

Understanding Health Insurance Costs



The more you know about insurance, the better prepared you'll be to choose the plan that's right for you and your family. Prior to buying health coverage, it is important that you learn and understand the basics of how health insurance works. Once you understand health insurance costs and how they all work together, you'll be able to find the right plan to fit your budget.

Key Terms

Coinsurance*

The cost that is shared between the member and the insurance company for eligible expenses. This is usually referred to in a percentage amount. For example if your doctor charges \$100 for a doctor's office visit and your coinsurance is 20 percent, you will pay \$20 and the insurance company will pay \$80. If you haven't met your deductible, you will pay the entire \$100.

Copayments*

A fixed dollar amount you are required to pay for a covered service at the time you receive care (for example, \$20). The amount can vary by the type of covered health care service or provider.

Deductible*

The amount you will pay for covered medical expenses before your health plan begins to pay. For example, if your deductible is \$1,000, your plan won't pay for most of your health care expenses until you've met your \$1,000 deductible for covered services.

Questions?

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Key Terms *(continued)*

Premium

The dollar amount you pay to the health insurance company to have health insurance. You and/or your employer usually pay it monthly or quarterly, whether you use medical services or not.

Annual Out-of-pocket Maximum

The most you will have to pay during a policy period for costs in a plan year. In most cases, your out-of-pocket maximum is the same as your deductible. After you reach the maximum, your plan will start covering 100 percent of your approved or covered health care costs until the end of the plan year.

Tip for choosing your premium and deductible

- If you know you'll be using your insurance often, you may want to choose a plan with a lower deductible. This means you'll pay a higher premium each month, but the amount you pay when you go to the doctor will be less over the course of the year.
- This also works the other way. If you know you won't use your insurance often, you may want to choose a plan with a lower monthly premium and higher deductible. This way you keep your monthly costs lower by taking the chance that you may not have a lot of medical expenses.

How do these costs work together?

If you have an insurance plan that has a:

- \$5,000 deductible
- 20 percent coinsurance
- Out-of-pocket maximum of \$6,000

This means:

- You must pay the first \$5,000 of your covered medical costs.
- After that, your plan covers 80 percent of the costs, and you pay the other 20 percent.
- When the amount of coinsurance you've paid of approved or covered services reaches \$6,000, the plan covers 100 percent until your "plan year" renews. A plan is good for one year.
- At the start of each year, your deductible and coinsurance resets for the next plan year and the \$5,000 deductible and 20 percent coinsurance will start again.

* Under the Affordable Care Act (ACA), preventive services are covered without you having to pay a copayment or co-insurance or meet your deductible. This applies only when these services are delivered by a network provider.