Special Report

Health Insurance:

Crisis or Wake-up Call?

Caution!

If you like overpaying for your health insurance, STOP!

This report will break your heart.

Crisis or Wake-up Call?

Few can disagree to the fact that health insurance has become a major financial burden on family budgets. It is not unusual for the monthly premium to approach the same amount as a modest house payment. And, many people pay more for their family's health insurance than the monthly payment on their family automobile. How much and how often in the past several years has your insurance increased? If you have been experiencing 15% annual increases, every 5 years your insurance premium will double, a $200 premium becomes $400. But, in 10 years your premium will be four times what you started with, a $200 premium becomes $800. How long are you willing to **not** take control over your money? Many families have considered dropping out of the health insurance system, however, a one week stay in the hospital could cost $20,000 or more, bankrupting the family. A better understanding of ways of paying for health care will give you more control and potentially greater savings for your family. You should consider developing a long term strategy to plan for when you need coverage, take advantage of cost savings while you can, and be prepared for when you have major expenses, if ever.

With the high cost of health insurance, you might think that we would spend more time understanding our policies and options. The unfortunate truth is that more people understand how to work their DVD or VCR than understand their health insurance plan.

This report will help you begin the process of understanding health insurance, options that you may have, and concepts to consider to gain control of the financing of your health care costs. For those that do not want to learn new ideas that may help you save hundreds or even thousands of dollars on your health insurance, this report is not for you. Just continue to pay your monthly premium and go on with your life. If you are willing to put a little effort into study and research, this report will help you begin that quest.

Although it may seem confusing, health insurance policies have similar definitions, benefits, and features. Where they differ is in the specific details. At this time you should have your health insurance policy with you while you work through this report.

Definitions

Covered charges – Encompasses two areas, 1) those services that are covered and, 2) to what amount the company would allow for those services. You may hear terms such as Reasonable and Customary, or Usual Customary and Reasonable. If your provider of service charges more than what the insurance company has determined is "reasonable" then the person insured may have to pay the difference. If a service is not covered, such as cosmetic surgery, then the charges will be the responsibility of the person covered for insurance.

Deductible – This is the amount that is the responsibility of the insured (you) before benefits are paid. If more than one person is covered on the insurance policy, you need to know if you have a family aggregate deductible where each person has a deductible separately with some maximum number of deductibles within the family, or a family shared deductible where everyone in the family is pooled to meet one shared or common deductible. The family shared or common deductible is typically found in those policies that would qualify for a Health Savings Account discussed later. The family aggregate deductible is currently the more common of the two deductible options.

Coinsurance – Once the deductible has been met, you may be responsible for a percentage of the medical charges. You may find common percentages to be 20%, 30% and 50%. The insurance company would be responsible for the remaining amount of covered charges.

Stop Loss – Your policy should have an amount at which the policy begins to pay 100% and you are no longer responsible for any co-insurance. This is the Stop Loss amount. Common Stop Loss amounts are $2,000, $5,000, $7,500 and $10,000.

Out of pocket – When you apply your coinsurance percentage to your stop loss, you determine your Out-of-Pocket. A policy that has a 20% coinsurance level and a stop loss of $5,000 would create an out-of-pocket of $1,000 ($5000 x 20%).

Total Out-of-Pocket – By adding the deductible and out-of-pocket together you determine the Total Out-of-Pocket.

Co-payment – Some policies may have a provision that, regardless of your deductible or co-insurance, the insured person pays a flat fee for the services provided or the prescription purchased. You may have a $25 payment to the physician's office, or pay $15 when you purchase a medication, regardless of what the actual charge was.

Maximum benefit – Some policies place a limit on the number of services of a particular type, perhaps only 30 physical therapy visits per year. They may place a dollar amount for a service type, perhaps $5000 maximum for treatment of alcohol dependency.

Lifetime maximum – Once a policy has reached the Lifetime Maximum benefit, no more services are paid on that policy. Typically, $1 million is the low end and with $2, $3, and $5 million being common.

Annual maximum – A policy that places a dollar limit on the amount of services in a calendar year would have an Annual Maximum. This could be as low as $100,000 to as high as the Lifetime Maximum.

Network Plans – This refers to both HMO's and PPO's. Services are restricted to certain providers for the highest level of benefits. Always review the network available. You may find that there are few providers available, especially in more rural areas. They may save you premium dollars, but you may pay more for services if your physician is not in the network.

Example Plan

A common health insurance policy may have a $500 deductible and 20% coinsurance after the deductible, with a stop loss of $7,500. If you were to have a large medical claim, your total out of pocket would amount to $2,000. You calculate that by multiplying the stop loss ($7,500) by your co-insurance percentage (20%) (7,500 x .20 = $1500) and adding your deductible ($500). So $1,500 plus $500 is $2,000. That would be on only one individual family member. You could have 2-3 times that if all family members have large claims. However, if your family seldom uses the insurance, you may want to look at simple methods to reduce your premium yet still protect your family from catastrophic medical claims

Factors causing the Increases in Premium

It will also help you to understand some of the factors that have caused the increases in medical premium. The total dollar amount of insurance claims is the largest factor in determining premium. You should understand that your premium is pooled with a large number of other people to pay the total claims that that grouping of insured people have. Imagine this, if an insurance company had $100,000 in claims on 100 covered people, the insurance company would have to charge each person $1000 to just cover the claims. This does not include any administration expenses to process those claims. But in 2002 the average annual health insurance expenditure per person in the United States was $5,427[1]! So in theory, insurance companies must charge $5,427 each year for each man, woman, and child covered for health insurance just to pay the claims.

Americans have become impatient with their health care. With the wonderful medical breakthroughs that have occurred in the past 30 years, we expect our medical providers to make us better when we walk in the door. We expect this even if the medical conditions were brought on by lifestyle issues; overweight, little exercise, tobacco use, too much adult beverage consumption, too much stress and the list can go on. Medical treatment is not a one sided issue. Consider moderation in lifestyle choices to reduce your risk of needing medical services in the first place.

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[1] Drivers of Healthcare Costs, 2003.

Pharmaceutical companies are continuously developing new miracle medicines that cost tremendous amounts of money to develop. In 2003, new and developing prescription medication accounted for 75% of drug spending growth[2]. Some generic prescriptions have the same effectiveness as brand name prescriptions, but many patients choose, either unknowingly or knowingly, brand name because we feel it should be better.

Visits to specialists have increased. In 1999, 68 percent[3] of all physicians' charges were to specialists. A large number of those visits could have been adequately treated by a family practice physician. Greater visit charges create larger claims that causes increased insurance premium.

We can't afford to take time off of work either for ourselves or our children. Work piles up, bosses are not understanding, and many of us do not have sick days. When either our children or ourselves start to feel a cold coming on, we immediately try to get the "miracle pill" that will allow us to still go in to work or allow our children to go to school. With two income families, the days are gone when one of the adults in the family could stay with our child while they get over the flu or common cold. We demand an antibiotic to help. That actually has caused another issue of treatment resistant illnesses due to over prescribing antibiotics. When we have more frequent doctor visits, called utilization, the claims increase and therefore the premiums increase.

Medical technology is a wonderful thing. Medical conditions that 10 or 20 years ago might be fatal are now being treated and extending life. But this comes with increased medical costs. The American society rightly places a high value on human life. Roughly 80% of our healthcare dollars are spent in the last 3 years of our lives. And although we treasure the time that we have on earth, the cost is born by all of us in increased claims, and therefore increased insurance premium.

[2] Centers for Medicare and Medicaid services, 2002
[3] National Center for Health Statistics, 2001

There is a labor shortage of registered nurses, causing in many areas of the country to pay much higher wages to attract the skilled labor force found in nurses. Higher labor means higher medical costs which then ultimately means higher premium.

Although there may be other items that are involved, this illustrates what the American people are faced with.

If you are beginning to understand that the claims received by the insurance company are what determine the price of medical insurance, and increasing medical claims are fueling the increases in premium, you have reached the first major mile stone in understanding the health insurance crisis. Now you need to understand that your family's claims are only a small part in the increases. As you learned earlier, insurance companies pool your premium and claims with a larger grouping of insureds. So, if you are slightly more or less than average, you will find that your premium will change at about the same rate as the rest of the pool of insureds. In fact many states have laws in place that protect the consumer from large rate increases.

Analyzing your Policy

What can you do? First, review your insurance policy carefully. You may have extra benefits that you do not need or are not cost effective, that you are paying an extra premium for. One example may be wellness or preventive care benefits. Having a regular physical is a great idea. You may find that you have an easily treatable condition that found early enough can successfully be treated. Consider, though, that you have a wellness plan in your insurance policy that reimburses you for up to $200 if you have a general physical. You are not sick; it is just a routine physical. When you review your insurance policy you find that you are paying only $20 per month for that benefit. So far so good. But when you realize that $20 each month for 12 months adds up to $240, you come to the realization that you are paying the company $40 more than what you can receive in reimbursement. Not a good idea. Perhaps you should drop the benefit, take the amount that you would pay for the benefit, and pay for the physical yourself. You could come out ahead.

Premium vs. Benefit Worksheet

Monthly Premium_____ x12 = _____

Minus Benefit received $_________

Equals $_________

If premium is greater than the benefit, reconsider the benefit!

Review your policy carefully, look for benefits that you are paying extra for, and see if it is removable. Reconsider the benefit if you are paying more in premium than you can receive in benefits. Find a reputable agent that understands what you are trying to accomplish and work closely with them in setting up or modifying your policy.

Deductible Review

The next item that you should review is your deductible. If you are paying more in premium than the difference in your deductible, you are paying too much. For example, say a family of four (4), 2 adults and 2 children, with a $250 deductible and 20% coinsurance has a monthly premium of $900, but a $1,000 deductible is only a $625 premium per month. For a savings of $275 per month. You also know that the family aggregate deductible is 3 times the single deductible. This means that by increasing your deductible from $250 to $1,000 you are potentially increasing what you may have to pay for your medical expenses $750 on one person or $2,250 ($750 times 3) for the entire family. At first blush you may balk at that potentially higher deductible expense. Remember though, that you are saving premium in the amount of $275 per month or $3,300 per year. So in the big picture, you are paying the insurance company an extra $1,050 over and above what the company will reimburse on for the privilege of a $250 deductible. That would be if you had three people in the family that actually fully met the deductible. Imagine your savings if you had very little medical claims in a year. Be careful on how high you increase your deductible though. There usually is a point where you don't save as much in premium to cover the increased deductible. A $5000 deductible in the above example may have a premium of $325 for a savings of $575 per month or $6,900 per year, but the increase in deductible of $4,750 per person on a family plan could amount to $14,250. Is the $6,900 savings enough to cover the $14,250 family deductible? **Proceed with caution.**

Following is a worksheet that will help guide you through analyzing your premium compared to a different deductible option. You will also find, after the conclusion of this report, a worksheet that you may use for analyzing several different deductible options.

Premium vs. Deductible Worksheet

	Column A Base Deductible	***Column B*** Option 1	Instructions
List Individual Deductibles	$	$	Choose two deductibles to compare
Premium	$	$	Enter the premium for those deductibles

Premium ***Col. A- Col. B***

Monthly Premium Difference $

Subtract the Lower Premium from the Higher Premium

x12

Annual Premium Difference $

Mulitply by 12 to get the annual difference

Potential Savings $

This is your maximum potential savings. But you are not done.

Deductible ***Col. B- Col. A***

Individual Deductible Difference Example (500-200)= $

Subtract the Lower Deductible from the Higher Deductible.
This is the increase you would be responsible for on claims in a year.

Individual Deductible Difference times 2,3 or ? X(   )

Family Deductible Difference $

Family plans typically have a per person deductible up to a maximum in the Family. Multiply the difference in individual deductibles by what your policy has.

$ –

Potential Savings (worst case) $

The Potential Savings (worst case) factors the savings in premium and the change in deductible. An amount greater than $0 indicates that you may be paying more in premium in a year than you will receive in benefits. A negative number indcates that you had better plan for more savings to cover the added expense.

Out-of-pocket consideration

Review your co-insurance maximum out-of-pocket. If you increased your maximum out-of-pocket after you met the deductible, how much would that save you? If you only save a few hundred dollars in a year but increase your out-of-pocket $1,000, you may not want to make the change.

Discounted services

Take advantage of the discount plans that many insurance companies offer. They may save you money if you need the service. One very common discount plan offered is on prescription medications. Get to know your pharmacist. Ask them how much generic equivalent medication would cost. Ask them how much the same medication would cost without the discount card. You could find some very interesting savings.

Complete your plan – Stop "the Trap"

Now that you have found areas that save you money on your health insurance plan, what should you do with the savings? Many people say that they will pay-off bills, or put into savings. The normal outcome with that is, it never happens. It becomes too easy to leave it in the checking account and within a few years you have just spent all of the savings. Another expense comes along, the car breaks down, a vacation needs to be paid off, or you just couldn't live without that new boat. Don't fall into this "Trap." If gaining control of your health insurance premium and medical costs is your true goal, then you must take the next step and plan a forced savings program. Otherwise you will fall into "the Trap" and not have anything saved if you do need the money for medical expenses. You must <u>**Fund the Plan.**</u>
Are you the type that has wanted to save money, and has had good intentions and has saved a couple of thousand dollars? Then when you see that extra thousand dollars in your saving account, you say to yourself, "I could really use that money right now", and then you take out only a couple of hundred dollars, telling yourself that you will pay it back. Before you know it, you're back down to a couple of hundred dollars in the account. Where are you then? Back in "the Trap."

Methods of Funding – Preventing “the Trap”

There are several methods that you can use in funding your health plan. The best solution for you is more a personal choice than anything else. Consider the following options and Fund the Plan. Good intentions are not good enough you must act for this to work.

1) **Bank savings account** – Good for short term goals, but is it too easy to access your money and fall back into “the Trap.” It maybe one of the safest plans, and easiest to establish. You may have to pay taxes on the interest paid to the account even if you don’t withdraw from the account. There is no current tax deduction on the amount that you deposit. Keep it separate from your regular savings.

2) **Mutual Funds** – Usually harder to access than a bank account, this is good. You may have less chance to fall into “the Trap.” You may have fluctuation in the value of the mutual fund based upon market forces. You may have taxes to pay on the gains even if not accessed. There is no current tax deduction on the amount that you deposit. Depending on the mutual fund you may earn more than what a bank account would pay. You could also lose value in the account. Watch it carefully. Remember the market in the late 1990’s and early 2000’s.

3) **Roth IRA** – This may be available to those that qualify. Speak to your advisor to see if you do qualify. A Roth IRA is a personal retirement plan not tied to a company retirement plan. You will not receive an upfront tax deduction, but the gains are not taxable at retirement. You can access the deposits that you made without a penalty. However, withdrawal of the gains prior to age 59 ½ may result in a tax penalty as well as having to pay income tax on that amount withdrawn. There is no current tax deduction on the amount that you deposit. By depositing into the Roth IRA, you are actually answering two issues with one plan. Saving more for retirement, and having available funds for medical expenses prior to retirement. Withdrawals made after 59 ½ are not currently taxed. If you use mutual funds as the savings vehicle within the Roth IRA, you may have the same fluctuations in your investment as mutual funds not in a Roth IRA. Obviously if you use the Roth IRA concept to Fund your Plan, and withdraw funds before retirement for medical expenses, you will have less money

during retirement. Don't build yourself a false sense of security and plan to use the Roth IRA for both retirement and medical expenses without fully planning for that.

4) **Dividend paying Cash Value Whole Life insurance** – A little understood plan for those that need life insurance, even if you already have life insurance, may be a reasonable alternative. You may be able to convert a portion of your current life insurance so you are not over insured with life insurance. Dividend paying whole life policies have received a bad reputation in years past. Since they usually don't pay as potentially high a return as some investments, some people have shied away from them. But they have guarantees that other investments may not have. Properly created, a dividend paying cash value whole life policy will generate in cash value almost the entire difference in the increased deductible after the first year, using the premium savings from the changes you made in your health insurance plan. Not properly created and it may take many years before you have enough in your accessible cash value to cover your deductible. There is no current tax deduction on the amount that you deposit. The cash value is accessible through either withdrawals or the possible better alternative, loans from your own policy. Gains in the policy are not taxable unless withdrawn from the policy, and a loan is not considered a withdrawal. Look for a policy that has either a very low net loan interest rate, or one that continues to pay dividends at the current rate while a loan is outstanding. Also, if you pass away, the net death benefit is paid to your named beneficiary even if you made only one payment to your life insurance plan. This is something that other vehicles do not have the capability of doing. The down side is that the early years may not have as much cash value as a bank account or successful mutual fund may have. Over time because you may not be paying taxes on the unutilized gains, your cash value may exceed other types of plans. Whole life policies have a guaranteed minimum cash value that builds in the policy, with non-guaranteed dividends accruing to enhance the total cash value. Unless your agent or insurance company fully understands this concept, you may have difficulty creating the proper whole life policy to provide the cash value build up that you require.

5) **Health Savings Accounts (HSA)** – Beginning in 2004, the HSA was developed out of what was previously called a Medical Savings Account (MSA). See IRS publication 969 for current information on HSA's. These plans require you to have a specifically designed health insurance policy and allow you to deposit additional money into an account that can be used for unreimbursed medical expenses. Sound familiar? You receive a current tax deduction on the amount that you deposit and may never claim it as income if you use it for qualified medical expenses. See IRS publication 502 for the full listing of qualified medical expenses. Most of these accounts have the savings vehicle in the form of a checking account, although there are a few that allow mutual funds as the investment vehicle. This is a great program if you want to limit yourself access to the account for qualified medical expenses. At age 65 you can access the funds for any reason without a penalty, but may have to pay income taxes if not used for qualified medical expenses. Prior to age 65 if you use your funds for something other than qualified medical expenses you may have to pay a 10% penalty and income taxes on the withdrawn funds. This is quite an incentive to use it only for the reason you established the plan – for qualified medical expenses.

6) **Combination** – Perhaps the best alternative for you is a combination of several of the above options. It doesn't hurt to cover all of your concerns.

Conclusion

By reviewing your health insurance policy, removing unwanted or non-cost effective benefits, increasing your deductible to the proper amount and then depositing the premium saved into a plan that is appropriate to you and your family, you will gain control over your health insurance policy and develop an asset instead of a bill. This won't stop any rate increases on the health insurance plan, but the actual dollar increases could be smaller and you are building funds to offset any changes that you may have to, or would like to, make in your health insurance plan in the future. The longer you wait, the less control you can have in your health insurance plan. Imagine how much you might have right now if you started doing this 5 or ten years ago. You need to start today or in 5 years you may be paying twice as much in health insurance premium with nothing to show for it but a bunch of cancelled premium checks.

Biography

The author was raised in Chicago, IL., where he still visits friends and relatives when time allows. He obtained a Bachelor of Science in Finance from the University of Wyoming (1981). Initially following a career in banking, he discovered the broader world of financial services. He obtained the Certified Health Consultant designation through a program at Purdue University, and followed up with both Chartered Life Underwriter (1994) and Chartered Financial Consultant (1995) designations. He currently is the founder and president of Personal Financial Solutions, Inc, an individual and employee benefits firm.

- - Examples - -
Premium vs. Deductible Worksheet

	Column A	***Column B***	***Column C***	***Column D***	***Column E***	***Column F***
	Base Deductible	Option 1	Option 2	Option 3	Option 4	Option 5
List Individual Deductibles	$200	$500	$1,000	$1,500	$2,500	$5,000
Premium	$900	$717	$625	$536	$419	$323
	Premium	***Col. A- Col. B***	***Col. A- Col. C***	***Col. A - Col.D***	***Col.A- Col.E***	***Col.A- Col.F***
Monthly Premium Difference		$183 x12	$275 x12	$364 x12	$481 x12	$577 x12
Annual Premium Difference		$2,196	$3,300	$4,368	$5,772	$6,924
Potential Savings		$2,196	$3,300	$4,368	$5,772	$6,924
	Deductible	***Col. B- Col. A***	***Col C.- Col. A***	***Col D. - Col. A***	***Col E.- Col. A***	***Col F.- Col. A***
Individual Deductible Difference	Example (500-200)=	$300	$800	$1,300	$2,300	$4,800
Family Deductible Difference	Individual Deductible difference times 2,3 or ?	X 3 $900	X 3 $2,400	X 3 $3,900	X 3 $6,900	X 3 $14,400
		-$900	-$2,400	-$3,900	-$6,900	-$14,400
Potential Savings (worst case)		$1,296	$900	$468	-$1,128	-$7,476

A positive number means that you are paying more than what you get in benefit. Reconsider a higher deductible.

A negative number means that although you are saving money, you are increasing your total expenses on a maximum claim. Use caution!

Premium vs. Deductible Worksheet

	Column A	Column B	Column C	Column D	Column E	Column F
	Base Deductible	Option 1	Option 2	Option 3	Option 4	Option 5
List Individual Deductibles	$	$	$	$	$	$
Premium	$	$	$	$	$	$
	Premium	***Col. A- Col. B***	***Col. A- Col. C***	***Col. A - Col.D***	***Col.A- Col.E***	***Col.A- Col.F***
Monthly Premium Difference		$	$	$	$	$
		x12	x12	x12	x12	x12
Annual Premium Difference		$	$	$	$	$
Potential Savings		$	$	$	$	$
	Deductible	***Col. B- Col. A***	***Col C.- Col. A***	***Col D. - Col. A***	***Col E.- Col. A***	***Col F.- Col. A***
Individual Deductible Difference	Example (500-200)=	$	$	$	$	$
Family Deductible Difference	Individual Deductible difference times 2,3 or ?	X ( ) $	X ( ) $	X ( ) $	X ( ) $	X ( ) $
		$ –	$ –	$ –	$ –	$ –
Potential Savings (worst case)		$	$	$	$	$

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