

CHAPTER 13

MEDICAL EXPENSE INSURANCE

There are two major categories of disability insurance policies: disability income policies and medical expense policies. Disability income policies usually pay a benefit monthly to a disabled insured who cannot work and earn an income. Medical expense policies cover medical bills ranging from basic policies offering minimal coverage to comprehensive policies providing extensive coverage. A wide variety of policies fall within this latter category including basic medical expense policies, major medical expense policies, comprehensive medical expense policies, and accident and sickness policies.

Medical expense plans can be either a reimbursement of actual expenses or paid as fixed indemnities. A reimbursement policy will pay for expenses incurred. An indemnity policy will pay a stated benefit amount to the insured.

BASIC MEDICAL EXPENSE

Basic medical expense plans are referred to as first dollar coverage because the insurance company pays from the first dollar of expenses incurred without requiring a deductible. These plans limit the type of coverage, the duration of coverage, and the dollar amount paid. General categories of basic medical expense include hospital expense, surgical expense, and physician's expense.

Basic Hospital Expense

Basic hospital expense policies pay for the daily cost of room and board during a hospital stay. They vary as to the daily amount paid and length of time payable. Basic hospital expense insurance will cover miscellaneous hospital charges covering such items as anesthesia, x-rays, laboratory fees, operating room, supplies, and drugs. Miscellaneous fees normally are expressed as a multiple of the daily room and board amount (e.g. 10 times room and board amount). However, some of these policies pay a stated dollar amount.

Basic Surgical Expense

Basic surgical expense policies pay for inpatient and out patient surgeon's services. Frequently included in these policies will be the services of an anesthesiologist and postoperative care. Fees can be paid according to a fixed schedule, on a usual, customary, and reasonable basis, or a relative value scale. In a fixed schedule, each surgical procedure has a dollar value assigned to it. If a surgery is not listed in the schedule, it does not mean that it is not covered. The claims department will have a complete listing of all procedures.

In the **usual, customary, and reasonable (UCR)** approach, surgical benefits are not listed by dollar amount. Instead the insurer will pay based on the amount physicians in the same geographical area normally charge for the same or similar procedure. The insurer has the right to agree or disagree as to whether a charge is usual, customary, and reasonable. This type of payment structure typically is found in major medical and comprehensive major medical policies.

Using the **relative value** scale, a set of points is assigned to each surgical procedure. The most complicated of surgical procedures will have a maximum set of points assigned to it. All other surgeries will have a relative number of points assigned based on relative difficulty compared to the maximum procedure. Each point has a dollar value. If a point is worth \$10 and the procedure is assigned 100 points, the policy will pay \$1000.

Basic Physician's Expense

The basic physician's expense policy pays for non-surgical physician's fees including office visits and non-surgical care by a physician while the insured is hospitalized. These policies usually pay on an indemnity basis (scheduled amount).

Other medical expenses may be included in these basic policies or as options added to the policy. Some of these coverages include maternity benefits, emergency accident benefits, in-hospital physicians' visits, hospice care, home health care, mental and nervous disorders, and outpatient care.

MAJOR MEDICAL EXPENSE

Major medical expense policies offer broad coverage under one policy. Using basic medical expense policies is a fragmented approach to medical care necessitating several policies that could leave a gap in coverage. Major medical policies provide more complete coverage. Major medical policies are sometimes referred to as catastrophic insurance as they may cover large catastrophic medical expenses. These policies cover hospital room and board, miscellaneous hospital expenses, surgery, physicians' services, transfusions, physical therapy, x-rays, laboratory services, prosthetic devices, ambulance transportation, etc. Major medical expense policies can be divided into two categories: comprehensive major medical expense and supplemental major medical expense.

Comprehensive Major Medical

A comprehensive major medical policy essentially covers all medical expenses under one policy. This type of policy will have a deductible. A deductible is a stated dollar amount of medical expenses that the insured must

pay before policy benefits are paid. Deductibles may be a per cause deductible or a calendar year deductible. These deductibles apply to each covered person. Using a **per cause** deductible, a deductible must be satisfied for every separate claim. With a **calendar year** deductible, one deductible needs to be satisfied for the calendar year regardless of the number of claims submitted. Frequently major medical policies have a **carry over provision**. If the insured had no claims during the year but does have claims during the last three months of the year, these expenses may be carried over to the next calendar year and be applied to the new year's deductible.

A **family deductible** often is included. Two or three family members can satisfy the deductible for all family members thus saving the family some money. The amount above the deductible will be paid by the insurer subject to any specified coinsurance. Another situation that relates to the family is the **common accident provision**. This provision states that if family members are injured in a common accident, only one deductible needs to be satisfied.

Coinsurance

Coinsurance is a feature of major medical policies in which the insurer and the insured share in the cost of medical expenses. After the deductible has been satisfied, the remaining expenses are shared—usually on an 80/20 basis. This means the insurer will pay 80% of covered costs and insured is responsible for the other 20%.

Consider this example. The insured has a hospital stay and all bills are covered costs and total \$5,200. The policy has a \$200 deductible and 80/20 coinsurance. How much will the insurer pay and how much of the bill will the insured be responsible for paying?

Total bill	\$5,200
Deductible	<u>- 200</u>
Remainder	\$5,000
Coinsurance	<u>x .80</u>
Amount insurer pays	\$4,000
Insured's coinsurance	\$5,000
	<u>X .20</u>
	\$1,000
Insured's deductible	<u>+ 200</u>
Insured's total cost	\$1,200

Stop Loss Limit

Many major medical policies have a stop loss limit which limits the insured's out of pocket expenses. Once the insured has paid a specified dollar amount toward medical expenses, there is no more coinsurance on the part of the insured. The insurance company will pay the remaining covered expenses. This protects the insured if he/she experiences a period in which there is a catastrophic illness.

Stop loss amounts can be determined in different manners according to the contract. A contract might state that the company will pay covered costs after the insured has incurred \$2,000 of medical expenses. Another contract might state that coinsurance applies to the first \$5,000 of medical expenses after the insured has met the deductible expense. For instance, if a policy had a \$500 deductible and coinsurance of 80/20 on the first \$5000 of medical bills, the insured will end up paying \$1,500. That is the deductible of \$500 and 20% of \$5,000 which is \$1,000 making a total of \$1,500. After that amount, the insurance company will pay 100% of remaining covered expenses up to a stated maximum benefit.

The Patient Protection and Affordable Health Care Act of 2010, more commonly referred to as the Health Care Reform Bill, stands to change many facets of the health care industry. **Due to this bill, insurance companies will not be able to put maximum benefit limits on policies** which will make restoration of benefits no longer needed. Also, insurance companies will not be able to turn someone down for coverage who has a pre-existing condition or cancel a policy if someone becomes ill. **Insurance companies will be prohibited from denying coverage due to a pre-existing condition for children as of September 2010 and for adults in 2014.**

Maximum Benefit

Major medical policies traditionally have had maximum benefit amounts payable on behalf of an insured during his/her lifetime. The limits might have been \$1,000,000 or more or even an unlimited benefit amount.

Restoration of Benefits

Most major medical policies have contained a provision that allowed for the restoration of benefits. When medical claims were paid, it reduced the maximum benefit amount available. The restoration of benefits allowed for a certain amount of coverage to be restored each year to replace the coverage lost when a claim was paid. Some policies required that the insured prove insurability in order to restore benefits. Other policies had an automatic reinstatement provision that restored a specified dollar amount annually.

Pre-existing conditions

Most major medical policies had an exclusion regarding pre-existing conditions. A pre-existing condition is one that existed prior to the effective date of the policy. The exclusion was only for a limited time after which the condition would be covered in full up to the policy limits.

Supplemental Major Medical

A major medical policy that supplements a basic policy is called a supplemental major medical policy. The basic policy covers medical expenses on a first dollar basis (no deductible) up to the policy limit. After the benefits under the basic policy have been exhausted, a deductible must be paid. Since the deductible comes in between the basic policy and the major medical policy, it is called a **corridor deductible**. Some supplemental major medical policies have an **integrated deductible** that is integrated into the amounts covered by the basic plan. If the supplemental policy has a \$250 deductible and the insured incurs \$250 or more of covered expenses under the basic plan, the deductible is satisfied. If the basic policy benefits do not cover the entire deductible amount required by the major medical policy, the insured must pay the difference.

A supplemental major medical policy will have coinsurance like the comprehensive major medical policy. It will most likely have a stop loss limit. The supplemental policy picks up where the basic policy ends. It will cover expenses in excess of the dollar limit on the basic policy as well as expenses that are not covered under the basic plan.

LIMITED POLICIES: The following policies provide benefits for specified limited services.

Hospital Indemnity Policies

Hospital indemnity policies pay a stated dollar amount per day to the insured while confined to a hospital. The insured can use this money for anything he/she decides. The policy is not meant to cover the cost of medical care but rather to give the insured additional money while confined to a hospital. If an insured has a hospital indemnity policy that pays \$100 per day and this individual is hospitalized for five days, the insured would receive \$500.

Hospital indemnity policies may have benefits that pay \$4,500 per month (based on a benefit of \$150 per day) or even a greater amount. Benefit periods can range from six months to several years or for a lifetime.

Dread Disease

Dread disease or specified disease policies can be purchased to cover a specific disease, such as cancer or heart disease. These policies are very limited in scope. Frequently the purchaser of such a policy may believe he/she has broader coverage than what is afforded under the policy. A major medical policy could cover these illnesses plus a myriad of other problems.

A **critical illness** policy can provide a sum of money if the insured person were to have a diagnosis of a listed critical illness. This policy is not limited to one disease. These illnesses can include cancer, heart attack, stroke, multiple sclerosis, Parkinson's disease, third degree burns, and other conditions. They frequently pay in a lump sum.

Accident Only

Accident only insurance provides medical treatment for accidents. It does not provide coverage for illness contracted by the insured.

Supplemental Accident

Supplement policies provide another layer of protection on top of major policies such as health insurance. The benefits are paid directly to the insured. When an insured suffers an accident, supplemental accident insurance can cover items not covered by the primary carrier such as the deductible and other out-of-pocket expenses. In addition to this, some policies will help cover the costs of daily living expenses.

Travel Accident Insurance

Travel accident insurance covers loss from accidents while traveling. This coverage normally is limited to travel on a common carrier such as airlines, trains, or buses. Some such policies also cover the insured while in route to the airport, train station, etc.

Travel accident insurance may be offered as a benefit on either an individual or group accidental death and dismemberment policy. Air travel accident insurance providing individual, one-time coverage can be purchased from vending machines at airports.

Vision Care

Although major medical policies normally cover disease and injury to the eye, eye refraction (eye examination) and correction through the use of glasses and contact lenses is not. Vision care policies can cover eye examinations, lenses and frames, contact lenses, and other corrective items.

Vision care plans usually deliver services by using a network of eye doctors and providers of eyeglasses. The insured must use one of the specified providers. The insured will present his/her vision plan card and make a co-payment.

Dental Expense

Dental insurance may be covered under the benefits of a major medical plan or as an optional benefit on either a scheduled or non-scheduled basis. A scheduled plan has specific categories of dental treatment and dollar amounts payable for each category. Scheduled plans will pay up to the maximum stated in the schedule. Nonscheduled plans pay on a usual, customary, and reasonable basis (UCR). Dental plans also can be a combination plan covering some services on a scheduled basis and other services on a non-scheduled basis.

Dental plans can cover preventative care, restoration (fillings, crowns, etc.), oral surgery, periodontics (treatment of gum problems), endodontics (treatment of problems of the dental pulp), and orthodontics.

Dental insurance plans normally have a deductible, coinsurance, and maximum amounts per calendar year (e.g. \$1000). Normally only two cleanings per year will be covered. The deductible frequently does not apply to preventative care. Dental services for cosmetic reasons are excluded.

Group dental plans may be prepaid and operate in much the same way as an HMO. The plan contracts with licensed dentists to provide dental care to the subscribers in a specific service area. The dentists are paid by the pre-paid dental plan. The subscriber is responsible for copayments at the time of service. If a course of treatment is expected to exceed a specific amount, the treatment must be explained on a pre-certification form and be approved by the insurer for authorization.

When a group dental plan becomes effective, all employees must be eligible for coverage. The plan may be contributory or non-contributory. A probationary period normally applies to new employees who join the group after the effective date. Limitations may apply to employees who did not sign up for coverage when eligible but who want the coverage at a later date. These are precautions taken by the insurer to avoid adverse selection.

Prescription Drug Card

Prescription drug benefits usually are included in group health insurance policies. An individual health policy might offer this coverage as a rider. In this case, there normally is a small charge to the insured of from \$2 to \$5 per prescription.

Organ Transplants

More insurers are covering the cost of organ transplants as the procedures are becoming more commonplace. Usually, insurers only pay for organ transplants that are needed by insureds due to a life-threatening situation. Kidney, heart, liver, and bone marrow are some of the more commonly covered transplants.

REVIEW QUESTIONS

1. When a medical expense policy does not state specific benefit amounts but pays based on what is normal for that procedure in a geographical area, it is called:
 - A. Per cause
 - B. Maximum benefit
 - C. Usual, customary, and reasonable
 - D. Coinsurance

2. What type of policy has a corridor deductible?
 - A. Basic medical expense
 - B. Comprehensive major medical
 - C. Dread disease
 - D. Supplemental major medical

3. A feature of many major medical policies that limits the insured's out of pocket expenses is:
 - A. Calendar deductible
 - B. Stop loss limit
 - C. Coinsurance
 - D. Integrated deductible

4. Coinsurance:
 - A. Is not a feature of major medical policies.
 - B. Limits the out of pocket expenses of the insured.
 - C. Is a sharing of expenses between the insured and the insurer.
 - D. Never is included in policies containing a deductible.

5. Hospital indemnity policies pay benefits to:
- A. The hospital
 - B. The insured
 - C. The physician
 - D. The heir of the insured
6. A type of health policy that covers a specific disease is:
- A. Basic medical expense insurance
 - B. Travel accident insurance
 - C. Dread disease insurance
 - D. Hospital indemnity insurance
7. Dental plans can cover:
- A. Cleanings
 - B. Oral surgery
 - C. Orthodontics
 - D. All the above
8. The common accident provision:
- A. Applies to employer-employee group insurance.
 - B. Waives the deductible if several family members become ill at the same time.
 - C. Is included only in travel accident policies.
 - D. States that only one deductible needs to be satisfied if several family members are injured in the same accident.