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Health Insurance Smarts: How Does Health Insurance Work?

Deductibles? Coinsurance? Out-of-pocket maximums? A health insurance expert explains common terms and their meanings.

MANHATTAN, Kan. – With the passing of the Affordable Care Act, having health insurance became required by law. A main goal of the ACA is to increase the number of people insured, said Roberta Riportella, Kansas Health Foundation professor of community health at Kansas State University, and those who are uninsured could face a penalty at tax time.

Consumers can obtain insurance in a variety of ways, Riportella said, including through an employer, a private insurer, TRICARE, Indian Health Service, Veteran's Affairs, Medicare or in Kansas, KanCare, the state's Medicaid program. Another option is to buy an insurance policy, which is available to everyone through the Kansas Health Insurance Marketplace.

“A health insurance policy is a legally-binding contract between the insurance company and the insured,” she said. “The contract has specific language on how the policy will work. It usually covers a one-year period and can be renewed annually. The policy also describes the benefits covered and how much you will pay in premiums and other costs.”

Premiums

Regardless of how you obtain your health insurance, there are factors to think about when choosing one that best fits you and your family, Riportella said. First, consider the premium cost. The premium is the fixed monthly charge you will pay for your selected policy. Even if you don't use your health insurance, you must pay your premium.

“A series of consumer protections came with the ACA,” Riportella said. “The protections include that no one can be turned down for insurance for any reason, including having a pre-existing condition. No one can lose insurance if they are sick. All policies are guaranteed unless you do not pay your premiums. Then the insurance company can cancel your policy.”

“The ACA also limits how much insurance can cost and how much premium costs can rise year to year,” she added. “More comprehensive policies have larger premiums, but will likely have lower deductibles, coinsurance and copayments.”

Cost sharing

When you pay deductibles, coinsurance and copayments, you are sharing the costs of health care with your insurer, Riportella said, which is called cost sharing. These will be identified in your health insurance policy.

“The deductible is the amount you must pay in a given year before your health insurance plan begins to pay any of your health care expenses,” she said. “Your deductible may not apply to all services. It may be different depending on the provider you use. When family members have more than one plan, the deductible for each family member usually has to be met.”

After you meet the requirements of your deductible, there are two additional ways you can share health care costs: coinsurance and copayments. A policy could include both.

“Coinsurance is your share of the cost of covered services,” Riportella said. “These will likely be on a percentage basis. You may have a policy where you pay 20 percent of the cost of each service, and your insurer pays 80 percent. The coinsurance amount is often billed, so you will pay it after you have received the services.”

“For a copayment, you pay a fixed amount, rather than a percentage, for a covered service,” she continued. “For example, you may pay \$20 for each visit to your family doctor and \$10 for each generic drug prescription. Copayments are usually paid at the time of service.”

Maximums

With the passing of the ACA, neither annual nor lifetime maximums exist, Riportella said, meaning insurance will continue to pay as long as you receive medical bills. Consumers, however, will see out-of-pocket maximums listed on their health insurance policies.

The out-of-pocket maximum is the most you will have to pay for covered health services in a given year, she said. However, premium costs are not included when calculating the out-of-pocket maximum.

“You accumulate charges for health care services that are applied to your deductible for that year,” Riportella said. “Then once the deductible is met, you may pay coinsurance or copayments until you reach your annual out-of-pocket maximum or limit. Once you’ve reached that limit, all further health care expenses for that year are the responsibility of your insurance company.”

For plans sold in the marketplace, the out-of-pocket maximum is \$6,600 for an individual plan and \$13,200 for a family plan in 2015. Your out-of-pocket limit may be less than that amount, but it cannot be more, she said.

Assistance

Income and family size determines who could qualify for financial assistance in paying for premiums and cost-sharing items, Riportella said.

Some families may qualify for tax subsidies to assist in paying their premiums if they buy policies in the marketplace. Learn more through the Consumers Union (http://consumersunion.org/taxcredit/KS_2015_V1.pdf), or you can use an online interactive tax credit tool (<https://www.healthtaxcredittool.org/>).

Another type of assistance is a cost-sharing reduction. Those who qualify pay lower deductibles, copayments and coinsurance if they enroll in a plan within the silver category or tier in the marketplace.

If obtaining insurance through the marketplace, log on to www.healthcare.gov. To learn more about how to enroll in the marketplace or KanCare, call the marketplace, available 24 hours a day, seven days a week at 800-318-2596.

More information about the ACA in Kansas is available through a K-State Research and Extension fact sheet (<http://ksre.ksu.edu/issuesinhealthreform/>). The Kansas Health Institute also has numerous resources on its website (<http://www.khi.org/>).

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