



Health Insurance Costs

Learn some basic insurance terminology to help you understand the costs you may face with health care...

The cost of health care for you and your family will be determined by the provisions of your insurance policy, so it is important to understand the basics. For services **that are covered** by your policy, your cost should equal the sum of the following items:

Annual Premium

PLUS

Expenses applied to your Deductibles

PLUS

Copays (common for doctor visits and prescription drugs)

PLUS

Your Coinsurance expense, up to the annual Out-of-Pocket Limit

(More information about the highlighted terms can be found 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 – So knowing what your policy excludes is as important as knowing what your policy includes.

Another important benefit of health insurance that many people overlook is that insurance companies negotiate lower costs for services from network providers. Those **without insurance** will generally pay the full cost billed by providers; whereas, those **with insurance** will have costs reduced up front to the negotiated fee (assuming they use network providers). For the insured person, this means lower expenses billed by the provider.

Learn about Deductibles ...

The *Annual Deductible* is the amount you must pay for medical services during each year (often the calendar year) *before* your health insurance will begin covering any costs. 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, which are not covered (*“excluded”*) by your policy will not count toward your deductible.

Most family policies apply the deductible separately to *each* covered family member (although it is often limited in total to 2 times the individual deductible) – In other words, a \$500 deductible policy covering two or more family members may actually require \$1,000 to be paid

by you before the insurance covers all members your family. Some family HSA policies have only one deductible for the family (no individual deductibles).

Many better policies cover certain services without regard to the deductible (typically preventative care and doctor visits), and some will apply separate deductibles to specific services (typically for prescription drugs). Note that *copays* and *coinsurance* that you pay for services not subject to the deductible will not count toward meeting the deductible.

Ask your agent to explain how the deductibles work for any policy you consider buying.

Learn about Coinsurance...

The term *Coinsurance* refers to sharing cost of medical services between you and the insurance company. In particular, it usually refers to the percentage of cost that you are required to pay after the plan's annual deductible is met. Typically, coinsurance for services from in-network providers are 0%, 20%, 25%, or 30%; whereas coinsurance for out-of-network providers are usually 30% to 50% (many HMO plans provide no insurance at all for out-of-network services).

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). For example, a bill for hospitalization might be \$10,000; but after the negotiated discount, the cost may only be \$7,500. If your plan has 20% coinsurance, you

will be responsible for 20% of \$7,500, or \$1,500. The insurance company will pay \$6,000 (the other 80%) and the hospital will write down the \$2,500 discount.

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 may 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. *Of course, "all things" are not usually equal! Pay particular attention to the out-of-pocket limits on high-coinsurance plans – they may be higher also, which can add considerable cost in the event of serious illness or injury.*

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 and/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 blood test.

Money you spend on copays does not count toward your annual deductible and often does not count toward your out-of-pocket limit. *Be sure your agent explains how the copays work in any policy you consider buying.*

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 may 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.

Learn about Out-of-Pocket Limits...

Insurance plans that use coinsurance usually have *Out-of-Pocket Limits*. This is a very important plan feature 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 year



(usually the calendar 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.

Let's consider an example. Suppose you have a health insurance policy with coinsurance and are subsequently seriously injured in an accident that 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 Limit* has the greatest value for you. So a 30% coinsurance plan with a \$5,000 out-of-pocket limit will have twice the value of a 10% coinsurance plan with a \$10,000 out-of-pocket limit (even though the monthly premium for the

latter may be higher). ...*That's a potential savings of more than \$5,000!*

Some plans are described with an out-of-pocket limit that includes only the coinsurance, so you will need to add in the deductible to determine to total potential liability; others already include the deductible in the limit. Generally, copays are in addition to the out-of-pocket limit and often have no limit themselves. Finally, your prescription drugs expense may not apply to your out-of-pocket limit; to the contrary, your drug coverage may in fact be a limited benefit (many policies have a \$3,000 or \$5,000 limit on the insurance coverage for prescription drugs).

Be sure your agent explains how these limits work with any policy you consider buying, so you fully understand your potential liability.

Summary

We hope this information has been valuable, but perhaps you still need help. *Schleh Benefits* is a licensed consultancy with years of experience and practical know-how. We understand health insurance and are here to help you. Our services are completely free to you and have no effect on your policy premiums and benefits (we have no hidden fees, surcharges or application costs of any sort). We are an independent agency representing only highly-rated insurance companies – *and they pay us to help you find the right plan!*

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