Section 12: Health and Loss of Income Risks

- Financial Impact of loss of health:
    - Medical care expenses:
        - Factors contributing to increased costs:
            - Extra procedures and test
            - Technology
            - Malpractice liability insurance premiums
        - Hospitalization
        - Surgeons services
        - Prescription drugs
        - Mental health services
        - Long term care
    - Hospital care is the largest components of the health care facts
    - With the increasing time, the government is paying more and more if the health care(obama health enrollment)

- Financial impact of Disability:
    - Lost income due to time away from work
    - Length of disability:
        - Temporary disability:
            - Can eventually recover and return to work
        - Permanent disability:
            - The disability will remain until the death
        - Total Disability:
            - Can not do the during the time he is disabled
        - Partial disability:
            - Work level reduced but still functional to the certain level
    - Living expenses increase: hiring a day care

- Health Exposures --- three-legged stool :
    - Employer:
        - Some employees provide some health insurance
        - The premium is cheaper than private market due to reduce admin costs
        - Offers disability insurance:
            - Cover serious disabilities resulting in long term period of unable to work
            - Offer “sick days” for less serious disabilities,
                - Won’t fired due to the missing
        - Employers of certain size provides workers compensations
            - Coverage for any medical expenses and losses of incomes due to work
    - Government:
        - For poor and elderly, medicaid and medicare is offered through the “social security system”;
        - Disability income for those with long term disabilities
    - Individual and families:
        - Individual savings and secondary income source for minor expenses

                - Individual health plan and disability insurance polices need to be purchased for large expenses

- Health Exposures -- Health insurance:
    - Fee-for-Services: most generous and expensive health insurance
        - Allow Insured to choose any doctor/hospital without obtaining the permission of insurance company
        - Usually incorporated coinsurance provisions as well as policy limits
    - Types of fee-for-services insurance:
        - Hospitalization insurance:
            - Insurance for the cost of staying in a hospital
            - Max daily benefit associated with hospital insurance
        - Surgical expense insurance:
            - Costs associated with surgical procedures
            - Pay the URC (usual, customary, reasonable) fee for procedure required
        - Physicians expenses insurance:
            - Cost of non-surgical procedures
        - Major medical insurance (base plan coverage):
            - Cover all other policies
            - High limits used to cover catastrophic medical expenses

    - Managed care plans: limits the choice of health provider a insurances can have
        - Health maintenance organization (HMOs)
            - HMOs not only provides financial requirements of medical care but also the service
            - HMOs provide doctors and medical providers to provide medical care required by the subscribers
            - Subscribes pays medical providers the fee (caption fee & per-office-visit fee)
            - Subscribers need to choose “Primary-care physician”, if specialist is need, primary-care physician will refer his/her to specialist in HMO network or outside the work
            - Primary models used by HMO to deliver health service
                - Staff model: HMO directly employ medical providers
                    - Physicians only see members in HMO
                - Group model: HMO contract with a group of medical providers
                    - Physicians retain their “private practice” to other patients
                    - Physicians paid based on members of members subscribers to the HMO
                - Independent practice association
                    - Physicians maintain their own practices
                    - Paid on the basis of services provided to HMO members

        - Preferred provider organization (PPOs)
            - Mix of HMOs and traditional fee-for-service plan
            - PPO contract with physicians but don’t require members to seek medical care from those physicians
            - Members can seek physicians out of PPO network

            - Higher deductibles for seeking outside PPO network

        - Point-for-services (POS):
            - PPO/HMO mix
            - All in-network services is provided
            - Members ables to seek outside the network with higher costs than PPO

        - Provider-sponsored organization (PSO)
            - Similar to HMOs
            - PSO formed by group of doctors and hospital
            - HMOS formed by an insurance company, or anyone who desires

- Health exposures -- Disability Insurance:
    - Short-term disability products:
        - The income is provided for a short-period of time, one to two years
    - Long-term disability products:
        - Provide protections for longer period of time (usually until 70, some for whole life)
    - Non-occupational disability:
        - Prevent over-indemnification resulting from workers' compensation insurance
    - Occupational disability:
        - Supplement any gaps in employer provided workers' compensation insurance
    - Waiting period:
        - Periods between when incidents happens and when the disability benefits starts to pay
        - 7 to 30 days for short term policies
        - 90 to 365 days for long term policies
    - Additional coverage:
        - Guaranteed insurability:
            - If income raises, able to increase the amount of insurance
        - Cost of living adjustments:
            - Disability benefits increased to reflect the increased living cost
        - Automatic benefit increases:
            - Amount of coverage (premium) increases automatically at a set percentage
        - Accidental death and dismemberment:
            - Lump sum payment in the case of an accidental death/loss of limbs/ fingers
        - Waiver of premium:
            - No premium is required if a disability occurs (standard in disability insurance policy)

- Loss of Income Exposures: Unemployment and Retirement
    - Unemployment:
        - All states has offer some form of unemployment insurance
        - Some cases may not be even available to the unemployed if the person is unemployed due to the performance issue
        - Moral hazards: the person quit the job on his preference
    - Retirement Plan:

        - Planned income loss exposure
        - Work-related expenses will decrease
        - Living expense, entering into a different type of lifestyle,
        - Replacement ratio:
            - Gross income after retirement / gross income before retirement

- Loss of Income Exposures--Available tools
    - Employer:
        - Employers provides some types of retirement plans
    - Government:
        - Social society to those who have worked
        - Voluntary unemployment programs for those who lost jobs
    - Individual/family:
        - Personal savings / individual personal plans

- Loss of income exposures--retirement plans
    - Annuity: a contract that pay the annuitant the agreed upon amount for a certain time period. Thus, annuity provides a regular income to the annuitant
    - Types of Annuity:
        - Individual and group annuity:
            - Annuity can be bought on individual or group basis
            - When an annuity is used to fund a retirement plan, it is often bought on group basis.
        - Fixed and variable annuities:
            - Fixed: the payment stream for annuities is fixed
            - Variable: the payment varies
        - Immediate and deferred annuities:
            - Immediate: paid as lump sum and immediately begin to pay benefits
            - Deferred: paid as lump sum, but don’t pay benefits immediately
        - Lump sum and installment annuities:
            - Lump sum: annuities are paid for as one-time, lump-sum fee
            - Installment: annuities are paid over time
        - Single life and joint life annuities:
            - Single life: pay until the annuitant dies
            - Joint life: more than one life that determine how long an annuity will be paid
                - Joint-and-last-survivor:
                    - Annuity is paid until both(or all) annuitants are dead
                - Joint life:
                    - Annuity paid until the death of the first annuitants
    - Employer-sponsored plans:
        - Provide employers with income when they retires
        - Contributory retirement plans:
            - Employee pays some of the cost of the plan
        - Noncontributory retirement plans:
            - Employer pays the entire cost of the plan
        - Vesting: the rights an employee has to his or her pension:
            - Cliff vesting:

        - The employee is entitled to none of the pension for the first three years, then 100% of the pension after 3 years
      - Gradual vesting:
        - The employee is entitled to none of the pension for the first two years, then acquired 20% of the pension each year afterwards. In the seven years, the employee is 100% vested
- Two main types of employee sponsored plans:
  - Defined contribution plans:
    - Employee and employer will contribute a specific amount (%) of the employee's salary into the employee's retirement fund
    - Employee remains the ability to invest money into the account
    - When employee retire, money accumulated can taken as lump sum, annuitized, or drawn out at the discretion of the owner
    - The amount of retirement saving is dependent on how the invest perform, and how much it is set inside initially
  - Defined benefits plans:
    - Employer guarantee the employee a retirement income.
    - The income is calculated by years of services and salary of the employment
    - Employers must fund the pension liability periodically
    - Employers bears the risk with a defined benefits plan that investment made within the pension fund will be enough to cover the liability.