

# Money Mechanics

## Health and Disability Insurance

**N** NO ONE PLANS to be seriously ill or disabled. But it happens. How would you pay the bills if you or someone in your family became seriously ill? How long would your savings last if you were disabled and your income stopped? If you don't have any money, you cannot be admitted to many health care facilities. Health insurance covers the costs of hospital, surgical, and medical care. Disability insurance helps replace lost earnings.



### Health Insurance

Within the limits of the policy, health care costs are paid directly to the provider, or you are reimbursed for expenses. The traditional health insurance policy, often called a fee-for-service or indemnity plan, has been joined by other options that emphasize controlling health care costs.

### Health insurance options

**Traditional comprehensive health insurance** combines basic hospital, surgical, and physician coverage with major medical coverage. Major medical insurance picks up where the basic coverage leaves off. Most cover a fixed proportion—usually 75 or 80 percent—of expenses above an annual deductible. For example, a \$250 annual deductible would mean you are responsible for the first \$250 of expenses. A coinsurance provision then would require you to pay the remaining proportion (20 or 25 percent), up to an annual out-of-pocket limit. Once you reach this annual limit, the coverage picks up 100 percent of covered expenses. Upper limits on payments can start at \$25,000 and range to unlimited amounts. A good comprehensive policy will cover most of the costs of illness and injury. The deductible and coinsurance features help to control expenditures by requiring consumers to shoulder some of the costs of their health care.

**J**o is injured and has medical bills that total \$10,000. Insurance would pay \$7,600 and Jo's out-of-pocket costs would be \$2,400:

▪ Total charges	\$10,000
▪ Deductible	500
▪ Remaining charge	9,500
▪ Coinsurance (20%)	1,900
▪ <b>Total out-of-pocket (\$500 + \$1,900) = \$2,400</b>	



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Health insurance helps cover the high cost of medical care.

**Health maintenance organizations** (HMOs) provide extensive health care services for their members on a prepayment basis. In such plans, a group of doctors and medical service personnel furnish needed care as specified in a contract. Health care services from other providers are typically denied. Emphasis is on preventive care. Normally, there is no limit on the amount of care provided, and only nominal fees are charged for laboratory work and medicines.

A **preferred provider organization** (PPO), usually organized by insurance companies, contracts with a group of medical care providers who furnish services at lower-than-usual fees in return for prompt payment and a certain volume of patients. Typically, a smaller share of charges from a provider outside the PPO will be reimbursed.

### **Group or individual policy?**

You can cover the high cost of medical care by purchasing an **individual** policy or coverage as part of a **group**. Many employers provide group health insurance for employees and their families. The employer may pay some of the cost. Employees are eligible for protection regardless of their health status.

Under federal law, many people who otherwise would lose their group health insurance coverage because of job loss, divorce, or the death or retirement of a spouse can keep their insurance by paying their own premiums. Widowed spouses and dependent children or divorced or separated spouses and their children may continue coverage for up to three years. Unemployed and reduced-hour employees and their children may continue coverage for up to 18 months.

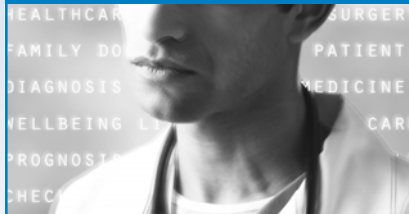
Once you have exhausted your options under these federal provisions, you may be able to continue health coverage by buying a “basic” or “standard” plan under Iowa’s Individual Health Reform (IHR) program. Children who no longer qualify as dependents under a parent’s coverage also are eligible for IHR plans. Rates for these plans vary from company to company. A rate comparison guide is available on the Iowa Insurance Division’s website, [www.iid.state.ia.us](http://www.iid.state.ia.us).

Individual health insurance policies tend to be more expensive than group coverage, but they have certain advantages. A policy can be tailored to your needs. Coverage is not contingent on your continued employment or membership in an organization providing the group plan.

However, if you have health problems, you may find it difficult to buy individual coverage. If you think you are high risk and are uninsured, you may qualify for coverage through the Iowa Comprehensive Health Association (ICHA). For more information, call (800) 877-5156. Once you have had ICHA coverage for 12 months, you will qualify for the IHR.

The Health Insurance Plan of Iowa (HIPIOWA) was created by the Iowa legislature to provide access to health insurance coverage to all residents who are unable to obtain individual health insurance coverage. HIPIOWA offers comprehensive preferred provider plans with pharmacy benefits, but these plans for “high risk” consumers generally cost considerably more than regular insurance policies. For more information call (800) 877-5156 or check the website, [www.hipiowa.com](http://www.hipiowa.com).

## Health Savings Account (HSA)



If you have a high deductible policy—either purchased on your own or through your employer—explore the benefits of setting up a health savings account (HSA). Almost anyone under age 65 who buys a policy with a deductible of at least \$1,000 for individuals (\$2,000 for families) may set up a tax-deductible HSA through a financial institution or an insurance or investment company. You can tap the HSA to pay out-of-pocket medical expenses. What you don't spend earns tax-free interest and can be used in the future. For more information, check the website, [www.treasury.gov/offices/public-affairs/hsa](http://www.treasury.gov/offices/public-affairs/hsa).

## Disability Income Coverage

The loss of income can be another cost of getting sick. Some employers continue paying salaries or wages during temporary absences from the job due to accident or illness. But, after a time, full pay will be reduced or eliminated. Disability income insurance can keep some income flowing. This important coverage often is overlooked.

Disability benefits are limited to a percentage of regular income, usually 50 to 70 percent of a worker's earnings before taxes. For example, if your pay is \$800 a week, benefits might be \$400 to \$560.

When figuring out how much disability insurance you need, consider how long your employer will pay you if you can't work. Also, look at how long other benefits will continue, such as Social Security disability payments and Workers' Compensation (if disability is work-related).

People who have good employer disability plans and who are eligible for Social Security benefits often are adequately covered. If you are a homemaker, figure out if the extra costs of your becoming disabled could be covered by family income. Consider disability insurance if you do need extra protection. The *Shopping for Health and Disability Insurance* worksheets, Pm-1458b, can help you compare policies. Rates vary widely, so shop around.



Social Security provides health expense benefits under the Medicare program and disability income benefits.

## Already Covered?

If you are or have been employed, you may be entitled to medical and disability benefits under programs such as Social Security and Workers' Compensation. These benefits can form a base on which to build added coverage, but they will not satisfy your needs for health insurance.

**Social Security** provides health expense benefits under the Medicare program and disability income benefits. Disability benefit payments are based on your level of earnings over a period of years. Benefits are paid after five months if it seems that your disability will last for at least 12 months. Medicare is available to people age 65 or older who are eligible for other Social Security benefits. Medicare also covers disabled people under age 65 who have received disability payments for two full years.

**Medicare supplement** (often called Medigap) insurance can be purchased privately to add to Medicare's coverage. For more information, contact the Senior Health Insurance Information Program (SHIIP) office of the Iowa Insurance Division at (800) 351-4664 or check the website [www.shiip.state.ia.us](http://www.shiip.state.ia.us).

**Workers' Compensation** covers injuries sustained at work or illness caused by your employment. The program is funded by employer contributions.

If your income and financial assets are below a certain level, you may be eligible for **Medicaid**. This government program can pay most of your health care costs. Contact your local Department of Human Services office for more information.

If your children are under age 19 and do not have health insurance, you may be able to get free or low-cost coverage under Iowa's Healthy and Well Kids in Iowa (**HAWK-I**) program. You must meet certain income guidelines. For more information contact your local Department of Human Services, call (800) 257-8563, or check the website [www.hawk-i.org](http://www.hawk-i.org).

If you have any questions or problems with a company licensed to do business in Iowa, you can get help from:

**Iowa Insurance Division**  
330 Maple Street  
Des Moines, Iowa 50319-0065  
<http://www.iid.state.ia.us>  
Toll-free: (877) 955-1212



When purchasing insurance, read the policy carefully. Know what you are buying. You have 10 days to read the policy and return it for a full refund.

## Shopping Suggestions

Remember these guidelines when planning your health care program.

- 1. Make sure your coverage fits your needs.** Pay special attention to high-benefit major medical coverage and good disability income protection.
- 2. Buy policies with broad coverage** rather than those that insure against specific illnesses, such as cancer.
- 3. Know what expenses your insurance will and will not cover.**
- 4. Avoid duplicate coverage.** If both spouses are employed, look closely at group plans offered by employers. Select the best, most cost-effective coverage from both.
- 5. Review your insurance periodically** to make sure it is in step with your family's current needs as well as current health care costs.
- 6. Compare policies and premiums** to get the most coverage for your insurance dollar.

If you have questions about a group plan, talk to your employer, union, or association officer. If your question is about an individual policy, talk it over with your insurance agent or contact the insurance company directly.

For more information, visit [www.extension.iastate.edu/finances](http://www.extension.iastate.edu/finances) or the Iowa State University Extension office in your county.

**Prepared by** Cynthia Needles Fletcher, professor and extension specialist, Department of Human Development and Family Studies, and Laura Sternweis, extension communication specialist.  
**Designed by** Mary K. Sailer, Spring Valley Studio.

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## Shopping for Health Insurance

Here are things you should know about any health insurance plan you select.

- What is the benefit limit on each covered expense (such as hospital room or surgery)?
- How much is the overall maximum annual or lifetime benefit? Is there a limit per illness? Per injury?
- How much is the deductible per person? Per family?
- What is the time limit for reaching the deductible amount?
- Is there a coinsurance provision? (This is a percentage of costs you pay up to the annual limit.)
- Are you required to pay a specific dollar portion of certain covered expenses? Copayment often is required for doctor's office visits and prescription drug coverage. For example, you might pay \$15 for each prescription and the insurer would pay the remainder.
- What are the exclusions? What is the waiting period—a time between your application and the date coverage begins? How are pre-existing conditions treated? Are expenses for some illnesses or injuries excluded from coverage?

Medical Expense Coverage	Insurer #1	Insurer #2	Insurer #3
<b>Company</b>			
<b>Limits</b>			
Room and board	\$	\$	\$
Surgical maximum	\$	\$	\$
Hospital extras	\$	\$	\$
Physician care	\$	\$	\$
Major medical maximum	\$	\$	\$
Outpatient mental health	\$	\$	\$
Chemical dependency	\$	\$	\$
Annual/lifetime maximum	\$	\$	\$
<b>Deductible</b>	\$	\$	\$
<b>Coinsurance</b>	%	%	%
<b>Copayments</b>	\$	\$	\$
<b>Prescription medications</b>	\$	\$	\$
<b>Annual premiums</b>	\$	\$	\$
<b>Exclusions</b>			

## Shopping for Disability Insurance

This worksheet can help you comparison shop for disability insurance. Here are things you should consider.

- How is total disability defined? Must you be unable to perform your previous job or unable to engage in any type of work?
- Do you receive benefits if you partially recover from a total disability?
- What is the waiting period before benefits begin? If you have savings and sick leave, choose a longer waiting period to lower your cost.
- What is the benefit period? This can range from one year to age 65, or for life: the longer the benefit period, the higher the cost.
- Is the policy noncancelable and guaranteed renewable? This means the company cannot cancel the policy nor change the premium rates initially agreed upon. As long as you pay the premiums, coverage is in force.

Disability Income Coverage	Insurer #1	Insurer #2	Insurer #3
<b>Company</b>			
<b>Monthly benefits</b>			
Total disability	\$	\$	\$
Partial disability	\$	\$	\$
<b>Maximum age/benefit period</b>			
Accident			
Illness			
<b>Waiting period</b>			
<b>Noncancelable/guaranteed renewable</b>			
Annual premium	\$	\$	\$

For more information, visit  
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or the Iowa State University Extension  
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