

Class 14 Outline
Business Finance 640 - Insurance and Risk
Autumn Quarter, 2005
Chapter 21

This class focuses on individual health care insurance coverages. We begin with a brief discussion of the health care problems in the United States, focusing particularly on the causes for rising health costs. We will begin to see why reform of our health care delivery system has been at the center of political debate in recent years.

Next, we will review important individual coverages, including basic hospital-surgical insurance, major medical insurance, long-term care insurance and disability income insurance. At the start of this review, we will examine the impact that catastrophic medical bills can have on individuals and households, thus highlighting the importance of major medical insurance.

Next, we will stress the importance of a high quality individual disability income policy in a sound personal insurance program. Then, we will examine the rapidly growing areas of long-term care insurance, which is become increasingly important in view of the aging of the population.

In the latter part of the class, we will selectively review certain health insurance policy provisions. Our discussion here will focus on the renewal provision, the preexisting conditions clause, the grace period and reinstatement provisions, and the time limit on certain defense.

I. Health Care Problems in the United States

- A) Rising Health Care Expenditures
- B) Inadequate Access to Medical Care
- C) Uneven Quality of Medical Care
- D) Waste and Inefficiency

II. Individual Health Insurance Coverages

- A) Hospital-Surgical Insurance
 - 1. Hospital expenses
 - a. Newer plans typically pay the full cost of a semiannual room, subject to any deductible or coinsurance requirement; some older plans still in force pay actual room and board charges up to some maximum daily limit.
 - b. Miscellaneous expenses are also paid, which may be a dollar amount, a multiple of the daily room and board benefit, or as coinsurance, such as 80 percent of the miscellaneous charges up to some maximum limit.
 - 2. Surgical expenses
 - a. Schedule approach—some older plans list the surgical procedures and the maximum amount paid for each procedure.
 - b. New plans typically reimburse surgeons on the basis of their reasonable and customary charges.
 - 3. Outpatient services
 - 4. Physicians visits
- B) Major Medical Insurance
 - 1. Broad coverage—eligible expenses covered regardless of location where incurred
 - 2. High maximum limits—commonly sold with limits of \$500,000, \$1,000,000, or even higher limits.
 - 3. Benefit period—length of time benefits will be paid after the deductible is satisfied

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- 4. Deductible—calendar year, family deductible, and common accident provision
- 5. Coinsurance—a stipulated percentage, such as 20 or 25 percent, paid by insured in excess of deductible
- 6. Exclusions
- C) Long-term Care Insurance—becoming more important as the population slowly ages
- D) Disability–Income Insurance
 - 1. Typical provisions: meaning of total disability; benefit period; elimination period; waiver of premium; rehabilitation benefit; principal sum for accidental death or dismemberment
 - 2. Optional benefits

III. Individual Medical Expense Contractual Provisions

- A) Renewal Provisions
- B) Preexisting Conditions Clause
- C) Notice of Ten-Day Right to Examine Policy
- D) Claims
- E) Grace Period
- F) Reinstatement
- G) Time Limit on Certain Defenses

IV. Shopping for Health Insurance

- A) Insure for the catastrophic loss.
- B) Consider group health insurance first.
- C) Purchase a policy that has a preferred provider network.
- D) Don't ignore disability income.
- E) Avoid limited policies.
- F) Watch out for restrictive policy provisions and exclusions.
 - 1. A preexisting conditions clause running for more than 1 year
 - 2. Exclusion riders that reduce coverage
- G) Use deductibles and elimination periods to reduce premiums.