

## What You Need to Know About the Cost of Today's Health Insurance

Reading about health insurance may not strike you as particularly exciting, but think about this – *Would you spend 20 minutes learning about it to save \$500?* Actually, it could save you a great deal more ... *perhaps even thousands!* Having the right insurance policy is critical if you ever have a serious injury or illness. In fact, the primary purpose of health insurance should be to protect you from serious financial loss, not simply to pay for routine services.

So, please read on. It will help you understand the dollars and cents of health insurance and how to save money, while getting the protection you and your family need. In fact, when you get to the end of this article, you'll find 3 simple steps that will help you buy the best policy at the best price! *But first let's talk dollars...*

### How much will health care really cost when I have insurance?

Your total annual cost for health care services that are covered by your health insurance policy equals your *Annual Premium PLUS Deductibles PLUS Copays PLUS Coinsurance*, as limited by *Out-of-Pocket Maximums*. Confused already? ...it's explained below! Of course, the cost of any health care services that are not covered (excluded) by your health insurance will be your responsibility and paid by you in *addition* to the amounts above – in particular, this includes all medical costs you incur after you exceed the policy's *lifetime maximum*, should that happen.

An important benefit of health insurance that many people overlook is that insurance companies negotiate lower costs for services from network providers. People without insurance will generally pay the full cost billed by providers; whereas, those with insurance and who use the provider network will have costs reduced up front to the negotiated fee. For the

insured person, this means both lower expenses *and* more services for each dollar spent.

### What do I need to know about these different Costs?

#### ■ Learn about **Annual Premiums**

The insurance premium is a fixed amount that the insurance company bills you on a regular basis for the policy. Many insurance companies will now charge your bank

### Do you think you can't afford health insurance?

#### The fact is – You can't afford to be without it!

A serious accident or illness can strike any of us at any time. If you're not insured, the results could be financially devastating.

Get a low-cost policy that provides high-value protection.

#### Be a Smart Shopper!

account monthly by using an auto-debit feature; some will issue quarterly paper bills. In any event, most policies have a one-year term, so the total amount of premium you pay over the year is referred to as the *Annual Premium*.

#### ■ Learn about **Deductibles**

The *Annual Deductible* is the amount you must pay toward medical services during each year (often the calendar year) before the health insurance will pay any benefits. The deductible can be thought of as "*first-dollar*" payments toward your annual healthcare needs. It is important to note that payments you make for services that are not covered ("*excluded*") by your policy will not count toward your deductible. In addition, for family policies, the deductible may apply separately to *each* covered family member (although it is often limited in total to 2 times the stated deductible). In other words, a \$500 deductible family health insurance

policy may actually require \$1,000 to be paid by you before the insurance covers all members your family. Finally, some policies will pay for certain services without regard to the deductible – for example preventative care – and some will apply separate deductibles to specific services – for example prescription drugs. Note that *copays* and *coinsurance* (as described below) that you may pay for services that

buying the low-deductible policy, you would pay \$900 to increase *first-dollar* coverage by only \$700 (the difference in deductibles). Although these numbers are for illustration purposes only, you can often observe this general pattern when you compare online quotes for health insurance plans.

*If you understand that insurance should be used to protect you from financial risk, then you would probably never purchase a low-deductible policy.* In some cases the best solution may be to purchase a policy that protects you only from high unexpected medical costs that you simply cannot afford (perhaps with a deductible of \$2,000 to \$5,000, depending on your financial situation) and accept the possibility that you may never have a medical condition that would trigger any benefit from your insurance policy

### Do you think you are too healthy to need health insurance?

#### The fact is – You may not be Insurable if you wait!

Sure, you're in good health now, but if you wait until you become ill or an accident strikes, it will be too late.

Get high-value protection *NOW* while it is low-cost.

**Be a Smart Shopper!**

*don't* require a deductible, will *not* count toward the deductible. *Be sure you read the terms of the deductible provision carefully so you understand how it applies before you buy a policy.*

It is widely accepted in the insurance industry that *first-dollar coverage is the most expensive to insure*. It is easy to understand why this is the case with health care, because most people see a doctor at least once each year and will typically use from several hundred to a thousand dollars of services. Because of profit requirements and administration costs, insurance companies will sometimes charge *more* for lowering deductibles than the additional benefit is worth. For example, the annual premium for a \$300 deductible individual policy may cost \$900 more than the annual premium for a comparable \$1,000 deductible policy. So while at first glance, the \$300 deductible policy may appear to have better value, the fact is that over the course of a year, the *total cost* paid under that policy will be at least \$200 more than the *total cost* with the \$1,000 deductible policy. In other words, by

at all! This approach will get you low-cost health insurance, allow you to purchase routine medical services at a network discount, and protect you from serious financial loss.

#### ■ Learn about **Coinsurance**

The term *Coinsurance* refers to the situation where you and the insurance company *share* the cost of a medical service (like a doctor's visit or a prescription). In particular, it usually refers to the percentage of cost that you are required to pay *after* the plans annual deductible is met. If you use in-network services, your coinsurance amount will be determined *after network discounts are applied* (in other words, a network discount will reduce the dollar amount of your coinsurance). Typically, coinsurance for services from in-network providers are 10%, 20%, 25%, or 30%; whereas coinsurance for out-of-network providers are usually 30% and higher (many HMO plans provide no insurance for out-of-network services at all).

All else being equal, lowering coinsurance

percentages will increase premiums, and visa versa. As a rule of thumb, if you expect to be an *infrequent* user of medical services during the year, a high coinsurance policy will probably save you money because of lower monthly premiums. If you expect to be a *frequent* user of services, then a low-coinsurance policy may be worth the higher premium.

### ■ Learn about **Copays**

A *copay* or *co-payment* is a fixed amount you must pay for each use of certain medical services covered by your health insurance. Copays usually vary according to the service. For example, a typical health insurance policy might require the following copays: \$25 for your primary-care physician (often referred to as “PCP”); \$50 for a specialist; \$75 for an Urgent Care facility; \$100 for an MRI scan; \$150 for using an emergency room; \$250 for a hospital stay; etc.

Coinsurance and copays will sometimes apply together. For example, a doctor office visit may require a \$25 copay; however, tests or treatments prescribed by the doctor during the visit could be subject to coinsurance. So a blood test will cost you an additional \$20 if a 20% coinsurance is applied to a \$100 network-negotiated price for the test and lab work.

As with coinsurance, when all else is equal, lowering copays will increase premiums, and visa versa. As a rule of thumb, if you expect to be an *infrequent* user of medical services during the year, a high copay policy will probably save you money because of lower monthly premiums. If you expect to be a *frequent* user of services, then a low-copay policy may be worth the higher premium.

### ■ **Coinsurance versus Copays**

Many insurance plans today use a combination of coinsurance and copays. The more routine services and treatments often use copays; whereas the more expensive and/or less standard services typically use coinsurance. Sometimes

prescription drug coverage uses the greater of a copay and coinsurance. For example, a generic prescription may cost you \$20; but a brand-named prescription may cost \$40 or 40% of the price, whichever amount is greater. Finally, some high-deductible plans – particularly those associated with Health Savings Accounts – may not require either copays or coinsurance; instead the insurance plan may simply pay 100% of the cost of covered services after the high deductible is met.

Choosing between a Copay plan and a Coinsurance plan may simply come down to personal preference. Financial comparisons between these types of plans are often hard to rely on because they depend largely on individual utilization of specific services.

### ■ Learn about **Out-of-Pocket Maximums**

*Maximum Out-of-Pocket* expense is a very important concept that is often overlooked by individuals who purchase health insurance. It generally refers to the maximum coinsurance amount that you are liable for during the policy year. Since one of the main purposes of insurance is to limit your overall financial exposure, this is indeed an important limit. In the case of serious illness or injury, it is the primary provision that limits your financial burden. For example, suppose you purchase a coinsurance policy and are subsequently seriously injured in an accident, which results in \$100,000 of medical expense. The coinsurance percent (whether 10%, 20%, or 30%) has little effect on your total cost. Instead, the policy with the lowest *Out-of-Pocket Maximum* has the greatest value in this situation. So a 30% coinsurance plan with a \$5,000 out-of-pocket maximum will have twice the value in this case of a 10% coinsurance plan with a \$10,000 out-of-pocket maximum (even though the monthly premium for the latter may be higher). ...*That’s a potential savings of more than \$5,000!*

Be careful when comparing different plans. The out-of-pocket maximum usually includes the deductible amount, but sometimes it does not, and usually it does not include your copays.

## **So, which health insurance policy should I buy?**

There is no universal answer to this question. But now that that you have become better informed about the costs and benefits of health insurance, you can probably answer the question *yourself!*

**Here are 3 simple steps to help you. Give it a try – You should find it easy enough to do!**

- 1) Take a look at the questionnaire on the next page. Use it to help you select the right policy from the hundreds that are available.
- 2) When you are ready to compare companies, plans, and premiums, go to the following site to get your instant health insurance quotes:

[www.OnlineHealthPlanQuotes.com](http://www.OnlineHealthPlanQuotes.com)

Don't be concerned by the number of plans that may appear. Having already completed step 1), you can now filter the results by clicking on the top of the table of online quotes and selecting criteria that match your needs. You may narrow down your choices even further by eliminating networks that don't include your doctor. Finally, do a side-by-side comparison of the three to five plans that suit you best. Now you can choose the best policy at the best price.

- 3) Click the *Apply* button. You can complete and submit your application online. Online applications usually have the quickest turn-around and may not require any paperwork.

Disclaimer: The information provided above is for general educational purposes only; it is not intended to be legal advice and does not replace or supplement the terms of any insurance policy. Our definitions and explanations may not be the same as those used by insurance companies, their policies, or their plan documents and brochures.

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*If you want help determining how to put it all together and finding the right health insurance plan to get the protection you need at a price you can afford, give us a call today and speak with a knowledgeable and friendly agent.*

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## Health Insurance Questionnaire

<b>Item to Consider</b>	<b>Insurance Provision Question</b>	<b>Your Answer</b>
Your monthly budget	<i>What monthly <b>Premium</b> can I afford?</i>	
Services I want without paying the plan's deductible (many plans offer one or more of these services with no or low separate deductibles)	<i>Services I need with NO deductible...</i> <ul style="list-style-type: none"> <li>■ Preventative care (annual physical, routine tests)?</li> <li>■ Non-routine doctor visits?</li> <li>■ Prescription drugs:               <ul style="list-style-type: none"> <li>— Generic only?</li> <li>— Brand and Specialty?</li> </ul> </li> </ul>	
The lower the annual deductible, the higher the annual premium (make sure you get value for the extra cost)	<i>How high of an <b>Annual Deductible</b> can I comfortably handle for services not selected above?</i>  <i>...set the maximum, then compare the premium costs of going lower</i>	
How much you expect to use health care services	<i>Would I benefit from high or low <b>Copays/Coinsurance</b>?</i>  <i>(Frequent users select Low Infrequent users select High)</i>	
The amount of risk you can afford (or to say it differently, the point at which you feel you need financial protection)	<i>How high should the annual <b>Out-of-Pocket Maximum</b> be?</i>	
Covered services you need (and in particular, those you reasonably <i>don't</i> expect to need)	<i>Do I need to be covered for...</i> <ul style="list-style-type: none"> <li>■ Non-routine doctor visits?</li> <li>■ Prescription drugs?</li> <li>■ Maternity services?</li> <li>■ Mental health treatment?</li> <li>■ Child immunizations?</li> <li>■ Dental care?</li> <li>■ Special needs (list them)?</li> </ul>	
The benefit to you of a tax-favored Health Savings Account (HSA)  (please follow this link for more information <a href="http://schlehbenefits.com/index_files/HSA.htm">http://schlehbenefits.com/index_files/HSA.htm</a> )	<i>Will an HSA plan give me useful tax benefits and help me save for retirement?</i>	
The providers included in a network	<i>What doctors and preferred hospital should I look for in the network?</i>	
The potential need for out-of-area providers (while traveling for example)	<i>Do I need a national network, or will a local one suffice?</i>	