HEALTH INSURANCE

- Simply put, health insurance is protection against medical costs. A health insurance policy is a contract between an insurer and an individual or group, in which the insurer agrees to provide specified health insurance at an agreed-upon price (the premium). Depending on the policy, the premium may be payable either in a lump sum or in installments.
- **Health insurance usually provides either direct payment or reimbursement for expenses associated with illnesses and injuries.**
- Health insurance is insurance that pays for medical expenses.
- It is sometimes used more broadly to include insurance covering disability or long-term nursing or custodial care needs.
- It may be provided through a government-sponsored social insurance program, or from private insurance companies.
- It may be purchased on a group basis (e.g., by a firm to cover its employees) or purchased by individual consumers.
- In each case, the covered groups or individuals pay premiums or taxes to help protect themselves from high or unexpected healthcare expenses.
- **Need for Health Insurance**: The costs of medical care and treatment have soared to new heights in recent years and are expected to rise even further in the years to come. Enormous medical costs are to be incurred, if one suffers a major injury or suddenly stricken with a life-threatening illness. Uninsured people live with such risk every day of their lives; health insurance can shield people from that risk. Even if a person is healthy today and have never had any major problems in the past, he simply can't presume the same for the future.

Health Insurance: How it works:

- A health insurance policy is a contract between an insurance company and an individual or his sponsor (e.g. an employer).
- The contract can be renewable annually or monthly.
- The type and amount of health care costs that will be covered by the health insurance company are specified in advance, in the member contract or "Evidence of Coverage" booklet.
- The individual insured person's obligations may take several forms.

    - **Premium:** The amount the policy-holder or his sponsor (e.g. an employer) pays to the health plan each month to purchase health coverage.

    - **Deductible:** The amount that the insured must pay out-of-pocket before the health insurer pays its share. For example, a policy-holder might have to pay a $500 deductible per year, before any of their health care is covered by the health insurer. It may take several doctor's visits or prescription refills before the insured person reaches the deductible and the insurance company starts to

pay for care.

- **Copayment:** The amount that the insured person must pay out of pocket before the health insurer pays for a particular visit or service. For example, an insured person might pay a $45 copayment for a doctor's visit, or to obtain a prescription. A copayment must be paid each time a particular service is obtained.

- **Coinsurance:** Instead of, or in addition to, paying a fixed amount up front (a copayment), the co-insurance is a percentage of the total cost that insured person may also pay. For example, the member might have to pay 20% of the cost of a surgery over and above a co-payment, while the insurance company pays the other 80%. If there is an upper limit on coinsurance, the policy-holder could end up owing very little, or a great deal, depending on the actual costs of the services they obtain.

- **Exclusions:** Not all services are covered. The insured person is generally expected to pay the full cost of non-covered services out of their own pocket.

- **Coverage limits:** Some health insurance policies only pay for health care up to a certain dollar amount. The insured person may be expected to pay any charges in excess of the health plan's maximum payment for a specific service. In addition, some insurance company schemes have annual or lifetime coverage maximums. In these cases, the health plan will stop payment when they reach the benefit maximum, and the policy-holder must pay all remaining costs.

- **Out-of-pocket maximums:** Similar to coverage limits, except that in this case, the insured person's payment obligation ends when they reach the out-of-pocket maximum, and the health company pays all further covered costs. Out-of-pocket maximums can be limited to a specific benefit category (such as prescription drugs) or can apply to all coverage provided during a specific benefit year.
- Capitation: An amount paid by an insurer to a health care provider, for which the provider agrees to treat all members of the insurer.

- **Prior Authorization:** A certification or authorization that an insurer provides prior to medical service occurring. Obtaining an authorization means that the insurer is obligated to pay for the service, assume it matches what was authorized. Many smaller, routine services do not require authorization.

- **Explanation of Benefits:** A document sent by an insurer to a

patient explaining what was covered for a medical service, and how they arrived at the payment amount and patient responsibility amount.

Group Health Insurance

With group health insurance, a single policy covers the medical expenses of many different people, instead of covering just one person. Unlike individual insurance, where each person's risk potential is evaluated to determine insurability, all eligible people can be covered by a group policy, regardless of age or physical condition. The premium for group insurance is calculated based on the characteristics of the group as a whole, such as average age and degree of occupational hazard.

Benefits of Group Health Insurance:

- **No need for Physical Examination:** Under a group health insurance arrangement, the insurance company agrees to insure all members of the group, regardless of current physical condition or health history. The only condition is that the group members must apply for insurance within the specified eligibility period. Clearly, this is better for those with chronic health conditions, who might be unable to get individual insurance.
- **Cheaper than Individual Insurance:** Because only one policy is issued for the entire group, the initial cost of establishing group coverage is lower than the cost of issuing a separate policy to each person. Also, group insurance is somewhat less risky for insurers than individual insurance, since the risk is spread out among a larger number of people. Within a fairly large group, it is almost certain that the good insurance risks will equal or exceed the bad insurance risks. Since group insurance costs less for the insurance companies to establish and administer, it generally costs less to purchase.
- **More Affordable:** In many cases, the employer or association will pick up some or all of the group insurance premium. This can make group insurance even more affordable.

Drawbacks of Group Health Insurance:

- **No customization:** In a group insurance situation, the provisions of the policy are negotiated between the insurer and master policyowner (usually an employer or association). An individual (employee) may not have the freedom to have provisions included or excluded, and the deductible amount and co-payment percentage are determined in advance.

DISABILITY INSURANCE:

- Disability income insurance provides the insured with income should he become sick or injured and unable to work. It helps protect against family financial catastrophe by giving the insured an income to meet daily expenses.
- Disability income insurance comes in two major forms.

  - A variety of employer-paid and government sponsored programs, generally cost-free to the recipient, covering certain categories of workers.
  - Private policies (paid for by individuals) that protect income when there are no applicable employer or government programs or when those programs do not adequately meet income needs.
- As with all insurance, disability income insurance operates on the principle that many people pool small sums of money to benefit those who need help. The beneficiaries are people who need adequate income should they become disabled.
- Disability insurance is often considered to be income insurance.