



## Limited Benefit Plans, High Deductible Plans and Health Savings Plans: **Contemplating Options When Comprehensive Health Insurance Isn't Available to You**

*If you watch late night television, you may have seen the ads – health insurance at a low, affordable price. If you or your family is living without insurance, you may wonder if these offers are right for you. Often these ads are for limited benefit plans – bare bones policies that cover specific expenses and have many more limitations than a comprehensive medical plan. These plans may not be your only option, though. That's why it's important to educate yourself before purchasing a policy.*

*The following information from the National Association of Insurance Commissioners (NAIC) will help you evaluate whether limited benefit health insurance plans or a high deductible health plan can provide the health insurance protection you and your family need.*

### Limited Benefit Health Insurance Plans

Limited benefit health plans are insurance products with reduced benefits intended to supplement comprehensive health insurance plans, not to be an alternative to them. You may have seen these types of plans marketed as Cancer Only, Specific Disease, Hospital Cash or Indemnity plans.

Limited benefit health insurance plans are not typically required to provide the same level of coverage, so they cover fewer types of medical expenses than a comprehensive policy. These plans also have higher co-insurance percentages, co-payments and deductibles than comprehensive plans.

This means a limited benefit plan will limit the amount of coverage the company will pay per episode of illness, sometimes as low as \$1,500 to \$5,000 (not counting co-insurance and deductibles paid out-of-pocket by you). These policies also provide limited surgical, preventative care, testing and emergency benefits. And with low maximum benefit limits called "caps," it may be possible for you to reach your cap quickly, leaving you responsible for the balance of the bill.

### What to Consider With a Limited Benefit Health Insurance Plan

Limited benefit health insurance plans are not replacements for comprehensive health insurance coverage. If you lost coverage under a comprehensive plan and are considering a limited benefit plan, there are several things you should have in mind when reviewing the coverages offered by a plan:

- Consider the current or future medical needs you or your family may have.
- Decide which medical expenses you may need covered by a limited benefit policy and which you can pay for out-of-pocket.
- If you are considering a limited benefit health plan instead of continuing existing benefits under Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) or purchasing an individual policy, figure out if the premium savings will offset the high out-of-pocket expense for medical services not covered by the limited benefit plan.

Before deciding if a limited benefit health insurance plan is right for you, carefully consider if the plan meets your current and future needs. Know the limitations of the coverage and understand the expenses that will and will not be covered under the policy. Also, ask your agent if there are any exclusions or limitations specifically spelled out in the policy, so expenses that fall within the coverage gaps do not surprise you.

### High Deductible Health Plans

Another health plan option is a "high deductible health plan" (HDHP). HDHPs provide the same types of coverages as a

comprehensive health insurance plan, but only cover catastrophic health care costs. This means you will be responsible for paying much more of the upfront cost before the policy would pay any benefits for eligible medical expenses. HDHPs have a lower premium to compensate for the higher out-of-pocket costs incurred with these high deductibles.

There are two types of HDHPs:

1) Plans qualified by the U.S. Internal Revenue Service (IRS) to be used with a Health Savings Account (HSA). These plans must meet minimum deductible amounts and maximum out-of-pocket limits.

- For 2010, the maximum annual HSA contribution for an eligible individual with self-only coverage is \$3,050. For family coverage, the maximum annual HSA contribution is \$6,150.
- For 2010, the maximum annual out-of-pocket amount for HDHP self-coverage is \$5,950 and the maximum annual out-of-pocket amount for HDHP family coverage is \$11,900.
- For 2010, the minimum deductible for HDHPs is \$1,200 for self-only coverage and \$2,400 for family coverage.

2) Plans not qualified by the IRS to be used with a HSA. These plans can have much higher deductibles because they exceed the maximum out-of-pocket limits.

## Health Savings Accounts (HSA)

An HSA is a savings account that allows you to set aside funds for future qualified medical expenses. An insured enrolling in a HDHP with an HSA can deposit funds for health care expenses on a pre-tax basis into the account. Earnings on HSA balances are also not taxable. Withdrawals of HSA funds to pay for eligible health care expenses are exempt from federal and state taxes as well. Unused funds in an HSA at the end of a year can roll over into the next calendar year.

## What to Consider With a High Deductible Health Plan

If you're considering either type of HDHP, make sure to read the policy form - paying careful attention to the benefits and the limitations of the plan. Review the implications of having a high deductible. For instance, will you have the funds available to pay a large deductible or high medical expense in the event of an unexpected illness? Also, consider whether the tax-saving advantages of an HSA are appropriate for your particular financial situation and contact a tax consultant if you have questions.

## More Information

Discount health plans **are not** insurance products, but membership groups that have discount arrangements with local providers for services at a reduced (discounted) rate. These discount programs have limited regulation and can have limited consumer protections.

Marketing for discount health plans can be similar to limited benefit plans, making it difficult to distinguish one plan from the other. To protect yourself and your investment, STOP before purchasing any type of insurance policy, CALL your state insurance department and CONFIRM that the company and the insurance agent you are working with are licensed in your state. Go to [http://www.naic.org/state\\_web\\_map.htm](http://www.naic.org/state_web_map.htm) to find contact details for your state department of insurance.

For more tips about choosing health insurance coverage that is right for you and your family, go to [www.insureUonline.org](http://www.insureUonline.org).

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## About the NAIC

Formed in 1871, the [National Association of Insurance Commissioners \(NAIC\)](http://www.naic.org) is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia and five U.S. territories. The NAIC has three offices: Executive Office, Washington, D.C.; Central Office, Kansas City, Mo.; and Securities Valuation Office, New York City. The NAIC serves the needs of consumers and the industry, with an overriding objective of supporting state insurance regulators as they protect consumers and maintain the financial stability of the insurance marketplace. For more consumer information, visit [insureUonline.org](http://www.insureUonline.org).

