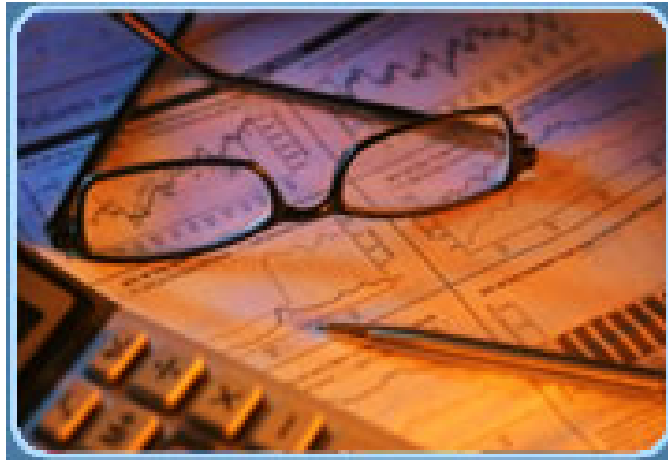


# **Risk Management**



## **HEALTH INSURANCE**

# Health Insurance



The subject of health care costs is one of the most controversial topics in the country today. Every Presidential Administration for the past thirty years has been concerned by the skyrocketing cost of health care. Each has proposed a combination of tax increases and limits on payments for services. All sorts of recommendations have been advocated by a host of conscientious citizens and politicians.

The medical surcharge is just one such proposal. Under this plan, a recipient of medical benefits from the government would be expected to reimburse the government according to his ability as determined by the amount of income tax he paid in a given year. The obligation to repay medical benefits would carry over from one year to another. If you received help when *down on your luck*, when things got better (as evidenced by your income tax returns) you would be expected to pay off *your debt* to the government. If you never earned enough to trigger income tax you would never be expected to reimburse the government

According to the U.S. Census Bureau real median household income remained unchanged between 2003 and 2004 at \$44,389, according to a report released today by the U.S. Census Bureau. Meanwhile, the nation's official poverty rate rose from 12.5 percent in 2003 to 12.7 percent in 2004. The percentage of the nation's population without health insurance coverage remained stable, at 15.7 percent in 2004. The number of people with health insurance increased by 2.0 million to 245.3 million between 2003 and 2004, and the number without such coverage rose by 800,000 to 45.8 million.

*In this section we intend to analyze your individual coverage and see where you stand in this area. Note that the process is the focus of the pages that follow and the cost figures have not been updated although the numbers have increased dramatically since the original writing.*

## **BASIC MEDICAL COVERAGE**

Basic coverage provides for hospital expenses, surgical proceedings and may be written to cover some health services outside the confines of the hospital. It was your common, and as the name implies, "basic coverage" for medical expenses until costs in the health field began to soar dramatically after the second world war. Because the maximum benefits are low and many expenses may not be covered, the consumer usually finds himself involved in patching several policies together in order to obtain anywhere near adequate coverage for his family. Because of these limitations major medical type policies are more popular today.

## **MAJOR MEDICAL COVERAGE**

Major medical policies have high or even unlimited maximum benefits which can be applied on a various time oriented base. Most types of medical care expenses are covered up to the policy's limits. However, major medical policies have what are called "inside limits" restricting coverage for certain items such as room and board, surgery and private nursing, to a specific pre-determined amount and no more. That amount is the "inside limit" for that particular policy. Because of the high maximum coverage these policies provide, the premiums would be out of reach for most people if deductibles and coinsurance provisions were not used. policies vary but the consumer is usually required to pay the first \$100 or \$200 of medical expenses (deductible) on either a calendar or benefit-year basis (the name is self-explanatory) or a per cause basis. Per cause means incident by incident. After the deductible is paid, the coinsurance provision normally provides for the insured to pay a specified portion of the covered expenses. An 80/20 coinsurance provision would require the insurance company to pay 80% of those items covered under a particular policy (N.B. not 80% of the entire bill) and the insured to be responsible for the remaining 20%.

The following illustration may be helpful:



**MR. PAINE**

Mr. Paine has a major medical coverage with a \$100,000 policy limit (on a calendar-year basis) with a \$100 deductible (on a per cause basis), an 80/20 coinsurance provision and an

"inside limit" of \$100 on a daily room and board and \$35,000 "inside limit" surgical. Mr. Paine is hospitalized and his expenses are as follows:

Surgery	\$40,000
Rm & Brd 100 days @ \$125/day	\$12,500
Other covered charges	\$10,000
<b>Total bill</b> (within the \$100,000 policy limit)	<b>\$62,500</b>

The insurance company would pay:

Surgery (inside limit)	\$35,000
Rm & Brd (inside limit)	\$10,000
Fully covered charges	\$10,000
Subtotal	\$55,000
Coinsurance 80/20 (Sub x .80)	
Ins. Co. pays	\$44,000
	\$62,500
	- 44,000
<b>Not reimbursed</b>	<b>\$18,500</b>

### **"STOP-LOSS" PROVISION**

The non-reimbursed portion of the bill (\$18,500) in the previous example, would be tax deductible so the blow would be somewhat lessened depending on Mr. Paine's tax bracket. Better still would be a stop-loss provision that limits the insured's liability to a certain maximum amount each year. For instance, if Mr. Paine had a stop-loss of \$10,000 per year per person in his policy, the insurance company would pick up an additional \$8,500 of expenses. Mr. Paine would have his losses stopped at the \$10,000 figure and would not be liable for more than that figure in any one year as far as his own medical expenses are concerned. This would be true even if his expenses reached the \$100,000 limit-- the insurance company would have to pay \$90,000 in such a case. It is evident that a stop-loss provision negates the coinsurance provision where catastrophic illness is concerned.

### **COMPREHENSIVE COVERAGE**

Comprehensive coverage is really a combination of basic and major medical insurance. It usually requires smaller deductibles than major medical and deletes the coinsurance provision for certain basic policies.

### **EXCESS MAJOR MEDICAL**

Excess major medical applies only after other medical coverage has been exhausted and when there is no stop-loss provision. In Mr. Paine's case, if complications arose it is conceivable his

\$100,000 limit could have been reached during a calendar year. Excess major medical is intended to cover catastrophic situations and should be considered when deciding on a total insurance package.

## **MEDICARE AND WORKERS COMPENSATION**



Persons over age 65 are eligible for hospital insurance which includes up to 100 days of home nursing or nursing home care beyond the hospital stay. The supplementary medical insurance (SMI) will generally pay 80% of such persons' medical services after a \$75/ year deductible. If you, or a family member, is 65 or over, be sure to read a more detailed account of the coverage provided under these programs. See the suggested reading list at the end of this chapter.

Workers compensation provides unlimited benefits to employees who are injured or contract an illness as a result of and while on the job.

## **GROUP INSURANCE**

Group insurance is the most common type of coverage in the United States today. One can usually obtain broader benefits at a lower cost if one is covered as a member of a professional group, a service club or as an employee of a covered company. However, for a slightly higher premium one may join associations such as Blue-Cross Blue-Shield or Kaiser as a non-group subscriber and receive similar benefits.

With both spouses frequently working nowadays, it is not uncommon to find oneself covered under more than one group policy; once as a subscriber and again perhaps as a dependent of a spouse. Group policies have provisions, however, limiting benefits to 100% of expenses covered so there can be no duplication or windfall for the insured covered under more than one group policy.

Normally children as well as spouses are covered under group plans and sometimes dependent parents are also included. Policies vary as to when benefits cease but the decisions are generally based on age and whether the child is handicapped or is still a full-time student.

## RENEWAL PROVISIONS



Because one's health is likely to change over a period of time, a consumer should take a good look at renewal provisions when purchasing health insurance. There are three classifications to consider.

*Renewal at the option of the insurer* is the least desirable alternative from the insured's point of view. The insurance company reserves the right to periodically reevaluate the insured in terms of possible deteriorating health and economic conditions in general. The insurer can cancel the policy, raise premiums and insert restrictions as to the future coverage offered.

The second category is the *guaranteed renewable policy* which prohibits the insurance company from canceling or changing coverage or raising premiums unless the entire class of policy holders is affected.

The most lenient renewal provision is the *non-cancelable ("non-can") policy* which gives the insurance company no right to make any changes in the consumers' coverage or premiums as long as the policy is kept in effect by the offer of timely payments.

Of course the trick when evaluating insurance is to weigh the cost against the privilege. In this case the more lenient the renewal provisions in a particular policy, the higher the premiums will be. However, the higher cost may well be worth it to a consumer who anticipates failing health because of family history or some other reason and therefore does not want to risk being turned down for coverage in future years or having to pay prohibitive premiums for inadequate coverage.

## SUMMARY

Basic medical coverage is limited as to the benefits provided and has relatively low policy limits in this age of soaring health care costs. Most people find major medical coverage preferable and almost necessary. High limits on benefits are possible by using deductibles, coinsurance provisions and inside limits to bring the premiums within the range of most consumers. Coupled with stop-loss provisions, the risk of catastrophic illness is adequately eliminated. There are many providers of health insurance but group plans are the most popular. The majority of workers receive some such coverage for their families through their employment. Often premiums are paid by their employer as a fringe benefit of the workplace. You should familiarize yourself with the provisions of government policies such as

workman's compensation and Medicare. Make sure you check to see exactly what the renewal provisions are before you buy a particular policy and weigh the benefits to your specific situation against the cost.

Fill out the following worksheet ( in your special notebook) and check out the reading list at the end of this chapter.

### **Web Sites of Interest**

*Inequalities in Health, Inequalities in Health Care: Four Generations of Discussion about Justice and Cost-Effectiveness Analysis*

[http://muse.jhu.edu/login?uri=/journals/kennedy\\_institute\\_of\\_ethics\\_journal/v010/10.2powers.pdf](http://muse.jhu.edu/login?uri=/journals/kennedy_institute_of_ethics_journal/v010/10.2powers.pdf)

*Health Care Proposals of the 2008 Democratic and Republican Presidential Nominees: Implications for Improving Access, Affordability and Quality for America's Minorities*

[http://www.jointcenter.org/publications\\_recent\\_publications/health/health\\_care\\_proposals\\_of\\_the\\_2008\\_democratic\\_and\\_republican\\_presidential\\_nominees\\_implications\\_for\\_improving\\_access\\_affordability\\_and\\_quality\\_for\\_america\\_s\\_minorities](http://www.jointcenter.org/publications_recent_publications/health/health_care_proposals_of_the_2008_democratic_and_republican_presidential_nominees_implications_for_improving_access_affordability_and_quality_for_america_s_minorities)

*NIH Convenes First-Of-Its-Kind Summit On Racial Health Disparities*

<http://www.medicalnewstoday.com/articles/133329.php>

*Income, Poverty, and Health Insurance Coverage in the United States: 2004*

<http://www.census.gov/prod/2005pubs/p60-229.pdf>

*Health Policy – See Congressional Quarterly, Inc.*

<http://corporate.cq.com/wmspage.cfm?parm1=95>

*Public Citizen Health Research Group* <http://www.citizen.org/hrg/healthcare/index.cfm>

*Consumer Coalition for Quality Health Care* <http://www.consumers.org/>

*Helpful Information from The Foundation of Health Coverage Education*

<http://coverageforall.org/index.htm>