Section 6-2 Protecting Income

PERSONAL RISK MANAGEMENT

Health Insurance

- A plan for sharing the risk of medical costs from injury or illness
- Plans purchased through:
  - Group plan offered by employer
  - Individual policies
  - Health Insurance Exchange (Obamacare)
- Needed to help pay high medical expenses

Types of Plans

- Three basic insurance plans available
  - Fee-for-Service-Plans
  - Preferred Provider Organization (PPO) Plan
  - Health Maintenance Organization (HMO) Plan
- The better the coverage the higher the premiums

Fee-for-Service Plan

- Allows patients to choose doctors and other providers for medical services.
- Plan has a deductible-amount you must pay toward your medical expenses before insurance pays
- Plans are based on a percentage such as:
  - 80/20 (insurance pays 80% after deductible is met of covered expenses)
- Known as a unmanaged plan-usually more expensive than a managed plan

Preferred Provider Organization Plan (PPO)

- A network of independent health care provides (doctors, hospitals, clinics and labs) that work together to provide health care services.
  - Patients choose caregivers from approved lists.
  - Plan has a copayment—amount you must pay every time you use a service--$15 to $30
  - Plan has deductible
  - Plan has coinsurance (80/20 or 70/30, etc)
    - Example: Doctor’s visit cost $60, you pay your copayment of $15, insurance pays the remaining $45

Health Maintenance Organization Plans (HMO)

- A group plan that provides prepaid medical care for its members.
- HMOs use their own facilities
- Patients must chose doctors on the HMO staff
- Referral to see specialist from primary doctor
- Without referral costs are not covered
- Patients must pay copay for each visit
- Plan places emphasis on preventative care
- Goal is to catch potential health problems before they become serious and costly
- Plan has deductible
- Plan has coinsurance (80/20 or 70/30, etc.)

Government-Sponsored Health Care

- **Medicare**-health insurance for people age 65 or older.
  - Run by the Social Security Administration
  - Funded by employee payroll deductions
- **Medicaid**-health insurance for people with low incomes and limited resources
  - Designed to help families who live in poverty and are unable to afford private health insurance or medical care

Your Role in Health Care

- Take an active role in protecting your health
- Make good lifestyle choices
  - Eat healthful foods
  - Exercise/be active
  - Get adequate rest
  - Learn about ways to stay healthy through classes, seminars and programs

Types of Health Coverage

- **Basic Health Care**
  - Includes medical, hospital and surgery service
  - Pays for doctor fees, office visits and lab work
  - Does not cover elective surgeries (laser eye surgery, facelifts)
- **Major Medical Costs**
  - Protects against very serious injury or illness
  - Pays for services beyond basic health care
  - Coverage often goes to $1 million or more
  - Procedures covered include bone marrow transplants, organ transplants, rehabilitation and extended hospital stays

Types of Health Coverage

- **Dental Coverage**
  - Pays for dental work, usually has deductible and copay
  - Covers exams, X-rays, cleanings and fillings
  - Crowns, bridges and braces are covered at a lower rate of reimbursement
- **Vision Care**
  - Provides for eye exams
  - Pays for part or all of the cost of glasses/contacts

Types of Health Coverage

- **Catastrophic Illness**
  - Polices that provide protection should you get cancer or some other disease or condition that could be expensive to treat.
- **Long-Term Care**
  - Covers the expenses involved in extended care offered in nursing homes, assisted living facilities or at home by visiting health care professionals

Managing Costs

- Due to rising health care costs, patients are paying more for their health care.
- Things to consider to manage your expenses:
  - Use generic drugs when possible
  - Check drug coverage and ask for substitutions
  - Pay a higher deductible to reduce premium costs
    - Higher deductible means lower premium
    - Lower deductible means higher premium

Managing Costs

- **Copay**-a flat fee that has to be paid for covered services each time you receive that service.
- **Deductible**-a set amount that the policyholder must pay toward medical expenses before the insurance company pays benefits
- **Coinsurance**: Percentage of medical expenses the policyholder must pay in addition to the deductible amount.

Managing Costs

- **Stop-Loss Provisions**-clause that provides 100% coverage of medical expenses after a certain amount of money has been paid by the insured
  - Example: Policy has a $5,000 stop-loss provision, means once you have paid $5,000 in copays, coinsurance, and deductibles, your covered expenses are paid a 100%

Managing Costs (continued)

- **Flexible Spending Account** (FSA)
  - allows people to set aside money to pay for qualified medical expenses
  - No federal taxes are paid on money (pretax)
  - Plans set up by employers
  - Employee files a claim to the account to be paid
  - Unused funds are forfeited
- **Health Savings Account** (HSA)
  - Set up through an employer or individually
  - Money into the account is pretax
  - Used to pay medical expenses
  - A form of self-insuring
  - Money not used is carried forward to the next year
  - Grows tax free

Disability Insurance

- Provides income to replace a portion of normal earnings when the insured is unable to work due to non-work related injury or illness.
  - Injury or illness cannot be the result of your job

Types of Disability Insurance

- **Short-term**-covers if you are temporarily unable to work due to an injury or illness
  - Coverage begins after waiting period
  - Disabled person receives a portion of regular pay for a short period of time—three to six months—may be up to 2 years.
- **Long-term**-covers if you are unable to return to work for a long period of time.
  - Usually begins after short-time ends
  - Continues for 2-5 years
  - Premiums based on age and salary
  - Plan can be purchased through employer or individually

Types of Disability Insurance
(continued)

- **Social Security Disability**
  - Provision in the Social Security Act provides for disability coverage
  - Must have a permanent (mental and/or physical) disability that prevents you from gainful employment to collect long-term
  - Payments are made to you or on your behalf for living expenses
  - Short-term and long-term options are available

Life Insurance

- Pays money to a beneficiary upon the death of the insured person.
  - **Beneficiary**: the person designated to receive the proceeds of the policy
  - Reasons for buying:
    - Pay off debts at time of death
    - Provide money for family to maintain standard of living
    - Pay for children’s education
    - Accumulate savings
    - Make charitable bequests at death
    - Pay inheritance and estate taxes
    - Pay for final (burial and medical) expenses

Common Types of Life Insurance

- **Temporary Insurance**
  - Provides death benefit
  - Does not build cash value
- **Permanent Insurance**
  - Provides a death benefit
  - Builds cash value
  - Can be borrowed against (loan)
  - Can be cashed in-value paid to insured

Types of Temporary Insurance

- **Term Life Insurance**
  - Pays face value of policy when you die within the period time
  - Bought by people with children to cover the financial needs, in the event a parent dies when their children are young
  - Does not build a cash value
  - Temporary insurance
  - Most common type of insurance purchased
- **Renewable term insurance**
  - Insured has the right to renew the policy every year or some other time period
  - Renewal lasts to a certain age
  - Premium goes up at each renewal

Types of Permanent Insurance

- **Whole Life**
  - Premiums paid for as long as the policy is in effect
  - Age limit on policy
  - Policy pays face value to beneficiary
  - Benefits are not taxable
  - Can be borrowed against
  - If loan not repaid, benefits are reduced by loan amount
- **Universal life insurance**
  - Flexible policy that allows insured to change death benefit and premiums throughout life of policy

Group Life Insurance

- Life insurance policy that is purchased through an employer or organization
  - Offers better coverage
  - Lower premiums
  - Allows people who wouldn't be able to qualify for an individual policy to have coverage
  - Portable-can be taken with you when you leave your job—becomes an individual policy

Calculating Medical Expenses

- To calculate medical expenses, you have to know the following:
  - Deductible paid
  - Coinsurance percentage (70/30, 80/20)
- If deductible is paid in full, you will just calculate the coinsurance
- If deductible is not met, you subtract the remaining deductible from the bill and then calculate the coinsurance on the difference.

How to calculate medical expenses.

- Daniel slide into home plate. He injured his knee. He went to the doctor He had to have his knee put in a brace for 6 weeks. After all of the tests and diagnoses, Daniel’s bill was $4,000. His insurance plan has a $650 deductible and a coinsurance of 40 percent on all bills after the deductible has been met. Daniel has not met his deductible.

- How much will he pay for his coinsurance?
- How much will he pay for his deductible?
- What will be his total payment for the $4,000 medical bill?
- How much will his insurance company pay?

Breaking it down…

- First-the deductible-since Daniel hasn't paid any of his deductible, this will need to be paid first before any other parts of the bill can be broken down.
  - Take $4,000-650 (deductible)=$3,350-remaining amount to be divided between Daniel and his insurance company
  - Since Daniel pays 40% (coinsurance) of the bills after the deductible has been met, he will pay 40% of the remaining bill (3,350x.40=1,340)
  - Daniel's total will be, the deductible + his coinsurance
    - $1,340 + $650 = $1,990.00
  - The insurance company will pay the remaining amount
    - $4,000 - $1,990 = $2,010