Understanding Health Insurance - Part 1

Health insurance helps reduce medical costs (major and minor) in the event you or a loved one needs some form of medical assistance. Managing your potential risk for major medical expenses includes two things: a solid health insurance program and good self-care. While self-care is free, health insurance is definitely not. Health insurance can be purchased by the individual, provided by an employer, or can be provided through the government. This article will discuss some of the many variables you should take into consideration when deciding between health insurance programs.

Coverage Limits - There are two limits that must be noted when selecting an insurance program: coverage per year and coverage per lifetime. Coverage per year is the maximum your insurance company will pay-out for any single illness or injury. Did you get into a major auto accident this year? If your coverage per year limit was one million dollars, then the insurance company would pay up to one million dollars for your auto accident medical bills. Next year you get diagnosed with a curable disease and the new limit is again one million dollars because the events occurred in different years. Coverage per lifetime means exactly what it says: your limits are depleted as time goes by and you accrue medical bills. On a long enough time line, the lifetime limit will be reached while the coverage per year limit will be reset at the beginning of each year.

Out of Pocket Expenses - This is where co-payment comes into play. To limit your out of pocket expenses, you could select a very low co-payment so that whenever you visit a doctor or the emergency room, you will pay a flat-rate fee, such as $20 per visit. Or, you could choose a % split between you and the insurance company such as a 20/80 split. This means the insurance company will cover 80% of your medical bills while you are responsible for the remaining 20%. While the percentage split may not sound bad, it can get quite expensive if you have the need for major medical assistance such as a surgical procedure that could easily cost hundreds of thousands of dollars. When considering a health insurance program that offers a percentage co-payment, make sure there is a cap limit to your responsibility, such as $5,000 or $10,000 per year.

By having a cap in place for your responsibility, you are safeguarded from an unexpected medical emergency that could put you in debt for the rest of your life. If your insurance policy does not have a cap to your responsibility and you are unable to switch insurance carriers, you can purchase what is called an Excess Major Medical policy. This additional policy typically pays 80% of your responsibility on your first policy. For example, if you have a base insurance policy with a 20/80 percentage split and you accrue medical expenses totaling $100,000, you are financially responsible for $20,000 of that debt. With the Excess Major Medical policy in place, your responsibility would be cut to only $4,000 of that $20,000. The combination of two policies (if you can afford the premiums) can dramatically reduce your medical expenses should you require major medical attention.

Internal Policy Limits - Many smaller insurance programs contain their own internal limits beyond the per-year and per-lifetime limits. These limits could include such caps as room and board or surgical procedures. It's very important that you ask if these types of internal limits exist with your current insurance provider. If they do, either try to switch insurance companies altogether or in the event that you cannot switch carriers, you should purchase an Excess Major Medical Policy to help cover unexpected major medical expenses.

About the Author

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