

Health Insurance Savings Basics

by Roger Rouch

You've slaved away at Dels's Meat Packing for what seems like way too long, but the housing is cheap, the credit cards are paid off, the car is paid for, and you have a nice lump of green stuff under your mattress to get you by for a few years. Now it's time to make the big leap. On your first day of leisure you don a robe, read the paper, and start browsing the yellow pages for health insurance. After a few minutes of conversation with the friendly fellow down at Joe's Acme Health, you may already be a prime victim for a heart attack that could not only wipe out that lump under the mattress, but also wipe out your mattress.

Individual health insurance for a middle aged single person can cost as much as a new car payment. For a family or someone with pre-existing conditions health insurance could easily be multiple of a mortgage payment. Planning a health insurance budget for financial independence needs as much study and planning as you might for any other major expense.

The good news is that with a little homework there are ways to bring down that quote from Joe's Acme Health to something that just might fit into your budget. Health insurance is complicated, and research can shed some light on ways to save. If you might leave your traditional job with no health benefits and before Medicare kicks in at 65, the homework done up front could affect your retirement target date significantly.

Basic ways to manage your insurance costs are:

- Take your insurance with you.
- Be a member of an organization that has group insurance benefits.
- Minimize your coverage options.
- Live in a place that has lower health costs or special state allowances.
- Comparison shop.
- And of course, stay young and healthy.

What follows is a general description of some of these cost considerations, but insurance details vary by state and are rife with "if's, and's, and but's" based on a host of factors unique to you and your personal situation. Some of the resources at the end of the article can get you started with the details. Your state insurance commission is also a valuable resource.

Keeping Group Insurance Status

The "group" insurance that you may have had with your traditional employer pools the health risk of the young, old, healthy, and unhealthy as an average risk. A private health insurance policy has a cost directly related to your unique risk of getting sick and making claims. Private health insurance will quite likely be more expensive or have reduced benefits relative to a group policy. Keeping status as a member of a group insurance policy might be especially helpful if you have pre-existing conditions or are older. Some insurance companies will not accept you for a new policy if you are not already covered by another company's policy. If your employer is really traditional, you might be eligible for "early retirement" and retain some or all of your medical benefits. Check with your employer for these details. If you are being out-sourced, downsized or otherwise offered or forced to take a buy-out or severance package, explore your options to negotiate health insurance benefits. At this point in the game, you have little to lose.

If you leave your traditional job before an "early retirement" date or involuntarily, you can probably continue coverage allowed by COBRA for 18 months (possibly longer in a few special cases). This is the same group coverage benefits you had with when you were working at your traditional job, but you have to pay for it yourself. COBRA coverage is optional to you, but you should seriously consider it. It allows you to stay in the group risk pool. It may also affect your ability to get coverage after the 18 months are

up. There are a few exceptions where you may not qualify for COBRA benefits. If you've been employed for less than six months, or if you've worked for a company with less than 20 employees, you may not be eligible for COBRA benefits.

Self-employment or owning a small business are ways to get group insurance in some states. There will be some requirements about this being a sincere endeavor, but it may be a way to work part time at a hobby or something you like and still benefit from group coverage. In my state, you can't be charged higher rates for pre-existing conditions nor can you be turned down for certain basic policies. But the rates may vary based on your age or where you live. An additional benefit is that all or part of the insurance costs may be tax deductible. There might be honest and acceptable ways to have family members as your small business employees and have them included in the group insurance plan.

Some professional organizations offer group coverage insurance policies to their members. The IEEE and the American Society for Quality are a couple that do. Contact your local Chamber of Commerce and ask for help with this. Someone there is likely to be a member of a professional society you might be able to join. You should be wary of insurance carriers that set up a group pool for that sole purpose. Once you get sick, the carrier may have high rate increases or cancel your policy.

HIPAA (Health Insurance Portability and Accountability Act) mandates all states have a place of last resort for people to buy health insurance. It may allow you to get into a state's "high risk pool" if you have pre-existing conditions and meet certain requirements such as previous ongoing health coverage. Insurance through this high risk pool may be expensive, but it may be the only way to get insurance that will not cause financial disaster. You will need to check your state policies to see if this might work for you. It seems to be a slightly lame attempt in some states, but is worth checking on.

Shopping for Coverage

There is an overwhelming array of private coverage options that the various insurance carriers offer. The advantage is that you can tailor your health insurance around your budget, your anticipated medical needs, and how much risk you can accept. There can be significant savings with high deductibles, but you should back this up with a nest egg that would pay your deductibles if you get sick.

The basic variables for coverage are co-payments, co-insurance, deductibles, and various caps by year and by lifetime. They are the basic structure that will describe how much you pay out of your pocket for an illness. A \$5000 deductible policy might possibly be more than 3 times more expensive than the same policy with a \$300 deductible amount. Keep in mind that a short hospital stay could cost tens of thousands of dollars and major issues like bypass surgery or cancer could cost huge amounts. Know what your potential out of pocket expenses will be. Skimping could wipe you out. Carefully consider any prescription benefits as well. Prescription costs can be enormous and are among the faster rising of health care expenses.

A deductible is the amount you will have to pay on your own before insurance will start to pay anything on your claims. You will have to meet the deductible each year or benefit period before your insurance coverage begins. Co-payments are usually smaller amounts of maybe \$10 or \$25 paid for each doctor's visit or prescription. Co-insurance can add a larger amount to your out of pocket expenses and is usually expressed as 80/20 or a similar figure. A co-insurance of 80/20 means that after you've met a deductible your policy will pay for 80% per cent of your medical expenses and you will have to pay 20% per cent. Co-insurance often has a cap where once you have paid a certain amount out of pocket the insurance will then pay 100%. For a significant illness, co-insurance costs could exceed the deductible amount you also have to pay.

Exclusions also vary by carrier. Pre-existing conditions as simple as allergies could require certain health problems to be excluded by a carrier - or even cause your application to be rejected.

Catastrophic health insurance is a high deductible policy that covers major illnesses and surgeries, but does not cover things like routine doctor visits. It is often the type of policy relatively healthy people on a limited budget might choose in order to avoid financial disaster from a major illness. Be aware of what is and isn't covered and be certain your nest egg can cover your out of pocket expenses if you need medical attention.

Where You Live Makes a Difference

Insurance costs are proportionate to the cost of health care in your home town. Urban centers where salaries and the costs of living are higher will have higher insurance premiums. It would be typical to reduce insurance costs by 10% to 30% by living in a mid-sized town compared to a large city in the same state.

Certain pre-existing conditions may totally exclude you from getting private health insurance. All is not lost, but the safety nets provided by HIPAA are administered by state insurance commissions and will differ. Some states limit premiums and have minimum benefit standards. These states are probably the best bet for better coverage and lower costs. The last resort safety nets will likely be more expensive than typical private insurance, but at least give everyone a shot at having health insurance. Rates can be 125% or more compared to an average private insurance policy. The actual rate you pay as well as the benefits offered vary by state. Some states allow you to convert your COBRA plan to a standard or basic plan offered by the same insurer regardless of pre-existing conditions, but the rates they charge may not be regulated and may be higher than your COBRA rates. Some may offer specially subsidized plans of a specific cost that can be offered if private insurance exceeds a state-set maximum cost. Pre-existing condition issues are probably among the more complicated of health insurance problems and the cost advantages in certain states may make moving an attractive option.

Choosing an Insurance Carrier

There are a few web sites that will get quotes from different carriers. You can enter an age, location and benefits package and get cost quotes from several insurance providers. This is a good way to get general ideas about how to configure your benefits and how much things will cost. Most references recommend interviewing at least four or five carriers in your area for specifics. Learn the details of HMO's, PPO's, and fee-for-service policies. There will be different rates and benefits for each of these types of insurance providers.

A health maintenance organization (HMO) usually limits the choice of doctors and hospitals you may use. They are under contract with your HMO to provide your care and you will probably have a primary care provider who will refer you to specialists or other health care professionals as they see fit. The HMO manages their expenses this way, but it also may limit your choices of medical professionals that might best serve your needs. There will typically be a small co-payment fee for each doctor visit, prescription medication or hospital stay.

Preferred provider organizations (PPO's) have some of the features of an HMO. When you use a medical professional in the "network" of providers most of your medical costs may be covered. You will also probably have a primary care physician. A PPO also allows you to go outside of their network of health care professionals at your choice, but you may be required to pay a larger portion of your medical bill in the form of higher deductibles or co-insurance if you elect to do so.

Fee-for-service is the traditional insurance policy of days gone by and still had its advantages. It allows you to choose the hospital or doctor you wish. This type of policy is more likely to have deductibles and coinsurance as a significant feature of the policy. The policy will also require you to pay any fees above what they consider reasonable for a given service. Fee-for-service lacks some of the methods HMO's and PPO's use to control their costs, so may be more expensive.

A Consumer Reports article showed significant differences among carriers for the same person and same benefits. They recommended HMO's and local Blue Cross/Blue Shield as typically better buys.

Regardless of the policy you pick, you should be especially certain of what medical eventualities will be covered wholly or in part. A good exercise might be to concoct of a couple of hypothetical illnesses that could require diagnosis, hospitalization, treatment, medication, and follow up in-home care. Verify with your insurance agent that your coverage meets your expectations. An important question to ask when you interview different agents is what will happen to your rates if you get sick. Some carriers may have significant rate increases or even cancel you out if you start making claims against the policy. It might be a good idea to document these discussions with some notes.

Health and Age

Certain health factors in your control may be cause for increased rates. Smokers especially and those who are over-weight may have high premiums. It may go without saying that a healthy life style, beyond its intrinsic benefits, will probably reduce your eventual health costs.

The only thing to do about growing old is to plan and budget accordingly. As you get older, insurance costs will go up due to age and increasing chances of needing medical attention. The general amount of this increase is something to verify when policy shopping. Annual cost increases due to rising medical costs are pretty much a sure thing as well.

About Health Care Reform

Great effort and expense has been offered up to provide cures and remedies for our society's major medical maladies. One wonders what similar balance of efforts has been made to make these remedies affordable to the common wage earner. There is a trend for the traditional employer to expect workers to pick up an increasing portion of their medical insurance expense and new hires for some companies may have no retirement medical benefits at all. Beyond routine medical insurance are other issues like long term care and loss of income from disability. Many common budgets are forced to accept at least some risk of financial disaster due to illness.

The U.S. has over 40 million people with no health insurance. Everyday folks that might well be you or I in slightly different circumstances make choices between medicine and health care, and food and housing. Medical catastrophe is a major cause for bankruptcy. Unaffordable private health care is a significant cause of locking a person into a job that doesn't align with their values or life objectives in order to provide health insurance for themselves and their families.

Make your voice count on practical health care reform issues.

Web References

<http://www.ahcpr.gov/consumer/insuranc.htm>

An excellent insurance primer with questions to ask about getting the right policy for your needs. Includes a glossary of terms and sections on the differences between HMO's, PPO's and pay-for-service providers.

<http://www.insure.com/health/>

Another insurance primer with a short section on catastrophic health insurance. Links to quotesmith.com for insurance cost quotes.

<http://www.healthinsuranceinfo.net/>

Thanks to a grant from the Robert Wood Johnson Foundation. A state-by-state guide to getting and keeping health insurance.

<http://www.consumersunion.org/health/labortest2.htm>

A testimony before the US Senate on the short comings of the HIPAA and the need for affordable health care.

Other References

“The Perils of Buying You Own Policy”, Consumer Reports, September 2002.

Well worth a trip to the library. It includes a list of pitfalls to watch for and a table comparing HIPAA policy by state.

(The author is neither a health insurance expert or professional. This article is intended to give you a head start on your own investigations. You are encouraged to do your own research to verify your insurance options.)

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