

UNDERSTANDING INDIVIDUAL HEALTH INSURANCE

Continuing Education



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Imperial Training Services, Inc.
Post Office Box 8
Garner, North Carolina 27529

Instructor: Cliff Davis – MBA, CLU	Phone: (919) 772-6460
Course #:	(800) 835-5314
Course Type:	Fax: (919) 662-2731
CE Course Rating:	Email: imperialtraining@bellsouth.net
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2. The Need for Health Insurance

A. Introduction

A basic principle of insurance is managing risk for the protection of individuals from financial loss. With national health care spending of one study projecting \$2.5 trillion in 2009, the need for health insurance has reached epic status. Much has changed from the early days of health insurance. The following provides a brief history of health insurance in the United States, the risk factors that underscore the need for health insurance and the financial impact of health care.

B. History of U.S. Health Insurance

Pinpointing the beginning of health insurance in the United States depends on the definition of health insurance. In its broadest sense, health insurance covers some portion of medical expenses. In the early days of insurance, separate policies covered accidents versus sickness.

Accident and Sickness

During the Civil War from 1861 to 1865, policies covered railroad and steamboat travel-related accidents. Industrial employers, fraternal organizations, and labor unions introduced sickness funds in the 1890s. Sickness funds addressed the problem of lost wages for employees unable to work due to illness. Similar to today's disability insurance, sickness funds supplemented employees' income.

without health insurance. Studies attribute medical expenses to over 60 percent of bankruptcies filed in the United States. Several studies estimate spending on health care in the United States to be one-sixth of the economy. The past failure of attempts at health care reform only exacerbates the critical status of health care in the U.S.

The economic downturn beginning in 2008 highlighted a glaring problem with an employer-sponsored system for health insurance. Massive unemployment left many employees and their family without health insurance. Although federal law requires certain employers to offer employees and their family continued participation in the employer's health plan, the cost is often too high for those who lost their job.

Additionally, due to the high cost of health insurance, many small employers never offered or stopped offering health benefits to their employees. Uninsured employees must choose between no insurance or purchasing it on their own.

E. Chapter Summary

Health care in the United States moved from care given in the home to health centers and hospitals. As this type of care became an effective approach in treating communicable disease and infection, the need for health insurance became apparent. From the early days of Blue Cross and Blue Shield, health insurance evolved to include the private industry and became primarily employer-sponsored.

Skyrocketing health care costs and a declining economy have made health care reform a hot political topic. With health care spending equating to one sixth of the U.S. economy and over 45 million Americans without health insurance, the need has never been greater.

4. Individual Health Insurance

A. Introduction

Similar to automobile insurance, consumers purchase individual health insurance from an insurance company or through an agent. Health insurance options cover an individual and his or her selected family members.

The growth of computer technology provides even more options for purchasing individual health insurance. Consumers can “shop online” at the insurance company or agent’s website or other dedicated insurance websites. Plan comparisons, rate quotes and online applications help consumers become more sophisticated in understanding individual or family health insurance options.

Consumers should exercise caution when accessing websites to ensure the company or agency is reputable before providing personal contact information. This and the inherent complexity of health insurance is why the role of the broker or agent remains an important one.

B. How Individual Health Insurance Differs

Insurance offered through employer-sponsored health plans is considered “group health insurance.” There was a time when purchasing individual health insurance was a costly undertaking resulting in very restrictive benefits. Much has changed to make individual health insurance more affordable with better options. However, there are distinct differences between the group health insurance offered through an employer and individual health insurance. With more and more Americans losing their health insurance or looking for less expensive alternatives, it is important to understand the differences.

Legislation

Like most insurance, laws exist regulating health insurance. Some of those laws are federal while others are state legislation. How those laws apply to group health policies versus individual policies often differ. A discussion of some major legislation related to health insurance occurs later in the course.

Many states have legislation related to individual health insurance. Typically, the laws regulate the application, underwriting, renewal and appeals process.

Covered Benefits

Individuals who have lost coverage from an employer-sponsored health plan are often in for a rude awakening when reviewing the list of covered benefits for an individual policy. Benefits such as maternity, mental health and prescription drugs may be excluded on some individual policies. What their “group” plan routinely covered, the individual policy often excludes or offers the benefit only with the payment of additional premium.

Cost

Perhaps the biggest “eye-opener” for individuals transitioning from group to individual insurance is the cost. Many employees are unaware of how much their employer contributes to their health insurance. When faced with paying 100 percent of the cost themselves, they soon learn the true cost of coverage. Although times have changed to where individual health insurance may be significantly less than group insurance (particularly for small employer groups), employees are often unprepared for paying more than their previous contributions to their employer plan.

The change in benefits also affects out-of-pocket expenses for the individual. Deductibles and copayments may be significantly higher than those from the group plan. This is particularly true if the employer-sponsored plan was for a larger employer. Generally, the larger the employer, the lower the out-of-pocket expenses are for the employee than those for a small employer group plan.

Eligibility

Most states require the individual to complete a health questionnaire when applying for individual health insurance. In most states, insurance companies can deny coverage for individuals with existing health conditions who apply for individual insurance. Maine, Massachusetts, New Jersey, New York and Vermont prohibit insurance companies from rejecting applicants or setting rates based on medical information.

With a group plan, the law requires insurance companies to accept all applicants, regardless of their health status. Unless the individual applied for an individual health insurance policy in the past, he or she may be unaware of the health questionnaire requirement and implications.