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Kinds of Health Insurance

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No one plans to be sick or disabled, but illness and accidents happen. With the high cost of health care, and the fact that it has been increasing at more than twice the overall rate of inflation, the typical family cannot manage health care costs without some assistance.

Even with insurance, out-of-pocket expenses can be quite high, making it necessary to include funds for health care in the family budget. A good health insurance program protects against economic disaster in two ways. First, health insurance that covers the hospital, surgical and medical expenses will greatly reduce personal expenses. Second, disability income insurance will replace a portion of income lost due to illness or accident.

Choosing the best health insurance for you is extremely important. Unfortunately, this can also be difficult. This guide explains the various types of policies, and the general coverage of each policy. Careful reading of the policy to understand the provisions is essential.

Group or individual plans

There are two general types of health insurance arrangements: 1) group plans, and 2) individual and family policies. Group health insurance

plans may be offered by employers, labor unions, or professional, fraternal or other organizations. Premiums are almost always lower than premiums on individual policies; in addition, part of the premium is frequently paid by the employer or sponsoring organization. A group plan may offer more complete coverage than one could obtain with an individual policy.

Other advantages of group policies are that in most plans group members are automatically eligible for insurance just by becoming a part of the group. No physical examination is necessary, and age may not be a factor in determining the cost. However, eligible members must enroll in group coverage within a specified period of time (if coverage is optional) or they may have to show evidence of good health at a later time.

Each group member gets the same coverage as all other members of the group, although some plans offer several options. Under most group plans, other family members may be added at higher premium rates.

A major disadvantage of a group policy is that protection usually ends when the insured leaves that job or organization. Some group policies will allow a person who leaves to convert to an individual policy without having to

show evidence of insurability. Premiums on the converted policy are often much higher than the group member rates.

Premiums on individual policies are usually higher than on group policies, and age and physical condition are important factors in determining cost. However, there are certain advantages. Individual policies can be selected to meet particular individual or family needs. Coverage remains in force if the insured changes jobs or leaves the sponsoring organization. Other family members can also be covered for additional premiums.

Basic types of policies

■ Hospital expense insurance —

This plan covers the cost of basic hospital care. Included in coverage are room and board, routine nursing care, laboratory tests, x-rays, use of operating room, intensive care, anesthesia, drugs, medication and ambulance service. Some policies may pay a specific amount per day, which may or may not cover the actual charges. Other policies cover the full charges for a room — usually a semiprivate room. Outpatient hospital services are also covered by some policies. The insured may be required to pay a specific amount (a

deductible) before the insurance will pay any of the costs. The insured may also be required to pay a certain percentage of all costs (coinsurance), sometimes up to a specific maximum amount.

■ **Surgical expense insurance** — This type of insurance covers surgeons' fees, either up to a set limit spelled out in the contract, or the full amount of the surgeon's usual and customary fee.

Physicians may choose to accept the amount covered by insurance, provided payment is made to the physician rather than the insured. This is known as "accepting assignment." In such cases, the physician cannot bill the insured for any difference between the physician's usual fee and the amount paid by the insurance company.

If the physician does not accept assignment, the insured must pay any amount of the bill above the amount covered by insurance. The coverage will likely have a deductible and coinsurance provision.

■ **Medical insurance** — This provides for payments of physicians' services other than surgery. Some plans also cover some diagnostic and laboratory tests.

Coverage for maternity care may or may not be a part of the coverage. Insurance may cover medical expense in full or the policy may specify a maximum amount that will be paid.

Provisions for at least partial payment for psychiatric treatment is included in some policies, as is care in an extended care or skilled nursing facility. Deductible and coinsurance provisions will likely apply to the coverage.

■ **Basic health insurance** — Basic health coverage usually combines the hospital, surgical and medical plans discussed above. Benefits and limitations vary widely among policies.

■ **Major medical insurance** — Major medical insurance (sometimes called catastrophe coverage) is designed to cover expenses that result from serious injury or prolonged illness. Benefits are much greater than those in the basic protection plan. Included, in addition to those in the basic plan, are: special nursing care, physical therapy, prescription drugs, etc. In general, major medical covers all care and treatment prescribed by a physician.

Major medical policies usually have a deductible clause and a coinsurance provision. Upper limits of the policy are usually quite high.

Major medical policies are frequently purchased to supplement basic health care plans. Their coverage starts where the basic plan stops.

Comprehensive medical insurance — This plan is rapidly becoming the common form of health insurance offered through group plans. It is basically a combination of a basic and major medical plan. The deductible is moderate; the policy does have coinsurance. There is typically a limit on out-of-pocket expenses per year. When that limit has been reached, the policy covers all further expenses for the year. This type of insurance is more expensive than either basic health insurance or major medical. However, it is usually less expensive than the same coverage purchased in two or more separate policies. It avoids duplication and gaps in coverage that may occur when the insured buys several different policies rather than one comprehensive plan.

■ **Disability income insurance** — Disability income insurance provides income payments when the insured cannot work because of illness or injury. The amount of coverage purchased is generally a percentage of the insured's gross earnings. Policies can be purchased for short-term or long-term benefits. While there is a wide range of plans, short-term benefits generally go up to one year while long-term benefits may be paid until the insured is age 65 or for a lifetime.

Some policies cover income loss from accidents only, while others cover loss from both accident and illness. Usually payments are made only in cases of total disability, but partial disability policies are available. The waiting period before income payments begin also varies among policies. Seven days to six months is the usual range of waiting periods. The longer the waiting period, the lower the premium cost for the policy.

■ **Medicare supplements** — Medicare (administered through the Social Security Administration) does not cover all the health care costs of people who are insured by it. Numerous policies are available that supplement the plan. They are designed to pay for the deductible and some expenses not provided for by Medicare.

For more information about Medicare Supplement Insurance, contact the Missouri Department of Insurance and request "Medicare Supplement Insurance Cost Comparison Guide." Call toll-free: 1-800-726-7390.

■ **Health Maintenance Organization** — Known as HMOs, these organizations provide an alternative to the traditional health insurance coverage. This plan eliminates the third party, the insurance company, in the payment of health care costs.

Through this plan, the individual or family pays the HMO a level monthly fee for total health care services. These services range from regular checkups to major surgery. Care is provided through the doctors employed (salaried) by the HMO and the hospital it owns or through an agreement with other hospitals. Because the HMO receives only a set amount each year from the premiums of its subscribers, it has a strong incentive to eliminate unnecessary health care costs.

An advantage of an HMO is that it does reduce the cost of health care services. A disadvantage is that it may remove some of the choice in selecting a personal physician.

■ **Blue Cross, Blue Shield, and Blue Major** — The Blues, as they are popularly known, are a group of nonprofit organizations that provide insurance to members. Blue Cross is the hospital expense insurance portion of the plan and Blue Shield is the medical-surgical expense portion. Blue Shield covers more than just surgical expense; it also covers some physicians' fees that do not involve surgery.

Blue Major is a major medical insurance plan. One of the unique characteristics about this insurer is that everyone in the same geographic location may join, either on a group or individual basis.

Because it is composed of nonprofit organizations, premiums are set to cover only claims and administrative expenses. There are numerous plans and each one offers somewhat different benefits. Therefore, two families carrying Blue Cross-Blue Shield in different regions may have different benefits and premium costs.

■ **Long-term care insurance** — Long-term care, or nursing home insurance, is a relatively new product. This insurance will pay at least part of the cost of nursing home care at all levels — skilled, intermediate and custodial — and may cover home-based services, as well.

Policies vary and should be studied carefully before making a purchase. Premiums range from several hundred to several thousand dollars per year, depending on coverage and age of the insured. Policies also differ among companies. Some will pay less than half of the daily charges while others will cover much more. Policies have different exclusions from coverage, restrictions on pre-existing conditions, and length of time for which coverage is available.

■ **Dental insurance** — This is a relatively new type of health insurance and the fastest growing segment of the health insurance industry. Policy limitations, exclusions, deductibles and coinsurance vary widely among policies, as does cost.

In considering whether this type of insurance is advisable, it is important to remember that dental expenses are not likely to be nearly so great as medical expenses. Major oral disease and dental expenses related to an accident should be covered by health insurance. It is generally possible to budget for usual dental expenses.

■ **Accident insurance** — This type of insurance usually pays a specific amount for a specific injury, such as \$500 for the loss of a limb. Many policies also include a small accidental death benefit. Generally, this is not a good insurance buy. Medical costs of accidents (or illness) should be paid by health insurance, and disability insurance should pay for income lost due to disability resulting from either accident or illness. In the event of death, the insured should have a life insurance program that provides for economic loss regardless of the cause of death.

■ **Hospital income plans** — These are also known as supplemental hospitalization insurance, and perhaps by other names as well. Basically, they are indemnity type policies that pay a specific amount to the insured while in the hospital. The benefit is usually figured on a daily, weekly or monthly basis and can be used for any purpose.

Many policies do not begin paying benefits until the insured has been hospitalized several days, and there are usually limitations on the amount of time that benefits will be paid. Most policies cover accidents and illness, but some cover accident only. These policies are frequently sold by mail. The benefits are frequently inadequate to cover today's health care costs. And they are not adequate to serve as disability income protection because they are so limited in time and amount, and provide payments only during hospitalization.

■ **Dread disease insurance** —

These insurance policies cover only specific diseases or illness. The most popular form is one covering health care costs related to cancer. This is popularly known as cancer insurance. Although these policies may seem inexpensive compared to basic protection and major medical coverage, they are not a bargain.

Nor do they represent sound planning in spending health insurance premiums. It is best to spend premium dollars on comprehensive coverage, which covers costs regardless of cause, including expenses incurred as a result of so-called dread diseases.

For an explanation of the major provisions and buying guidelines for health insurance, ask for University Extension Publication GH3424, How to Buy Health Insurance.

Health insurance in the future

If a national or state health insurance financing program is adopted, that will alter fundamentally the way individuals and families obtain protection against potentially burdensome costs related to illness or accident.

In the meantime, the information in this guide will be useful in understanding and selecting health insurance for their financial protection under the circumstances that currently exist. And, the information will be helpful in understanding the coverages and provisions in the various proposals under consideration while a national and/or state program is being considered.



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