

Health Care

You positively must have a health plan

HMO's vs. health insurance
Deductibles, co-payments, coinsurance
Ben Affleck

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Why medical insurance

- To cover three types of financial losses due to injury or illness
 - Direct medical care
 - Recuperative care
 - Lost income while incapacitated
- 85% of all Americans are covered by a health care plan (HMO or health insurance)
 - **Group plan or individual plan**

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Group plan

- For many people it's possible to get health care benefits as part of a group
- Group plan has many advantages**
 - Much lower rates - based on group statistics
 - Some employers may provide bare-bones group coverage at no cost as a benefit
 - You can pay higher premiums to upgrade
 - Easier for people with preexisting health problems to get group coverage
 - None of Lehigh's plans has a preexisting conditions clause

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Open-enrollment period

- Normally your employer will offer a month-long open-enrollment period each year
 - Pick your desired coverage
 - Make changes to your existing coverage
 - Add or subtract options
 - Switch between different plans
 - Often employers offer several different plans
 - HMO, high-deductible insurance, low-deductible insurance, prescription drugs, vision and dental, etc.

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Individual plan

- If you cannot purchase a health plan as part of a group
 - **Buy one as an individual**
 - **Do NOT go without a health plan**
 - Part-time employees may be able to buy their own coverage at group rates – still much better than paying as individual
- But even if you must pay as an individual, **buy a health plan**
- Can't work at Lehigh without medical coverage

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General terms – apply to all plans

- Important to understand the ins and outs of the plan you decide to purchase
 - Hospital stays are covered, but
 - Would a nursing home count?
 - Would an osteopathic hospital count?
 - Plan covers a family, but
 - Are children born after purchase covered?
 - Are stepchildren covered?
 - What's an illness and what's an injury?

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Deductibles

- Same as car insurance
- Insured person has to pay all of the initial expenses until the deductible is met – minimum threshold
 - Plan pays nothing until deductible is reached
- Typical deductible would be \$200/yr for each person up to a family max of \$500/yr
 - Gabby has \$180 bill – no coverage => \$180 to Gabby's deductible
 - Emily has \$250 bill - \$50 is covered => \$200 to Emily's deductible
 - Matt has \$250 bill - \$130 is covered => \$120 finishes family's \$500 deductible
 - Anyone (including Gabby) has \$30 bill - \$30 is covered

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Co-payments

- You have to pay a specific amount each time for specific covered expenses
 - For example, \$15 for each office visit
 - For example, \$5 for each prescription drug
- Co-payments are required even after your deductible has been met

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Coinsurance

- After deductible has been met, plan typically pays only 80% of covered expenses and you have to pay the remaining 20% up to a coinsurance cap (could be 70/30 or 50/50)
- After the cap is reached, plan pays 100% up to overall limits of the policy (typically \$100,000)
- Deductibles, co-payments, coinsurance payments can be paid from a flexible spending account (pre-tax dollars) – save receipts
 - See tax module

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Who pays your \$20,000 medical bill?
 \$250 deductible 20/80 split \$1,000 coinsure cap

<input type="checkbox"/> You pay:		<input type="checkbox"/> Health plan pays:
▪ Deductible \$ 250		▪ Deductible \$0
▪ Share (20%) 1,000		▪ Share (80%) 4,000
<input type="checkbox"/> Total \$1,250		▪ After cap 14,750*
		<input type="checkbox"/> Total \$18,750

(1,250+18,750=20,000) *14,750=(20,000-5,250)

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Three types of health insurance

- HMO – Health Maintenance Organization**
 - Limited to a specified network of doctors
 - Least expensive plan
- PPO - Preferred Provider Organization or private health insurance**
 - More flexibility in your choice of doctors
 - Higher premiums and expenses
- Comprehensive major medical plan**
 - Greatest flexibility
 - Greatest potential exposure to unpaid expenses

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Using Lehigh as an example

- Lehigh's benefits package comes with 51-page "reference guide" with 26 devoted to medical coverage and explaining the four available plans all of which are provided by Capital Blue Shield
 - An HMO
 - A choice of two PPO's or health insurance plans
 - A traditional comprehensive major medical plan
- My purpose is to acquaint you with the basic similarities and differences between plans

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HMO

- Health Maintenance Organization
 - Provides broad range of health care services for set monthly fee
 - Hospital services
 - Surgical services
 - Preventive care services
- Available to both groups and individuals
 - Fee based on average plan member's needs
- Example of a **managed health care plan**

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Managed health care plan

- HMO manages or controls conditions under which you can obtain health care
 - Restrictions on which hospital or doctors you can use
 - Requires pre-approval of hospital admission
 - Places some restrictions on the types of procedures that you can have done
- HMO charges significantly lower monthly fees than health insurance plans and you avoid costly deductibles and co-insurance payments**
- HMO covers 100% of your medical bills

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HMO restrictions

- ❑ HMO requires you to select a primary-care physician (PCP) from an HMO list
 - You can't choose just any doctor unless he or she is part of the HMO network
 - ❑ Limited in your choice of doctors – may not be a problem
 - PCP must approve referrals to specialists (urologists, orthopedists, etc.) within the HMO network
 - ❑ Cannot choose your own specialist – may not be a problem
- ❑ HMO is not obliged to pay for any care not initiated through the PCP

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PPO

- ❑ Preferred Provider Organization - private health insurance
- ❑ Protects against financial losses due to illness, injury and disability
 - Covers a wide-range of health care services
 - ❑ Hospital services
 - ❑ Surgical services
 - ❑ Preventive care services
- ❑ Reimburses for your actual expenses after they've been incurred

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PPO's pros and cons

- ❑ **No restrictions on type and source of care**
 - Select participating providers from national network
 - No need to select a PCP
 - Can select any participating specialist without referral
- ❑ Usually dollar limits on coverage provided
 - Max on individual, family, annual and life-time
 - Max reimbursement for specific procedures
 - ❑ May not cover 100% of your provider's fees
 - ❑ You may need to make up the difference
 - Can be paid from a flexible spending account
- ❑ **Higher premiums than HMO's, plus...**
- ❑ Typically require deductibles and coinsurance

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Major medical component

- Supplement** to a PPO really designed to protect against catastrophic illness bills
- Designed to reimburse for broad range of expenses: hospital, surgical and medical
 - Typically has \$1 million max
 - Maybe \$1,000 deductible
 - 20% co-pay
- Only kicks in after insurance plan ends
- Not needed for HMO's

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Comprehensive health insurance

- Combines hospital, surgical, medical and major medical into single policy
 - \$500 to \$600 deductible
 - 20% co-pay up to a cap
 - Common to have \$1 million limit
 - **May not cover entire bill and insured is liable**
- Often available for groups
 - Convenient for employers and employees
 - Don't need to match each expense with a policy – there's only one policy
- Not needed for HMO's

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Coverages provided by plans

- HMO's and PPO's both provide:
- Hospitalization coverage (80+% have this)
 - Room and board of hospital stay
 - Lab work, drugs, nursing services
- Surgical coverage
 - Surgeon, anesthesiologist, hospital expenses, etc.
 - Only pays normal charges – insured may have to make up difference if actual fees exceed coverage
 - Can be paid from flexible spending account

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More coverages

- Medical expense coverage
 - X-rays, doctors' visits, drugs, etc.
 - Maximum annual amount – not HMO's
 - Insurance deductibles – not HMO's
 - Insurance co-pays
- HMO's cover all areas regardless of size
- PPO's insurance plans have dollar limits

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Other coverages

- Available for both HMO's and PPO's
 - Prescription drugs
 - Range of coverage
 - No coverage, generics only, comprehensive coverage
 - The better the coverage, the higher the premium
 - Dental and vision insurance
 - Often add-on options
 - Normally good idea especially for families
 - Cover teeth cleaning and glasses & contacts
 - Usually come out ahead in most years

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HMO's vs PPO's summary

- HMO's
 - **Significantly cheaper**
 - Lower premiums and no deductibles and coinsurance
 - **Restricted to doctors in the local network**
 - I personally have never found this to be a problem**
 - No limits on coverages
- PPO's
 - **More physician choice but more expensive**
 - **Freedom to choose virtually any doctor**
 - **Do not need referrals to see specialists**

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Cost of Lehigh as an example

Monthly premium	LU's share	CompMajor Medical	PPO 80	PPO 100	HMO
		7.9%	13.8%	14.4%	63.9%
Employee	\$311	\$63	\$98	\$129	\$28
Employee and spouse	\$643	\$168	\$244	\$311	\$92
Employee and kids	\$586	\$148	\$217	\$277	\$79
Employee and family	\$929	\$242	\$352	\$448	\$132 The Buells

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Government health care programs Worry about these in 40+ years

- Medicare (administered by soc sec admin)
 - Provide payment of hospital and medical expenses of persons 65+ who qualify for social security benefits
 - Up to 90 days of hospitalization for one medical episode
- Medicaid (funded by government)
 - Provides health care for the poor
 - Eligibility based on income and net worth

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Consider disability income insurance

- Replaces a portion of your income lost due to injury or illness
 - Could be important for young workers
 - Disability more likely than death
 - Very overlooked type of insurance
- Social security pays only if disability is total
 - Can't work at **any** job
- Many employers provide group disability income insurance, but ...
 - Insufficient benefits and for only short time (2 years?)

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Supplemental insurance

- Designed to fill the gaps in coverage of the standard insurance plans
 - Reimburses in addition to the standard plans
- Usually overpriced and not nearly as generous as ad campaigns suggest
- You're better off buying a major medical policy with high limits
 - Much lower cost

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Aflac

- Type of supplemental insurance
- American Family Life Assurance Company
- Provides income directly to you if you are hurt and can't work
- Gilbert Gottfried is the voice of the duck
- Ben Affleck is mocked because of the duck



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Married couples

- Avoid unnecessary duplication of benefits
- Just go with the better plan
 - You don't need two plans
 - Just add the spouse to the better plan
 - Drop the worse plan and invest the saved premiums in a mutual fund

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Summary

- Buy into a health plan
- HMO's are much cheaper than PPO's, have no limits on coverage but restrict you to doc's from a local network – **problem?**
- PPO's are more expensive, have caps on some coverages, but give you greater freedom to go to any doc you want without referrals

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