



Health Insurance: Which Policy to Choose

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No one plans to be sick or disabled, but illness and injuries happen. One can not expect family members to always be healthy. A serious medical problem or accident can ruin your health. It also can easily wipe out your savings, earnings, and assets.

Medical costs have increased at more than twice the overall rate of inflation. The average length of stay in the hospital is seven days. A single day in the hospital now averages more than \$460, not counting doctor bills. Most families could not afford to cover these costs without some assistance.

One way millions of families help pay for their medical expenses is to have private health insurance. Health insurance provides partial protection against financial loss due to illness, injury, and disability.

Choosing the best health insurance is a very important and difficult task. Health insurance policies and benefits vary considerably. Therefore, it is essential to read the policy carefully to understand the provisions. This publication explains the various types of health insurance policies.

Group Plans

Many Americans have access to group health insurance plans. These plans are available through employers, labor unions, professional, fraternal or other organizations. Premiums on group plans are usually lower than premiums on individually purchased plans. The employer will usually have a payroll method of deduction for its employees. In addition, the employer or sponsoring group policyholder may pay part or all of the premium.

Being enrolled in a group insurance plan is to a person's advantage. Most group plan members

are automatically eligible for the insurance by becoming a part of the group, regardless of their physical condition or age. Therefore, physical examinations are usually not necessary. However, members must enroll within a specified time or they may have to prove good health to join at a later time.

Coverage is the same for each group member, although some plans offer several options. Consider all of the benefits offered, such as disability income or major medical. They may cost a few dollars extra each month, but these benefits could save you money if a serious illness strikes. Most plans allow you to include other family members at additional premium costs. Regardless of the number of claims made, the individual's policy cannot be cancelled under most group plans.

Before retiring, inquire whether your group insurance plan can or will offer any coverage for you and your spouse. If it does, determine if it would be a good way to supplement your Medicare coverage. Some policies can be converted to an individual policy. This assures availability of individual coverage regardless of health status when you leave the company or retire.

If you have recently lost your job or if divorce or death has terminated your relationship with the insured job holder, a recent federal law called COBRA may be of assistance. COBRA stands for Consolidated Omnibus Budget Reconciliation Act of 1986. It requires companies with group health insurance plans to offer continuation of coverage for 18 months at modest cost to laid-off employees. If you are a spouse, an ex-spouse or a dependent child of a covered employee and also covered under that plan, you may continue coverage for 36 months. Those involved may have the right to convert to an individual policy when their group participation ends.

Individual Plans

An individual plan is purchased by the consumer for either themselves or their family. It

may be tailored to fit you and your family's particular needs. You can expect higher premiums when purchasing an individual policy. Coverage will vary from company to company; therefore, careful shopping is important.

Age and physical condition are two factors determining cost. You may have to take a physical examination. You can include other family members for an additional premium. Coverage will remain in force as long as premiums are being paid, so job changes are not a factor.

An individual health insurance policy may be needed to supplement a group policy or provide protection for someone not covered under a group health insurance plan.

Basic Types of Policies

Hospital Insurance (also called **hospitalization insurance**) covers basic hospital care. Coverages include daily room and board charges, routine nursing care, laboratory tests, x-rays, anesthesia, and medication. Use of the operating room and other services related to medical care and treatment of patient while in the hospital are also included in the policy. Most often, policies will pay a maximum amount for each day in the hospital up to a maximum number of days. You may have to pay a specific amount (**deductible**) before the insurance will pay any of the costs. You also may have to pay a certain percentage of all costs (**coinsurance**), sometimes up to a specific amount. Some policies pay full charges only for a semiprivate room, and if you have a private room, you pay the difference between the two rates.

The following questions may help you when considering the purchase of hospital insurance:

- * How many days are covered for each illness?
- * How much will the policy pay per day for the room? Is the allowance enough to cover the entire daily rate in your local hospital?
- * Does it specify type of room?
- * What are the services provided? Are added services included?
- * Is there a deductible clause?
- * Can you go to the hospital of your choice?
- * Are in-hospital physicians' services covered?
- * Are there waiting periods before certain conditions are covered? How long?
- * Is nursing care included?
- * Is the policy renewable? Under what terms?
- * What exclusions or limitations are contained in the policy?

Surgical Insurance will pay part or all of the surgeon's fees for an operation. Usually policies list a number of specific operations and the maximum fee allowed for each. Health insurance companies may encourage or require a second opinion. Physicians may choose to accept the amount covered by insurance, provided the insurance pays them instead of you. This is known as "**accepting assignment**." In this instance, physicians cannot charge you for any difference between their fee and the amount paid by the insurance company. Should the physician not accept assignment, you must pay the deductible and coinsurance portion of the bill, plus any other amount the insurance company will not cover.

When you consider surgical insurance, ask these questions:

- * What surgical procedures are covered and to what extent?
- * Are the benefits in line with local physicians' and surgeons' fees?
- * Are there provisions for consultant services?
- * Does it pay for services of a second surgeon or anesthesiologist?
- * Is there a deductible before benefits begin? If so, how much?

Physician's Insurance (also called **Medical Insurance**) covers physician's care not involving surgery. Coverage may include visits to the doctor's office and the doctor's calls on patient at home or in the hospital. Additional coverages may include drugs, non-surgical outpatient procedures, x-rays, and diagnostic and laboratory tests. The policy may specify a maximum amount that it will pay and the number of visits it will cover.

Ask these questions about physician's insurance?

- * How much does the policy pay each time your doctor visits you in the hospital?
- * How many visits will the policy cover?
- * Does the policy pay for house calls? If so, how much per visit?
- * Is there a deductible clause?
- * What are the exclusions?
- * Can you afford to pay for part or all of these expenses yourself?

Basic Health Insurance most often combines the hospital, surgical, and physician insurance plans discussed above. Benefits and limitations will vary according to policy.

Major Medical Insurance (sometimes called **catastrophe coverage**) provides payment for a

the patient first receives skilled or intermediate nursing care. Also, does the policy have a pre-hospital requirement? Many policies require prior hospital stay before they will cover health care benefits. Another feature to consider is if the policy requires the nursing home facility to be primarily skilled nursing and certified by Medicare. Most nursing homes in the United States are not skilled nursing facilities and many are not certified by Medicare. The fourth feature to consider is if the policy offers an inflation protection option that automatically increases your daily benefit by a set percentage each year. The last feature to consider is if the policy is guaranteed renewable. This way the policy is not cancelled for any cause other than failure to pay premiums.

Comparing long-term care insurance is difficult because benefits overlap and restrictions and limitations vary from policy to policy. When considering a policy, ask the insurance agent the following questions:

- * Will the policy cover all levels of care?
- * How long will the policy pay for a stay in a facility offering skilled/intermediate care?
- * How much per day will the policy pay for a skilled and intermediate care?
- * When do benefits begin?
- * How long will benefits last?
- * Are there any exclusions or limitations in the policy?
- * Does the policy offer an inflation protection option which automatically increases your daily benefit by a set percentage each year?
- * Does the policy really cover Alzheimer's disease?
- * What is the company's reputation?
- * What does the insurance coverage cost?

Which Coverage Should You Choose?

Before you decide to choose any of the available types of health insurance, compare the provisions of the health insurance policy with your family's health needs. Also, keep the family budget in mind and comparison shop before purchasing a policy.

When it comes to medical insurance, you have three choices. You can buy basic, major medical or both. If you have limited resources, choose between a basic or major medical plan.

Both plans can help with a large portion of your hospital and doctor bills. However should a major illness or accident strike you or your family, you will need the protection given by a major medical plan. Ideally, you should purchase both a basic and major medical plan. Thus, a comprehensive major medical plan, which combines the values of both plans into a single policy, is a good choice. The deciding factor will be your health needs and the amount of money you are willing to spend. Remember, careful reading of the policy to understand the provisions is essential.

Adapted in part from:

Lieurance, E. (1988). Kinds of health insurance. GH3425. Columbia, MO: University of Missouri-Columbia, Cooperative Extension Service.

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Riggs, B. (1987). Family protection: Health insurance. Publication 1553. University of Mississippi, Cooperative Extension Service.

Turner, J. (1983). Protection dollar: Health insurance. HE-515. Auburn, AL: Auburn University, Cooperative Extension Service.

References:

Source Book of Health Insurance Data 1986-87. Health Insurance Association of America, 1001 Pennsylvania Avenue, N.W., Washington, DC 20004-2599.

For additional information, request the following Family Living Topics from your County Extension Center:

T-4135 Health Insurance: Understanding Your Policy

T-4136 Health Insurance: Managing Health Care Costs

T-4137 Health Insurance: When You Are Over 65.

return generally does not justify the premium cost.

Interim or Short-Term Medical Insurance will most often insure you for two to six months. Individuals may consider this type of policy when they have lost a job; when they are ineligible for Medicare due to their age; or when they are out of range of their current Health Maintenance Organization due to vacationing. Coverage may include hospitalization, intensive care treatment, doctor in-hospital visits, surgical expenses, and miscellaneous hospital expenses. Additional coverages may include nursing home care, outpatient diagnostic x-ray or laboratory procedures, and ambulance service. Most policies are effective immediately or within 30 days of purchase. These policies may require you to pay a deductible and coinsurance.

Dental Insurance has been rapidly gaining in popularity in the United States. Dental insurance policies are available from three sources: (1) private insurance companies, (2) dental service nonprofit corporations operated by dental societies, and (3) group practices and clinics. Policy limitations, exclusions, deductibles, coinsurance, and cost vary widely. Most often, group insurance plans offer dental insurance along with other coverage or as an optional purchase, sometimes as a fringe benefit. The coverage normally provides for oral exams, x-rays, fillings, cleanings, extractions, bridgework, dentures, oral surgery, root canal therapy, and orthodontics. There is usually a deductible and a coinsurance feature.

When purchasing insurance, remember dental expenses are not as expensive as medical expenses. In addition, most health insurances cover major oral diseases or dental expenses related to an accident.

Ask these questions about dental insurance:

- * Is there a lifetime maximum? If yes, how much is it?
- * What is the deductible?
- * What is the coinsurance percentage?
- * Can you afford to pay all or part of your dental expenses yourself?
- * Based on last year's expenses, would you save money with dental insurance? Are there likely to be any changes?

Vision Care Insurance is an interesting development in the health care industry. This type policy covers eye examinations, prescription lenses, frames, and contact lenses. Items that may not be covered are vision training, multifocal

plastic lenses, coated or oversized lenses, nonprescription lenses, and tinted lenses. When purchasing this insurance, remember that vision care expenses are not as expensive as medical expenses. Additionally, the greatest expense for eye care arises out of diseases and injuries to the eyes. Most often, general health insurance plans cover these expenses. Another type of insurance under vision care is **Contact Lens Insurance**. This policy will cover the loss of contact lenses and you have to pay a deductible. Unless you lose contact lenses often, this insurance will not be cost effective.

Accident Insurance will pay hospital and medical costs only if you were injured in an accident. These policies promise to pay a specified amount for the loss of one or both eyes, arms, or legs in an accident. There are more cost effective ways of providing this coverage as a part of a comprehensive plan. Health insurance should pay for medical cost of accidents or illness. Disability insurance should pay for income lost due to disability resulting from either an accident or illness. If a death occurs, regardless of the cause, you should have a life insurance program to cover this loss.

Dread Disease Insurance covers medical expenses for only a single disease such as cancer or a group of specified diseases. Most often these policies are sold through the mail, in newspapers and magazines, or by door-to-door salespeople working on commission. They encourage customers to purchase this insurance by stirring up unrealistic fears toward diseases, usually cancer. Again, it is more cost effective to purchase a comprehensive plan that covers many types of illnesses and accidents.

Long-Term Care Insurance is a new product emerging from the insurance industries. It is a product which is changing quickly.

Long-term care insurance helps with the cost of chronic illnesses or disabilities. It provides aid in financing long-term health care. However, no policy provides total coverage for all expenses.

Premiums for long-term care policies vary widely depending on age, number and type of restrictions, and amount of benefits. Premiums can range from several hundred to thousands of dollars per year depending on coverage and age insured.

When reviewing a long-term care insurance policy, be sure to look for the following features. Determine if the policy covers custodial care. Most policies do not cover custodial care unless

broad range of medical expenses resulting from major illness or injuries. This policy is usually a supplement to the basic health insurance plan. This means the major medical insurance will pay only expenses not covered by the more basic plans and only after the deductible has been met. Coverages may include special nursing care, physical therapy, prescription drugs, and all care and treatment prescribed by physician. Additional coverages may include ambulance service, wheelchair, crutches, and laboratory charges.

A major medical insurance plan has two features to help keep the premium within the policyholder's means. One is a deductible provision requiring you to pay a basic amount before the policy benefits begin. The basic amount will usually range from \$50 to \$500. The other feature is a coinsurance provision requiring you to share the expenses beyond the deductible amount. Many policies will pay between 70 to 90 percent of expenses above the deductible amount. You will have to pay the remainder.

Some policies have a **stop-loss** provision. You have to pay up to a certain amount. The insurance company will pay 100 percent of all the remaining covered expenses. Most often, the out-of-pocket payment limit is \$2,000.

Ask these questions about major medical:

- * What services are covered?
- * What is the maximum coverage?
- * What is the stop-loss limit?
- * Is there a deductible? How much?
- * Is the policy renewable?
- * Must you pay the deductible for each different illness or injury? Or only once a year?
- * What percentage above the deductible is paid by the company?

Comprehensive Health Insurance is a plan packaging hospital insurance, surgical insurance, medical expense insurance, and major medical expense insurance into one policy. Simply, it combines basic and major medical plans. Deductibles are usually from \$100 to \$200 and it has no or limited coinsurance. Comprehensive health insurance may seem more expensive than basic or major medical, but in the long run it is less expensive. The reason for this is because it provides in one policy, what basic and major medical provides in two or more policies.

Questions to ask concerning comprehensive:

- * What is the maximum amount the policy will pay?
- * How large is the deductible?

- * Must you pay a deductible for each illness or only one per year?
- * What percentage of the cost above the deductible does the company pay?
- * Does the policy pay for loss of income due to accident or illness?
- * Does the policy guarantee it is renewable?
- * What illnesses, if any, is not covered?

Disability Income Insurance provides for partial replacement of income due to illness or injury. There are two types of policies: (1) short term benefits for up to two years and (2) long term benefits for a longer period of time often to age 65 or for life. Benefit payments are a percentage of your gross income. The amount of the benefits will vary depending on whether the disability is total or partial. Most policies specify the length of the waiting period before you can receive income payments. Seven days to six months is the usual range for waiting periods.

Ask these questions about disability:

- * Is there a waiting period before benefits begin?
- * Does the waiting period vary depending on whether the disability is caused by illness or by an accident?
- * How does the policy define total disability?
- * Are benefits paid for partial disability?
- * What is the amount of weekly or monthly benefits?
- * What exclusions or limitations are in the policy?
- * What are the provisions for renewing the policy?
- * Will policy benefits be reduced when or if you qualify for Social Security benefits?

Hospital Indemnity Policies are also known as **supplemental hospitalization insurance**. These policies pay benefits only when you are hospitalized. Benefits are paid in cash for medical, non-medical or supplementary expenses. These policies are not a substitute for basic or major medical protection but can be used along with them.

Frequently, people will purchase these policies by mail. These policies promise to pay from \$50 to \$100 a day. Since a single day in the hospital averages more than \$460, these benefits represent only a small fraction of daily hospital charges. They offer no financial security once Medicare contributions have been reduced or expired. Moreover, these policies do not begin paying benefits until you have been hospitalized several days. Since the average length of stay in the hospital is seven days, the average benefit



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