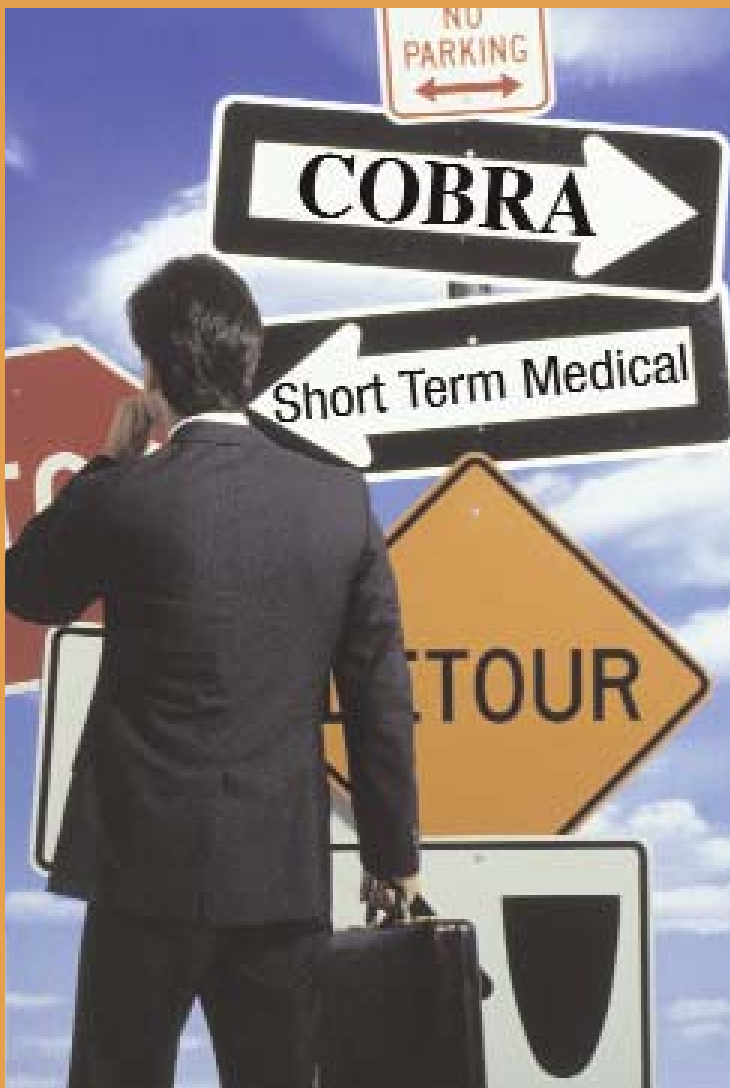


Which Type of (ALTERNATIVE) Health Insurance is Best for Your Clients?

by David T. Kettig
Co-Chief Operating Officer
Independence Holding Company
New York, NY



It is easy to feel helpless when confronted with the sobering trends in health insurance coverage in the United States but, in many circumstances, solutions are available to well-informed brokers and consumers. We know that an increasing number of individuals are not covered by employer-sponsored group health coverage.¹ A major cause of this is the reduction in the number of employers offering group coverage, which fell for the fifth consecutive year and now stands at under 60% of companies nationally.² Another factor is an increase in the average waiting period before an employee becomes eligible for group coverage, which currently stands at 1.7 months.³

A third element is the increasing cost of coverage borne by the employee. The average annual premium for a single person last year was over \$4,000 and almost \$11,000 for a family, and the average portion paid by the employee has risen to 25%. This represents roughly a \$1,000 increase in the cost borne by the employee since 2000.⁴

The decision as to what coverage a person should purchase is driven by individual circumstances, including affordability, eligibility for COBRA and the individual's health. It is critical that brokers communicate to their clients the pros and cons of each alternative form of coverage so that the individual can make the best-informed decision. This article will focus on three alternative forms of insurance coverage, and will analyze some hypothetical scenarios to see which coverage may make the most sense in each situation. We will also attempt to bring clarity to one of the more misunderstood aspects of HIPAA-creditable coverage.

Forms of Coverage

Short-Term Medical: STM insurance provides fully insured major-medical coverage with a defined duration of 12 months or less. STM is ideal for healthy individuals with short-term insurance needs, such as new employees subject to a waiting period, individuals who would like an alternative to costly COBRA coverage, people between jobs, recent college graduates and the like. STM is typically much less expensive than COBRA or similar individual coverages. However, STM doesn't cover pre-existing conditions and an individual with certain health conditions may not be eligible for the coverage.

COBRA: This option allows individuals who lose coverage under an employer-sponsored group health plan to continue coverage for a prescribed period. The benefits of COBRA are that it is relatively easy to put coverage into effect, the employee is familiar with the coverage because it is identical to that which he had with his former employer, and pre-existing conditions



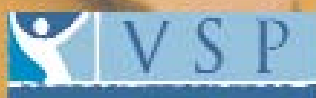
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must be covered. The big disadvantages of COBRA are that coverage is normally only available for 18 months and its cost. An employer can charge an employee 102% of the employer's cost of coverage. Assuming the typical cost for family coverage is \$906 per month and an employee is responsible for 25% of that cost, that employee could go from paying \$226 per month to \$925! It's small wonder that only a fraction of those eligible for COBRA actually elect it.

Individual Consumer-Driven Health Plans:

Individual CDHPs are high-deductible major-medical policies that decrease the insurance premium by increasing the deductible for which the individual would be responsible. An individual can also establish an HSA account along with a CDHP. In doing so, he can manage his health care expenses using funds in the HSA up to the deductible amount, at which point the major-medical insurance kicks in. This is a good alternative to COBRA and STM for people who want long-term, guaranteed-renewable coverage. The individual should be prepared to pay higher premiums than under COBRA and substantially higher than STM.

You Make the Call

Scenario One—Recent Graduate Waiting to Become Eligible for Group Benefits

Joan, who lives in Columbus, OH, recently graduated from college and is looking for her first job. During college, she was covered under her parents' employer-sponsored group plan,

but she is no longer eligible now that she is not a full-time student. She does not believe that she will land a job offering group benefits within 62 days of leaving her parents' plan. Like many recent graduates, Joan has a limited budget. Standard Security Life's STM premium (assuming a \$1,000 deductible and 80% coinsurance) for a 22-year-old female where Joan lives is currently \$65 per month. The premium for COBRA or individual coverage would be much more expensive—approximately \$110 a month assuming the same deductible and coinsurance. As long as Joan does not have a health condition precluding coverage, STM would seem to be the answer.

STM can also be an important tool in maintaining creditable coverage. By purchasing STM, Joan will not have a break in coverage and, when she becomes eligible for employer-sponsored group coverage, pre-existing conditions will be covered from day one. If Joan did not purchase any insurance and had even a 63-day break in coverage after becoming ineligible under her parents' plan, her new employer plan could refuse to provide her with coverage for pre-existing conditions for up to one year. This would be true even if the same pre-existing condition were not covered by her STM policy. Well worth \$65 per month.

Scenario Two—Money is No Object for COBRA-Eligible Former Employee

Bob is a wealthy individual whose position was recently eliminated. He is confident that he can get a job with another

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employer that offers health benefits within the next 18 months. Bob would seem well-advised to continue on his former employer's group plan by making a COBRA election. This is particularly true if Bob has a pre-existing condition or a condition that would prevent him from buying STM. For the reasons given above, it is important that Bob not have a "gap" in coverage or he may face a one-year exclusion for his pre-existing condition from the group plan of his new employer. If Bob is pessimistic that he will land a job that offers group health insurance benefits in the next 18 months, then he may wish to consider individual coverage that he can renew indefinitely, subject to rate increases.

Scenario Three—Early Retiree

Bill retired on his 64th birthday. He needs to purchase health insurance until he reaches age 65 and is eligible for Medicare. Much like Bob, his choices would appear to be COBRA, individual major medical and STM. However, unlike Bob, Bill knows that he does not need coverage for more than 12 months and he lives in a state where STM is available for 12 months.⁵ Like many retirees, Bill has a fixed income and needs to live on a budget. If he does not have a pre-existing condition or conditions that would make him ineligible, the lower STM premium would be attractive to Bill.

Options Are a Broker's Best Friend

As we have seen, for individuals without employer-sponsored group health coverage, what coverage to purchase may be one of the most important decisions they make. If someone has a pre-existing condition or is otherwise unhealthy, COBRA or renewable individual major-medical coverage is probably their best choice, assuming they can afford it. But for healthy individuals with short-term insurance needs, STM is clearly the most affordable and attractive option. In today's world of alarming trends in health insurance, brokers need to be aware of all three types of available coverage in order to fully service their clients' needs. ■



David Kettig is co-chief operating officer of Independence Holding Company, a holding company principally engaged in the life and health insurance business. He can be reached at 212-355-4141, ext. 3047, or dkettig@sslicny.com.

¹ Kaiser Commission on Medicaid and the Uninsured, January 2006

² Ibid.

³ Kaiser/HRET Annual Survey of Employer-Sponsored Health Benefits 1999-2005

⁴ Kaiser Family Foundation and Health Research and Educational Trust: "Employer Health Benefits Annual Survey," 2005

⁵ AL, AK, AZ, AR, DE, D.C., FL, GA, HI, ID, IL, IA, KY, ME, MD, MS, MO, NE, NM, NC, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VA, WV, WI, WY.

Where in the World is HIU?



Kelly Fristoe of Wichita Falls, TX, hiked to the top of Mount Silverheels (near Fairplay, CO) in late July. Fortunately, though it's heavy in content, HIU's weight and readability make it an ideal accessory for such excursions! Kelly was joined by kids from his church on a journey called Wilderness Trek.