PRINCIPLES OF RISK MANAGEMENT AND INSURANCE

CLASS NOTES

Chapter 21 Employee Benefits: Group Life and Health Insurance

Topics

- Group Insurance
- Group Life Insurance Plans
- Group Medical Expense Insurance
- Traditional Indemnity Plans
- Managed Care Plans
- Consumer-driven Health Plans
- Group Medical Expense Contractual Provisions
- Group Dental Insurance
- Group Disability Income Insurance
- Cafeteria Plans

Group Insurance

- Group insurance differs from individual insurance in several ways:
  - Many people are covered under one contract
  - Coverage costs less than comparable insurance purchased individually
  - Individual evidence of insurability is usually not required
  - Experience rating is used
- Group insurers observe certain underwriting principles:
  - The group should not be formed for the sole purpose of obtaining insurance
  - There should be a flow of persons through the group
  - Benefits should be automatically determined by a formula
  - A minimum percentage of employees must participate
  - Individual members should not pay the entire cost
  - The plan should be easy to administer
- Eligibility for group status depends on company policy and state law
  - Usually a minimum size is required
- Employees must meet certain participation requirements:
  - Be a full time employee
  - Satisfy a probationary period
  - Apply for coverage during the eligibility period
    - During the eligibility period, the employee can sign up for coverage without furnishing evidence of insurability
  - Be actively at work when the coverage begins

Group Life Insurance Plans

- The most important form of group insurance is group term life insurance
  - Provides low-cost protection to employees
  - Coverage is yearly renewable term
  - Amount of coverage is typically 1-5 times the employee's annual salary

    - Coverage usually ends when the employee leaves the company
        - Can convert to an individual cash value policy
- Many group life insurance plans also provide group accidental death and dismemberment (AD&D) insurance
    - Pays additional benefits if the employee dies in an accident or incurs certain types of bodily injuries
    - Some plans offer voluntary accidental death and dismemberment insurance
        - Employees pay the full cost
- Some employers make available group universal life insurance for their employees

Group Medical Expense Insurance

- Group medical expense insurance pays the cost of hospital care, physicians' and surgeons' fees, and related medical expenses
    - Insurance is available through:
        - Commercial insurers
        - Blue Cross and Blue Shield Plans
        - Managed Care organizations
        - Self-insured plans by employers
- Commercial life & health insurers sell medical expense coverage and also sponsor managed care plans
- Blue Cross and Blue Shield plans sell individual, family and group coverages
    - Blue Cross plans cover hospital expenses
    - Blue Shield plans cover physicians' and surgeons' fees
    - Major medical is also available
    - In most states, plans operate as non-profit organizations
        - Some have converted to a for-profit status to raise capital
    - Managed care plans offer medical expense benefits in a cost effective manner
    - Plans emphasize cost control and services are monitored
    - Most organizations are for-profit
    - A managed care organization typically sponsors a health maintenance organization (HMO)
        - Comprehensive services are provided for a fixed, prepaid fee

Group Medical Expense Insurance

- A large percentage of employers self-insure the health insurance benefits provided to their employees
    - Self insurance means the employer pays part or all of the cost of providing health insurance to the employees
    - Plans are usually established with stop-loss insurance
        - A commercial insurer will pay claims that exceed a certain limit
    - Some employers have an administrative services only (ASO) contract with a commercial insurer
        - The commercial insurer only provides administrative services, such as claim processing and record keeping

- Self-insured plans are exempt from state laws that require insured plans to offer certain state-mandated benefits

Traditional Indemnity Plans

- Under a traditional indemnity plan:
  - Physicians are paid a fee for each covered service
  - Insureds have freedom in selecting their own physician
  - Plans pay indemnity benefits for covered services up to certain limits
  - Cost-containment has not been heavily stressed
- These plans have declined in importance over time
- Some plans have implemented cost-containment provisions
- Common types include basic medical expense insurance and major medical insurance
- Basic medical expense insurance is a generic name for group plans that provide only basic benefits
  - Covers routine medical expenses
  - Not designed to cover a catastrophic loss
  - Coverage includes:
    - Hospital expense insurance
      - Plans pay room and board or service benefits
    - Surgical expense insurance
      - Newer plans typically pay reasonable and customary charges
    - Physicians' visits other than for surgery
    - Miscellaneous benefits, such as diagnostic x-rays
- Major medical insurance is designed to pay a high proportion of the covered expenses of a catastrophic illness or injury
  - Can be written as a supplement to a basic medical expense plan, or combined with a basic plan to form comprehensive coverage
  - Supplemental major medical insurance is designed to supplement the benefits provided by a basic plan and typically has:
    - High lifetime limits
    - A coinsurance provision, with a stop-loss limit
    - A corridor deductible, which applies only to eligible medical expenses not covered by the basic plan
  - Comprehensive major medical insurance is a combination of basic benefits and major medical insurance in one policy, and typically has:
    - High lifetime limits
    - A coinsurance provision
    - A calendar-year deductible
    - A plan may contain a family deductible provision

Managed Care Plans

- Managed care is a generic name for medical expense plans that provide covered services to the members in a cost-effective manner
  - An employee's choice of physicians and hospitals may be limited
  - Cost control and cost reduction are heavily emphasized

  - Utilization review is done at all levels
  - The quality of care provided by physicians is monitored
  - Health care providers share in the financial results through risk-sharing techniques
  - Preventive care and healthy lifestyles are emphasized A preferred provider organization (PPO) is a plan that contracts with health care providers to provide medical services to members at reduced fees
  - PPO providers typically do not provide care on a prepaid basis, but are paid on a fee-for-service basis
  - Patients are not required to use a preferred provider, but the deductible and co-payments are lower if they do
  - Most PPOs do not use a gatekeeper physician, and employees do not have to get permission from a primary care physician to see a specialist

- A health maintenance organization (HMO) is an organized system of health care that provides comprehensive services to its members for a fixed, prepaid fee
  - Basic characteristics include:
    - The HMO enters into agreements with hospitals and physicians to provide medical services
    - The HMO has general managerial control over the various services provided
    - Most services are covered in full, with few maximum limits
    - Choice of providers is limited
    - A gatekeeper physician controls access to specialty care
    - Providers may receive a capitation fee, which is a fixed annual payment for each plan member regardless of the frequency or type of service provided
- A point-of-service plan (POS) is typically structured as an HMO, but members are allowed to go outside the network for medical care
  - If patients see providers who are in the network, they pay little or nothing out of pocket
  - Deductibles and co-payments are higher if patients see providers outside the network
- Managed care plans generally have lower hospital and surgical utilization rates than traditional indemnity plans
  - Emphasis on cost control has reduced the rate of increase in health benefit costs for employers
- Managed care plans are criticized for:
  - Reducing the quality of care, because there is heavy emphasis on cost control
  - Delaying care, because gatekeepers do not promptly refer patients to specialists
  - Restricting physicians' freedom to treat patients, thus compromising the doctor-patient relationship
- Current developments include:
  - Declining enrollments in HMOs, while enrollments in PPOs continue to increase
  - Increased cost sharing, through higher premiums, deductibles, coinsurance, and co-payments

Group Dental Insurance

- Group dental insurance helps pay the cost of normal dental care
  - Also covers damage to teeth from an accident
  - Covers x-rays, cleaning, fillings, extractions, etc.
  - Some plans cover orthodontia
  - Encourages insureds to see their dentists on a regular basis
  - Coinsurance requirements vary depending on the type of service provided
  - Maximum limits on benefits and waiting periods for certain types of services are used to control costs
  - A predetermination-of-benefits provision informs the employee of the amount that the insurer will pay for a service before the service is performed

Group Disability-Income Insurance

- Group disability-income insurance pays weekly or monthly cash payments to employees who are disabled from accidents or illness
- Under a short-term plan, benefit payments range from 13 weeks to two years
  - Most cover only nonoccupational disability, which means that an accident or illness must occur off the job
  - Employee must be totally disabled to qualify
- Under a long-term plan, the benefit period ranges from 2 years to age 65
  - For the first two years, you are considered disabled if you are unable to perform all of the duties of your own occupation. After two years, you are still considered disabled if you are unable to work in any occupation for which you are reasonably fitted by education, training, and experience
  - Plans typically cover occupational and nonoccupational disability
  - If the disabled worker is receiving Social Security or other disability benefits, the payments are reduced to discourage malingering

Cafeteria Plans

- A cafeteria plan allows employees to select those benefits that best meet their specific needs
  - In many plans, the employer gives each employee a certain number of dollars or credits to spend on benefits, or take as cash
  - Many plans allow employees to make their premium contributions with before-tax dollars
  - Many plans include a flexible spending account which is an arrangement that permits employees to pay for certain unreimbursed medical expenses with before-tax dollars

End of Chapter.