



GE1202

Managing Your Personal Finance

Lecture 6 (Continue)
Insuring Your Health



Importance of Health Insurance

- Two medical systems in HK
 - Public medical system
 - Low cost
 - Huge shortage
 - Private medical system
 - High cost
 - Efficient
- A serious illness or accident can involve not only physical pain from sickness and injury, but also economic pain
 - Health insurance helps you pay for the costs associated

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Private Services

- Fees charged by private practitioners in Hong Kong, vary from \$100 to \$250 or more for a specialist consultation
- Most of the cases, it only include the cost of medicine, but separate charges for laboratory test, X-ray exam, etc
- Treatment in private hospitals can charges vary from \$380 a day for a bed in a general ward to \$980 or more for a first class ward
- Patients have to pay for all services, such as medicines and dressings, besides the daily charge for doctors visit



Health Insurance Decisions

- Evaluate Your Health Care Cost Risk
 - Two types of losses that can result from illness or accidents
 - Expenses for medical care and rehabilitation
 - Loss of income or household services caused by an inability to work.
- Determine Available Coverage and Resources
 - Public medical system
 - Some employers offer employees basic coverage
- Choose a Health Insurance Plan
 - Compare your needs with the plans offered by different firms



Components of Hospital Insurance

- Part A — Basic hospital insurance
 - Covers hospital room and board, other inpatient and outpatient care
 - Deductibles apply, amounts vary according to length of stay
- Part B— Supplementary medical insurance
 - Optional coverage available for a premium
 - Covers doctors, surgeons, lab tests, x-rays, and other services, including some home health care



Medical Expense Coverage

- Hospitalization
 - A hospitalization insurance policy will reimburse you for the cost of your stay
 - Usually pay for a portion of
 - Daily routine services — room rate, meals, etc
 - Ancillary services — laboratory tests, imaging, etc
 - May cover some outpatient and out-of-hospital services
 - In-home rehabilitation, diagnostic treatment, etc
 - Most policies set a limit on the number of days of hospitalization and a maximum dollar amount on ancillary services that they will pay for



Medical Expense Coverage

- Surgical Expenses
 - Covers the cost of surgery in or out of the hospital
 - Pay according to a *schedule of benefits*
 - Reimbursing up to a fixed maximum for a particular surgical procedure
 - Not all procedures are covered
 - Cosmetic or experimental surgery
- Physician Expenses
 - Pays physician fees for nonsurgical hospital care
- Regular medical expense
 - Covers the cost of visits to a doctor's office or for a doctor's hospital visits, including consultation with a specialist
 - Also covered imaging and laboratory tests performed outside of a hospital



Medical Expense Coverage

- Major Medical Insurance
 - Provide broad coverage for nearly all types of medical expenses resulting from either illnesses or accidents
 - Finance more catastrophic medical costs
 - May have lifetime limits
- Comprehensive Major Medical Insurance
 - Combines basic hospitalization, surgical, and physician expense coverage with major medical protection into a single policy
- Dental insurance
 - Covers necessary dental care and some dental injuries sustained through accidents
 - Maximum limit on most dental policies is often low

Medical Expense Coverage

- Insurance companies offer other options that provide limited protection against certain types of perils
 - Accident policies
 - Pay a specified sum to an insured injured in a certain type of accident
 - Sickness policies
 - *Dread disease policies*
 - Pay a specified sum for a named disease
 - Hospital income policies
 - Promise to guarantee a specific daily, weekly, or monthly amount as long as the insured is hospitalized.
- Most limited-peril policies should be used only to supplement a comprehensive insurance program if the coverage is not overlapping.

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Policy Provisions

- Policy provisions can be divided into two groups
 - *Terms of payment*
 - Deductibles
 - The participation (co-insurance) clause
 - The policy's internal limits
 - The coordination of benefits clause
 - *Terms of coverage*
 - The persons and places covered
 - Cancellation
 - Preexisting conditions
 - Pregnancy and abortion
 - Mental illness
 - Rehabilitation coverage
 - Continuation of group coverage



Terms of Payment

- **Deductibles**

- The *initial* amount not covered by an insurance policy
- Determined on a calendar-year basis or on a per-illness or per-accident basis

- **Participation (Co-insurance)**

- The insurer will pay some portion (80 or 90 percent) of the amount of the covered loss in excess of the deductible
- Reduce the incentive for policyholders to fake an illness
- Discourages unnecessary medical expenses



Terms of Payment

- **Internal Limits**

- Control the amounts paid for certain specified expenses, even if the claim does not exceed overall policy limits
 - Hospital room and board, surgical fees, mental and nervous conditions, nursing services

- **Coordination of Benefits**

- To prevent the insured from collecting more than 100 percent of covered charges from more than one policy
- Eliminates double payment when coverage provided under more than one policy

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Example

- A medical insurance policy that specifies \$500,000 lifetime limit of protection, a \$1,000 deductible, an 80% co-insurance clause, internal limits of \$350 per day on hospital room and board, and \$6,000 as the maximum payable surgical fee.



Terms of Coverage

- **Persons and Places Covered**

- Individual vs Family members
- Country specific vs worldwide

- **Cancellation**

- Permit cancellation at the insurer's option at any time

- **Pre-existing Conditions**

- The policy might exclude coverage for physical or mental problems that you had at the time you bought it
- Permanent vs temporary

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Terms of Coverage

- **Pregnancy and abortion**

- Special clauses for medical expenses incurred through pregnancy or abortion

- **Mental illness**

- No or reduced benefits for treatment of mental disorders

- **Rehabilitation Coverage**

- Counseling, occupational therapy
- Educational or job training programs

- **Continuation of group Coverage**

- Employee who leaves the insured group voluntarily or involuntarily



Cost Containment Provisions

- **Preadmission certification**
 - Approval from your insurer before entering the hospital for a scheduled stay
- **Continued stay review**
 - Approval from the insurer for any stay that exceeds the originally approved limits
- **Second surgical opinions**
 - Second opinions on specific non– emergency procedures
- **Waiver of co–insurance**
 - Waive the co–insurance clause for outpatient procedures
- **Limitation of insurer’s responsibility**
 - Limitations on the type and place of medical care for which the insurer will pay



Disability Income Insurance

- **Disability income insurance**

- Provides families with weekly or monthly payments to replace income when the insured is unable to work because of a covered illness, injury, or disease

- Social Security in Hong Kong

- Permanent Disability allowance
 - HK\$1,650 a month (normal rate)
 - HK\$3,300 a month (higher rate)
- Disability benefit
 - HK\$3,340 to \$5,690 a month for a person living alone
 - HK\$3,150 to \$5,220 if living with other family members
- Benefits are payable only if your disability is expected to last at least one year (or to be fatal), and they don't begin until you've been disabled for at least five months

Estimating Your Disability Insurance Needs

DISABILITY BENEFIT NEEDS

Name(s) _____ Date _____

1. Estimate current monthly take-home pay \$ _____
2. Estimate existing monthly benefits
 - a. Social Security benefits \$ _____
 - b. Other government program benefits _____
 - c. Company disability benefits _____
 - d. Group disability policy benefits _____
3. Total existing monthly disability benefits (2a + 2b + 2c + 2d) \$ _____
4. **Estimated monthly disability benefits needed ([1] – [3])** \$ _____

Disability Income Insurance Provisions and Costs

- **Definition of Disability**

- *Own occupation definition*
 - Unable to perform the duties of your customary occupation
- *Any occupation definition*
 - Can engage in no gainful employment at all
- *Presumptive disability clause*
 - *Presumed* totally disabled and may receive full benefits even though he or she still can be employed in some capacity when certain types of losses occur
 - Loss of both hands, sight in both eyes, and hearing in both ears

Disability Income Insurance Provisions and Costs

- **Benefit Amount and Duration**

- A flat monthly benefit under individual policy
- A fixed percentage of gross income under group policy
- No policies for the full amount of gross income
 - Incentive to fake a disability
- A few months to a lifetime

- **Probationary Period**

- A time delay from the date the policy is issued until benefit privileges are available
- 7 to 30 days



Disability Income Insurance Provisions and Costs

- **Waiting (Elimination) Period**

- The period after an insured meets the policy's eligibility requirements, during which he or she must pay expenses out-of-pocket
- When the waiting period expires, the insured begins to receive benefits
- 30 days to a year
- Trade off
 - Shorter waiting period vs longer duration of benefits

Disability Income Insurance Provisions and Costs

- **Renewability**

- *Guaranteed renewable*
 - Renew the policy until you reach the age stated in the clause
- *Non-cancelable*
 - Guaranteed renewability
 - Stable premium guarantee
 - More expensive

- **Cost-of-living adjustment (COLA)**

- The monthly benefit is adjusted upward each year