation coverage in the event you lose your job.

ATTRIBUTIONS

- Health, United States, 2013 With Special Feature on Prescription Drugs | **Author:** U.S. Department of Health and Human Services | **License:** Public Domain

TERMS TO KNOW

COBRA
Consolidated Omnibus Budget Reconciliation Act; health insurance that is available to anyone who works for an employer with 20 or more employees.

Coinsurance
The sharing of costs between the insured individual and the health insurance company.

Consumer-Driven Plan
A type of coverage designed to reduce yearly premiums by providing an incentive to the insured to pay more upfront medical expenses out of pocket.

Fee-for-Service Plan
The most flexible, and costly, type of health insurance coverage available; allows the insured to use the services of different hospitals, clinics, and doctors without prior permission.

Managed Care Plan
System of health care where patients visit doctors, hospitals, and specialists in a specified monitored network.

Medicaid
State-administered health insurance designed to provide coverage for individuals and families with low incomes and limited financial assets.

Medicare
Available to those who are age 65 or older, those who are younger but have a disability, and those with end-stage renal disease.

Out-of-Pocket Expense
Deductible, coinsurance, and copayment.

Point-of-Service (POS) Plan
A popular hybrid health insurance coverage. Usually has lower out-of-pocket expenses if you use the services of network providers.