

# How To Buy Texas Health Insurance

Buying health insurance can be difficult on your own. The purpose of this document is to educate you and to make you a better health insurance consumer by offering a step-by-step guide to finding a Texas health insurance plan that meets your needs.

## *Why buy health insurance?*



However, before we talk about how to buy, I want to address why we buy.

The purpose of insurance is to transfer some risk to a third party. If I crash my car into another vehicle, I'm obliged to pay for the other vehicle. The average cost of a vehicle is over \$30,000 and the average fender-bender is over \$4,000.

However, if you had to reach into your pocket when you backed into another car or plowed into the car in front of you, only the rich could afford to drive. Likewise, a mortgage company would be reluctant to loan money to buy a house, if the property could go up in flames, without insurance. Thus, insurance allows individuals and families to drive cars and buy houses, because the risk of loss is transferred to a third party, the insurer.

How big is the risk of not having health insurance? The number one reason for filing bankruptcy is not overspending on credit cards or buying an unaffordable house. The biggest reason for filing bankruptcy in the United States is **medical bills**. That's because a short stay in the hospital can cost tens of thousands of dollars. While the hospitals do write off a large number of bills that cannot be paid, no one can expect the hospitals to write off most of the bills, because that just raises the bills of those who can pay. And, no one expects a doctor to not get every penny he or she is worth. How much does a doctor visit cost?

The average doctor charges \$120 to \$150 for a six minute visit. The insurance companies negotiate with networks of doctors to give clients a discounted price, a wholesale price, if you will. That discount is typically 30% to 40%. So, now the doctor gets \$72 to \$105 for his time, education, and experience. If you pay \$30, as a copay, the insurer pays \$42 to \$75 each time you go to the doctor.

If you spend hundreds of dollars on premiums for unlimited doctor visits and only go to the doctor once or twice a year, the insurer profits. However, the insurer is contractually on the hook for all of the patients who go to doctors monthly, biweekly, weekly, or even daily.

In a similar way, in most years, you probably don't go to the hospital and rack up ten of thousands of dollars in bills. Yet, the insurer is obliged to pay millions of dollars. Most major medical lifetime maximums are \$5,000,000, though the range is between \$1,000,000 and \$8,000,000. That's equivalent to your house burning down many times over.

### ***Individual and Family Health Insurance***

So, you buy health insurance to protect yourself from financial disaster. You buy Individual and Family Health Insurance, non-Group Health Insurance, when you work for yourself or your employer doesn't offer health insurance.

Group Health Insurance must insure all applicants, whether they have chronic health conditions, or they are overweight or pregnant. Thus, Group Health Insurance is very expensive. That cost is hidden by the fact that employers must pay 50% of the health insurance premium.

Customers get a chance to see the real cost of Group Health Insurance when they become eligible for COBRA. By law, insurance companies can only charge 10% above the total premium, what the employer and you both pay. However, when the customers have paid only a portion of the premium, the real cost of Health Insurance can still be a shock.

Because price of health care and the cost of health insurance have increased so rapidly, the number of employers offering health insurance is getting smaller. This means becoming more knowledgeable about health insurance is more important.

### ***Auto vs. Health Insurance***

Is buying Health Insurance the same as buying auto or home insurance?

If you are like most, you call your insurance broker and also go online to compare the rates of different insurance carriers. The rates are set by the carriers, so the real expertise of the insurance broker is the number of carriers he or she may quote, along with the knowledge of discounts the carriers might offer. For example, an insurance carrier might offer discounts for multiple vehicles or a good driving record.

Based on your type of vehicle, your sex, your age, where you drive, the amount of coverage you want to buy, your driving record, and your credit rating, subtracting allowable discounts, an agent can quote you an estimate of the premium.

The premium for Health Insurance is based on your sex, age, where you live, and your medical history, how much you have used health insurance in the past. The discounts are very small. Since the rates are set by the insurance carriers, it appears that the only expertise that the health insurance broker might be the number of carriers he or she can quote.

That would be true if there weren't such a diverse assortment of health insurance products. There are hospitalization-only plans, high deductible plans, Health Savings Accounts, plans without copayments, Major Medical, indemnity plans, limited benefit plans, and defined benefit plans. These insurance products cover doctor visits, inpatient and outpatient medical services, home health care, rehabilitation, etc.

The irony is that we don't expect car insurance to pay for oil changes or tires. Yet, we expect our health insurance carriers to offer unlimited doctor visits for \$15 copayments, cheap prescription drugs, low deductibles, low out of pocket expenses, and cheap premiums.

So, while you may want to just go online, hoping to avoid speaking with an agent that might want to sell you something that you don't need, an experienced agent is your best consumer ally.

### ***The Health Insurance Buying Process***

Hopefully, this document will remind you that each benefit that you might want has a price. However, most buy more insurance than they actually need. For example, even though an individual only goes to the doctor once or twice a year, he or she pays significantly higher premiums for the right to go to the doctor an unlimited number of times and pay a small copayment.

At the core of the health insurance buying process are two points. The first point is to have realistic expectations of the health insurance products. The second point is to be clear on what you want health insurance to do.

## Step 1: Decide on what your needs are.

Decide on the criteria by which you will measure each contestant plan.

Here are some questions you should ask yourself before choosing a health insurance plan:

- How much can I afford to pay in premiums each month?
- How much can I afford if the worst happens?
- What is the likelihood of using doctors outside an insurance company's network?
- Will the plan have to cover a pre-existing medical condition?



What services will you need?

inpatient hospital services

outpatient surgery

physician visits in the hospital

office visits

medical tests and x-rays

prescription drugs

mental health care

drug/alcohol abuse treatment

home health care visits

rehabilitation facility care

physical therapy

speech therapy

hospice care

maternity care

chiropractic treatment

alternative health care

experimental treatments

preventive care

well-baby care

health screenings

ambulance

limits on ICU

high independent review

worldwide coverage

Which of these services is the most important? Which is the second most important service? Which is the third most important service?

## Step 2: Get a list of candidate plans.

The best way to find top-rated health insurance plans, the ones with

strong financial backing, is to find an Independent Health Broker, one who is appointed to sell the products of several insurance carriers.

You will want to know which plans have a history of smaller rate hikes and how long you will be locked into your rate.

### **Step 3: Decide on your deductible.**



Now that you have found a highly-rated insurance carrier that meets your needs, determine your total out of pocket exposure. This is the maximum amount you would be out if the worst happens. That can be found by adding your deductible to your coinsurance.

Coinsurance is the amount above the deductible you are obligated to pay. For most major medical plans, that is a percentage up to a given value. For example, many individual plans pay 80%, up to \$10,000. This means that your total out of pocket, the amount you are obliged to pay, is the deductible, plus \$2000.

Don't pick a low deductible if the difference in premiums is more than the difference in deductibles. As an example, let's assume an average 27-year old woman, in excellent health, with no chronic conditions and taking no medications, will probably go to her doctor and see a specialist once a year and spend \$170 per year on prescription drugs. Her estimated annual health expenses will probably be \$340. However, she could typically spend \$102 to \$7033, during that same year. See [Sublimo, PharMetrics](#). Let's say that the plan she likes has the following schedule of premiums:

Deductible	Premium
\$500	\$261
\$1000	\$183
\$1500	\$162
\$2500	\$129
\$5000	\$76

The difference in deductibles, between the \$1000 and the \$500 deductible, is \$500. However, the annual difference in premiums is \$936

per year. She would spend an extra \$436 more by choosing the smaller deductible and she should not purchase the plan with the \$500 deductible.

We assume that in most years, she will annually pay \$1548 for the \$2500 deductible plan and \$912 for the \$5000 deductible plan. Typically, she might pay \$4954 and \$6318, respectively. That includes the premium, deductible, and coinsurance for the \$7033 figure above. And, her maximum out of pocket expense would be \$6548 and \$8412, respectively.

If the typical event or the catastrophic event occurs within four years, the woman will have saved money by buying the \$2500 deductible. However, after that point, the premiums, deductible and coinsurance for the \$2500 deductible plan will be higher than the premiums, deductible and coinsurance for the \$5000 deductible plan - whether or not the typical event or the catastrophic event occurred.

Are you confused?

You have to balance how much you expect to use the insurance against your comfort level for your total out of pocket expense.

#### **Step 4: Decide how each health plan candidate measures against your criteria.**

If you have ranked your criteria, you can give you highest ranked criteria a large number and your lowest ranked criteria a small number. It is then just a matter of adding up the points for your candidate plan.

You might find that a plan that you like scores poorly. You can then rank the criteria again and adjust the weights of your criteria. For example, you might have given the cost of the premium a large weight and you find a plan that has a reasonable premium, but the total out of pocket is too much. Perhaps the deductible for the family is three times the deductible of an individual. When you add the family deductible to the coinsurance, you might find that you have a financial exposure of \$21,000 as your total out of pocket maximum.

#### **Step 5: Purchase the plan**

Before you apply, you'll need a copy of your medical history, your doctor's name, address, and phone number, and the declaration page of your current health insurance.

Most insurance carriers have online application, but some do not. The advantage of online application is that the software will not let you proceed when you have an error. With paper applications, it is much easier to omit information. When that happens, the underwriters have to return the application to you for correction.

### **Step 6: Comply with all requests for information.**

Health underwriting can take up to seven weeks. They make us say that. In general, the underwriters will call the applicant to verify the information. If there are any existing conditions, the underwriters will request permission to get medical information from your doctors. That can take several weeks.

So, don't cancel any policy until you have been approved. Your coverage usually begins on your requested date. If you are concerned about paying two premiums, you can request monthly billing. In that way, you won't pay the premium for the new policy until you've been approved. You can then change your billing method.

### **Step 7: Read the policy and review it from time to time.**

Generally, the purchaser of a health policy has 10 days for a "free look". The purchaser may cancel the policy within that time and all premiums will be returned. If there is an application fee, it probably won't be returned. During that time, you should review the plan for the following:

- If you have a chronic condition, such as asthma, cancer, AIDS, or alcoholism, will the plan treat it?
- Will your doctors, hospitals, laboratories and other medical providers that you use be in the insurance company's network?
- How much will it cost for coverage outside the insurance company's network? You may rest assured, that if you have to go to the hospital your anesthesiologist will be out of your network. How much will it cost?
- What are the procedures for getting care and being reimbursed in an emergency situation?



- How have independent organizations rated the plan?
- How many complaints were filed against the plan last year? Does the plan reimburse alternative medical therapies?

### ***What are your rights?***

An insurance company may not deny, refuse to renew, limit, or charge more for coverage because of your race, color, religion, or national origin.

A company also may not deny, refuse to renew, limit, or charge more for coverage because of your age, gender, marital status, geographic location, disability or partial disability, unless the refusal, limitation, or higher rate is "based on sound underwriting or actuarial principles." This means the company must show valid evidence that you present a greater risk for a loss.

A company may not discriminate between individuals, who have the same risk in its rates, policy terms, benefits, or in any other manner unless the refusal, limitation, or higher rate is "based on sound actuarial principles."

### ***Consumer Complaints***

Before you contact the Texas Department of Insurance, contact your insurance company. Most companies operating in Texas are required to have a toll-free telephone number to provide customer assistance. The number should be listed in your policy. However, if you believe an insurance company has treated you unfairly, you may file a complaint with Texas Department of Insurance's Consumer Protection Division, [www.tdi.state.tx.us](http://www.tdi.state.tx.us), or call (800) 252-3439.

### ***Contact Us***

If you have questions, contact us at [agent@heartoftexasinsurance.com](mailto:agent@heartoftexasinsurance.com) or (512) 436-6061.