

Insurance Terminology Reference Guide

Chapter 11.3: Managing Insurance Costs

Basic Insurance Cost Components

Term	Definition	Example
Premium	The amount paid to the insurance company on a regular basis (monthly, quarterly, or annually) to maintain coverage.	\$300 monthly payment for health insurance
Deductible	The amount you must pay out-of-pocket for covered services before your insurance begins to pay.	\$1,000 deductible on an auto insurance policy
Co-payment (Co-pay)	A fixed amount you pay for a covered service, usually at the time of service.	\$25 co-pay for each doctor's visit
Co-insurance	The percentage of costs you pay for covered services after you've met your deductible.	20% co-insurance means you pay 20% of costs while insurance pays 80%
Out-of-pocket Maximum	The most you have to pay for covered services in a policy period (typically one year). After reaching this amount, insurance pays 100% of covered services.	\$8,000 annual out-of-pocket maximum for a family health plan
Claim	A formal request to an insurance company for coverage or reimbursement of a covered loss.	Filing a claim after a car accident

Additional Insurance Terminology

Term	Definition	Example
Policy Limit	The maximum amount an insurance company will pay toward a covered claim.	\$50,000 bodily injury liability limit per person
Exclusion	Specific conditions, situations, or items that are not covered by the insurance policy.	Flood damage excluded from a standard homeowners policy
Rider	An addition to an insurance policy that provides additional coverage or modifies existing coverage.	Jewelry rider on a homeowners policy to cover high-value items
Network	A group of healthcare providers and facilities that have contracted with an insurance company to provide services at negotiated rates.	In-network doctor visit costs less than out-of-network
Explanation of Benefits (EOB)	A statement from an insurance company explaining what costs it will cover for a claim.	EOB showing a breakdown of a \$2,000 medical bill
Health Savings Account (HSA)	A tax-advantaged savings account for medical expenses, available with high-deductible health plans.	Contributing \$2,800 annually to an HSA for future medical expenses

Health Insurance Specific Terms

Term	Definition	Example
Formulary	A list of prescription drugs covered by a health insurance plan, often divided into tiers with different cost-sharing requirements.	A medication on Tier 1 has a \$10 co-pay, while a Tier 3 medication has a \$50 co-pay
Prior Authorization	Requirement that your physician obtain approval from your insurance company before prescribing a specific medication or procedure.	MRI scan requiring prior authorization before insurance will cover it
Flexible Spending Account (FSA)	An account that allows you to set aside pre-tax dollars for eligible healthcare expenses, but funds must typically be used within the plan year.	Contributing \$2,000 to an FSA to pay for expected medical costs
High-Deductible Health Plan (HDHP)	A health insurance plan with a higher deductible and lower premium than traditional plans, often paired with an HSA.	HDHP with \$3,000 individual deductible but \$200 monthly premium

Auto Insurance Specific Terms

Term	Definition	Example
Liability Coverage	Insurance that covers damage you cause to others' property or injuries to others.	100/300/50 liability coverage means \$100,000 per person for bodily injury, \$300,000 per accident for bodily injury, and \$50,000 for property damage
Collision Coverage	Insurance that covers damage to your vehicle resulting from a collision, regardless of fault.	Collision coverage with a \$500 deductible for a car worth \$20,000
Comprehensive Coverage	Insurance that covers damage to your vehicle from events other than collisions (theft, vandalism, natural disasters).	Comprehensive coverage pays for damage from a fallen tree
Personal Injury Protection (PIP)	Coverage for medical expenses and sometimes lost wages for you and your passengers, regardless of fault.	PIP coverage of \$10,000 for medical expenses after an accident

Cost-Saving Terms and Strategies

Term	Definition	Example
Bundle Discount	Reduced rates when purchasing multiple insurance policies from the same company.	10% discount on auto and home insurance when bundled together
Defensive Driving Discount	Reduced auto insurance rates for completing an approved defensive driving course.	15% discount for completing a 6-hour defensive driving course
Good Student Discount	Reduced rates for students who maintain good grades.	10% discount for students with a B average or better
Preventive Care Benefits	Health services covered at no cost to prevent illness or detect conditions early.	Annual wellness exam covered 100% with no deductible or co-pay
Telemedicine	Healthcare services provided remotely via phone or video, often at lower cost than in-person visits.	\$15 telemedicine visit versus \$40 co-pay for in-person visit

Example: Health Insurance Payment Sequence

For a \$10,000 medical bill with a plan having a \$1,500 deductible, 20% co-insurance, and \$4,000 out-of-pocket maximum:

- 1. First:** You pay the \$1,500 deductible
- 2. Second:** You pay 20% co-insurance on the remaining \$8,500 (\$1,700)
- 3. Third:** Since $\$1,500 + \$1,700 = \$3,200$, which is below your \$4,000 out-of-pocket maximum, you pay the full co-insurance amount
- 4. Result:** You pay \$3,200 total, insurance pays \$6,800

Strategy Tip: Premium vs. Out-of-Pocket Costs

When choosing insurance plans, consider:

- **High-deductible plans** (lower premiums, higher out-of-pocket costs) may be better if you:
 - Are generally healthy with few expected claims
 - Have adequate savings to cover potential deductibles
 - Want to minimize monthly expenses
 - Can utilize an HSA for tax advantages
- **Low-deductible plans** (higher premiums, lower out-of-pocket costs) may be better if you:
 - Have chronic conditions requiring regular care
 - Anticipate significant medical expenses
 - Prefer more predictable monthly costs
 - Have limited savings for unexpected expenses

Total Cost Estimation Formula

To estimate the total annual cost of an insurance plan:

$$\text{Total Annual Cost} = \text{Annual Premium} + \text{Expected Out-of-Pocket Costs}$$

Where Expected Out-of-Pocket Costs are calculated based on anticipated usage and can include:

- Deductible payments (up to the full deductible)
- Co-payments for expected services
- Co-insurance payments for expected claims (after deductible)

Note that out-of-pocket costs cannot exceed the out-of-pocket maximum.

Important: Insurance Terminology May Vary

Insurance terms and definitions can vary between different:

- Insurance types (health, auto, home, etc.)
- Insurance companies
- Policy types within the same company
- Geographic regions due to state regulations

Always review your specific policy documents and ask for clarification about any terms you don't understand.