CHAPTER 14
Health, Disability, and Life Insurance
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What You’ll Learn

- **Section 14.1**
  - Explain the importance of health insurance in financial planning.
  - Analyze costs and benefits of various health insurance.

- **Section 14.2**
  - Differentiate between private and government health care plans.

- **Section 14.3**
  - Explain the importance of disability insurance in financial planning.
  - Describe different sources of disability income.

- **Section 14.4**
  - Describe various types of life insurance coverage.
  - Identify the key provisions in a life insurance policy.
Health Care Costs

- **Q:** I am a high school student. Why should I be concerned about my future health care costs now?

- **A:** Your health care costs, now and in the future, can be affected by your personal health habits. Many health problems result from poor habits, such as lack of exercise or inadequate diet, and may take years to develop. By establishing good habits now, you can reduce the likelihood of future health problems and related expenses.

Go to [finance07.glencoe.com](http://finance07.glencoe.com) to complete the Standard & Poor’s Financial Focus activity.
Main Idea

Knowing how to determine the type of health insurance plan that you need can help you meet your financial goals even when dealing with unexpected medical costs.
Section 14.1
Health Insurance and Financial Planning

What Is Health Insurance?

Health insurance plans vary, but some of the things that they might cover are:

- Hospital stays
- Doctors’ visits
- Medications
- Vision and dental care

health insurance
a form of protection that eases the financial burden people may experience as a result of illness or injury
Group Health Insurance

Most people who have health insurance are covered under group plans. These plans may be offered by:

- Employers
- Labor unions
- Professional associations

Group insurance plans cover you and your immediate family.
Individual Health Insurance

You may want to choose an individual health insurance plan if:

- You are not offered an employer-sponsored group insurance plan.
- You are self-employed.
- You are dissatisfied with the coverage that the group plans provide.

You can buy individual health insurance directly from the company of your choice.
COBRA

The Consolidated Omnibus Budget Reconciliation Act of 1986, known as COBRA, allows an employee who loses his or her job to keep the former employer’s group coverage for a set period of time.

Not everyone qualifies for COBRA. In order to be eligible for the benefits, you have to work for:

- A private company
- A state or local government
Types of Health Insurance Coverage

Several types of health insurance coverage are available, either through:

- A group plan
- Individual purchase

Some benefits are included in nearly every health insurance plan; other benefits are less common.
Basic Health Insurance Coverage

Basic health insurance coverage includes:

- Hospital expense coverage
- Surgical expense coverage
- Physician expense coverage
Section 14.1
Health Insurance and Financial Planning

**Major Medical Expense Insurance**

Major medical expense insurance pays the large costs involved in:

- Long hospital stays
- Multiple surgeries

To keep premiums lower, most major medical plans require a deductible or include a **coinsurance** provision.

**coinsurance**
the percentage of the medical expenses the policyholder must pay in addition to the deductible amount
Stop-Loss Provisions

Some major medical policies contain a stop-loss provision.

Typically, the policyholder will pay between $3,000 and $5,000 in out-of-pocket expenses before the coverage begins.

**stop-loss provision**

a provision that requires the policyholder to pay all costs up to a certain amount, after which the insurance company pays 100 percent of the remaining expenses covered in the policy.
Hospital Indemnity Policies

A hospital indemnity policy pays benefits when you are hospitalized. Under these policies, you are paid in cash, which you can spend on medical or nonmedical expenses as you choose.

The average person who buys such a policy usually pays much more in premiums than he or she receives in payments.
Fitness Fun
Expensive exercise clothes may look good, but they usually do not improve your workout. If you cannot afford to pay to join a health club, you can get your exercise by walking or jogging in your neighborhood or at your school’s track.

How can staying fit save you money?
Dental Expense Insurance

Dental expense insurance provides policyholders reimbursement for the expenses of:

- Dental services
- Supplies

Some dental expense policies do not cover X-rays and cleanings.
Vision Care Insurance

Many insurance companies offer vision care insurance as part of group plans. Vision care insurance may cover:

- Eye examinations
- Glasses
- Contact lenses
- Eye surgery
- Treatment of eye diseases
Dread Disease Policies

Dread disease, trip accident, death insurance, and cancer policies are usually sold:

- Through the mail
- In newspapers
- In magazines

These policies play upon unrealistic fears, and they are illegal in many states.
Long-Term Care Insurance

Long-term care insurance provides coverage for the expense of daily help that you may need if you:

- Become seriously ill or disabled
- Are unable to care for yourself
Major Provisions in a Health Insurance Policy

The following provisions are included in most health insurance policies:

- Eligibility
- Assigned benefits
- Internal limits
- Co-payment
- Service benefits
- Exclusions and limitations

c-o-p-e-n-a-m-e-n-t
a flat fee that you pay every time you receive a covered service
Choosing Coverage

The type of coverage you choose will be affected by:

- The amount you can afford to spend on the premiums
- The level of benefits that you feel you want and need
- The kind of coverage your employer offers

Ideally, you should get a basic plan and a major medical supplement.
Health Insurance Trade-Offs

As you decide which insurance plan to buy, you should consider the following trade-offs:

- Reimbursement versus indemnity
- Internal limits versus aggregate limits
- Deductibles and coinsurance
- Out-of-pocket limits
- Benefits based on reasonable and customary charges
A health insurance plan should:

- Offer basic coverage for hospital and doctor bills.
- Provide at least 120 days’ hospital room and board in full.
- Provide at least a $1 million lifetime maximum for each family member.
- Pay at least 80 percent for out-of-hospital expenses after a yearly deductible of $500 per person or $1,000 per family.
- Impose no unreasonable exclusions.
- Limit your out-of-pocket expenses to no more than $3,000 to $5,000 a year, excluding dental, vision care, and prescription costs.

Essential Coverage

Health insurance plans vary greatly, but all plans should have some basic features.

Would you add anything to this list of must-haves?
Main Idea
Understanding plans offered by private companies and by the government will help you choose the plan that best meets your physical and financial needs now and as you get older.
Private Health Care Plans

Private health care plans may be offered by a number of sources:

- Private insurance companies
- Hospital and medical service plans
- Health maintenance organizations
- Preferred provider organizations
- Home health care agencies
- Employer self-funded health plans
Private Insurance Companies

Private insurance companies provide health plans mainly to employers, who in turn offer them to their employees as an employment benefit.

These policies typically pay for medical costs by sending payments directly to the doctor, hospital, or lab that provides the services.
Section 14.2
Private and Government Plans

Blue Cross
an insurance company that provides hospital care benefits

Blue Shield
an insurance company that provides benefits for surgical and medical services performed by physicians

Hospital and Medical Service Plans
Blue Cross and Blue Shield are statewide organizations similar to private health insurance companies.
The “Blues” provide health insurance to millions of Americans.
Managed Care

According to a recent industry survey, 23 percent of employed Americans are enrolled in some form of managed care, due to rising health care costs.

Managed care is offered by:

- Health maintenance organizations (HMOs)
- Preferred provider organizations (PPOs)
- Point-of-service plans (POSs)
PROMOTING HEALTH HMOs are based on the idea that preventive services will minimize future medical problems. What kinds of preventive services do HMOs offer?
Section 14.2
Private and Government Plans

Health Maintenance Organizations
One managed-care option is a health maintenance organization (HMO). HMOs typically cover:
- Routine immunizations and checkups
- Screening programs
- Diagnostic tests
They also provide customers with coverage for surgery, hospitalization, and emergency care.
Preferred Provider Organizations

A variation on the HMO is a preferred provider organization (PPO).

While HMOs require members to receive care from HMO providers only, PPOs allow members greater flexibility.
Point-of-Service (POS) Plan

A point-of-service (POS) plan combines features of both HMOs and PPOs.

As with an HMO, you choose a plan physician who:

- Manages your care
- Controls referrals to specialists

You are allowed to seek care outside the network at a higher charge, as with a PPO.
Home Health Care Agencies

Home care has become one of the fastest-growing areas of the health care industry, due to:

- Rising hospital costs
- New medical technology
- The increasing number of elderly people

Home health care providers offer medical care in a home setting in agreement with a medical order, often at a fraction of the cost charged by hospitals for similar services.
Employer Self-Funded Health Plans

Some companies choose to self-insure. A company that runs its own insurance plan:

- Collects premiums from employees
- Pays medical benefits as needed
- Must cover any costs that exceed the income from premiums
Government Health Care Programs

Some consumers are eligible for health insurance coverage under programs offered by federal and state governments. The federal program is Medicare, and the federal and state program is Medicaid.
Section 14.2
Private and Government Plans

Medicare

Perhaps the best-known government program is Medicare. Medicare has two parts:

- Hospital insurance
- Medical insurance

Hospital insurance is funded by part of the Social Security payroll tax.
What Is Not Covered by Medicare?

The expenses that Medicare will not cover include:

- Certain types of skilled or long-term nursing care
- Out-of-hospital prescription drugs
- Routine checkups
- Dental care
- Most immunizations

Medicare also limits the types of services it will offer and the amount it will pay for those services.
**Medicaid**

Medicaid is administered by the individual states, but it is financed by a combination of state and federal funds.

Typical Medicaid benefits include:

- Physicians’ services
- Inpatient hospital services
- Outpatient hospital services
- Lab services
- Skilled nursing and home health services
- Prescription drugs
- Eyeglasses
Government Consumer Health Information Web Sites

The Department of Health and Human Services operates more than 60 Web sites that contain a wealth of reliable information related to health and medicine.

Some of these sites include:

- Healthfinder
- MedlinePlus
- NIH Health Information
- FDA
Main Idea
Disability income insurance is important if you become unable to work.
Disability Income

Disability income insurance protects your earning power, which is your most valuable resource. This kind of coverage is very common today, and several hundred insurance companies offer it.

disability income insurance
coverage that provides regular cash income when you are unable to work due to a pregnancy, non-work-related accident, or illness
Sources of Disability Income

Before you buy disability income insurance from a private insurance company, remember that you may already have some form of this insurance.

This coverage may be available through:

- Worker’s compensation if you are injured on the job
- Your employer
- Social Security
Disability Insurance Trade-Offs

Some of the factors that you should consider as you look for a health or disability insurance plan include:

- Waiting or elimination period
- Duration of benefits
- Amount of benefits
- Accident and sickness coverage
- Guaranteed renewability
Your Disability Income Needs

Ideally, you want your disability income to replace all the income you otherwise would have earned.

This money should enable you to pay your day-to-day expenses while you are recovering.
Main Idea

Making decisions about life insurance and choosing the right policy takes time, research, and careful thought.
What Is Life Insurance?

When you buy life insurance:

- You agree to pay a certain amount of money—the premium—periodically.
- The company agrees to pay a death benefit to your beneficiary.
**The Purpose of Life Insurance**

Life insurance benefits may be used to:

- Protect the people who depend upon you from financial losses caused by your death
- Pay off a home mortgage or other debts at the time of death
- Provide an education or income for children
- Make charitable donations after death
- Provide a retirement income
- Accumulate savings
- Pay estate and death taxes
The Principle of Life Insurance

Over the years, insurance companies have compiled tables that show an estimate of how long people live. Using these tables, the companies:

- Make a rough guess about a person’s life span
- Set the price of insurance premiums for him or her accordingly

The sooner a person is likely to die, the higher the premium he or she will pay to have life insurance.
How Long Will You Live?

If history is any guide, you will live longer than your ancestors lived. In 1900, life expectancy was:

- 46.3 years for an American male
- 48.3 years for an American female

By the year 2000, the life expectancy increased to 74 years for men and 80 years for women.
Do You Need Life Insurance?

Generally, if your death would cause financial hardship for somebody, then life insurance is a wise purchase.

Households with children usually have the greatest need for life insurance.
Types of Life Insurance Policies

You can purchase life insurance from:

- Stock life insurance companies, which are owned by shareholders
- Mutual life insurance companies, which are owned by their policyholders

Insurance policies can be divided into two types: term insurance and whole life insurance.
Term Insurance

A term insurance policy pays a benefit only if you die during the period it covers. Term insurance comes in many different forms:

- Renewable term
- Multiyear level term
- Conversion term
- Decreasing term

Term insurance is often the best value for most consumers.
Whole Life Insurance

Whole life insurance can serve as an investment. With whole life insurance:

- Part of each premium you pay is set aside in a savings account
- When and if you cancel the policy, you are entitled to the accumulated savings, or cash value

Whole life policies are popular because they provide both a death benefit and a savings component.

**whole life insurance**

a permanent policy for which you pay a specified premium each year for the rest of your life

**cash value**

in a whole life policy, the accumulated savings to which you are entitled when and if you cancel the policy
Types of Whole Life Insurance

Several types of whole life insurance have been developed to meet the needs of different customers. These include:

- The limited payment policy
- The variable life policy
- The adjustable life policy
- The universal life insurance
Other Types of Life Insurance Policies

Other types of life insurance policies include:

- Group life insurance
- Credit life insurance
- Endowment life insurance

**endowment**

Life insurance that provides coverage for a specific period of time and pays a sum of money to the policyholder if he or she is living at the end of the endowment period.
Key Provisions in a Life Insurance Policy

Study the provisions in your policy carefully and be sure to update the necessary information as changes in your life occur.
Beneficiary Designation

You decide who receives the benefits of your life insurance policy. The beneficiary could be:

- Your spouse
- Your child
- Your business partner

You can also name contingent beneficiaries, those who will receive the money if your primary beneficiary dies before or at the same time as you do.
Incontestability Clause

The incontestability clause:

- Says that the insurer cannot cancel the policy if it has been in force for a specified period
- Protects the beneficiaries from financial loss in the event that the insurance company refuses to meet the terms of the policy
Suicide Clause

Many insurance policies state that in the first two years of coverage, beneficiaries of someone who dies by suicide receive only the amount of the premium paid.

Some insurance policies will not provide benefits at all if a policyholder dies by suicide.
Riders to Life Insurance Policies

An insurance company can change the conditions of an insurance policy by adding a rider to it.

Examples of riders include:

- A waiver of premium disability benefit
- An accidental death benefit
- A guaranteed insurability option
Insurance Needs

Before you buy any type of insurance, you should always consider a number of factors, such as:

- Your source of income
- Financial responsibilities
- Savings
- Net worth

As your life situation and goals change, you need to regularly evaluate your insurance needs to determine if you have the right kind of coverage to support your personal financial plan.
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Key Term Review

- health insurance
- coinsurance
- stop-loss
- co-payment
- Blue Cross
- Blue Shield
- managed care
- health maintenance organization (HMO)
- preferred provider organization (PPO)
- point-of-service (POS) plan
- Medicare
- Medicaid
- disability income insurance
- beneficiary (insurance)
- term insurance
- whole life insurance
- cash value
- endowment
Reviewing Key Concepts

1. Explain how increasing co-payments and deductibles affects premium rates.

The cost of a health insurance policy is affected by the size of the deductible, which is the set amount that the policyholder must pay toward medical expenses before the insurance company pays benefits. It can also be affected by the terms of the coinsurance provision.
Reviewing Key Concepts

2. Discuss basic health insurance coverage and major medical expense insurance.

Health insurance plans vary, they might cover:

- Hospital stays and doctors’ visits
- Medications
- Vision and dental care

Major medical expense insurance pays the large costs involved in:

- Long hospital stays
- Multiple surgeries
Reviewing Key Concepts

3. Compare government health care programs and those offered by private companies.

Private health care plans are offered by:
- Private insurance companies
- Hospital and medical service plans
- Health maintenance organizations
- Preferred provider organizations
- Home health care agencies
- Employer self-funded health plans

Government health care programs are Medicare and Medicaid.
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Reviewing Key Concepts

4. Explain the importance of disability insurance in financial planning.

Disability insurance provides regular cash income for people who are unable to work due to:

- Pregnancy
- A non-work-related accident
- Illness
Reviewing Key Concepts
5. Describe the advantages of worker’s compensation.

If your disability is the result of an accident or illness that occurred on the job, you may be eligible to receive worker’s compensation benefits. The amount of benefits will depend on:

- Your salary
- Your work history
Reviewing Key Concepts

6. Identify the types of term and whole life insurance.

Term insurance comes in many different forms:
- Renewable term
- Multiyear level term
- Conversion term
- Decreasing term

Whole life insurance is a permanent policy for which you pay a specified premium each year for the rest of your life.
Reviewing Key Concepts

7. Explain the key provisions of life insurance.

The key provisions in a life insurance policy include:

- Naming a beneficiary
- An incontestability clause
- A suicide clause
- Policy riders
Newsclip: Higher Rates
A health savings account (HSA) is a plan that allows employees to save for medical expenses in a tax-free account.

Log On  Go to finance07.glencoe.com and open Chapter 14. Learn about HSAs. Write a paragraph about how HSAs might affect your future. Would you sign up for an HSA?