# Lesson 7.7: Understanding Health Insurance

## Lesson Author

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## Standards and Benchmarks

See page 6.

## Lesson Description

In this lesson, students learn about health insurance and the decisions that individuals make when choosing a health insurance policy. Students first learn the basic vocabulary of health insurance costs through a brief reading. Then, they consider their own preferences and values when selecting policies. Finally, students calculate the out-of-pocket costs associated with different health services and health insurance plans. To obtain answer keys for the handouts and assessment in this lesson, create an account on FederalReserveEducation.org.

## Concepts

Premium
Deductible
Copayment
Coinsurance

## Out-of-pocket maximum Objectives

Students will be able to:

- define premium, deductible, copay, coinsurance, and out-of-pocket maximums.
- explain how cost sharing works with health insurance policies.
- calculate a policyholder's financial responsibility for healthcare.
- recommend a health insurance policy based on individual characteristics.

## Compelling Question

How do people decide which health insurance policy to buy?

## Time Required

45-60 minutes

## Materials

- Visual 7.7.1: Continuum, one copy for display (single-sided)

- Visual 7.7.2: Negotiated Prices, one copy for display
- Handout 7.7.3: Your EOB (Explanation of the Basics) of Health Insurance, one copy for each student
- Handout 7.7.4: Simplified Summary of Benefits and Coverage, one copy for each student
- Handout 7.7.5: Health Event Cost Cards, one card for each student, cut apart
- Handout 7.7.6: Out-of-Pocket Cost Calculations, one copy for each student
- Handout 7.7.7: Assessment, one copy for each student
- Calculators (optional)

## Preparation

Separate the cards on Handout 7.7.5: Health Event Cost Cards. Place the two pages of Visual 7.7.1: Continuum on opposite sides of the classroom.

## Procedure

1. Put students into pairs. Have them turn to their partners and list everything they know about health insurance. Encourage students to write down as much information as possible in one minute.

2. After one minute, allow an additional 3-5 minutes for the class to share what they had listed.

3. Tell students that this lesson will give them an overview of the terminology and alternatives they will encounter when deciding on health insurance policies.

4. Distribute Handout 7.7.3: Your EOB (Explanation of the Basics) of Health Insurance to each student. Have students read the text and answer the questions.

   NOTE: See Answer Key for answers to Handout 7.7.3: Your EOB (Explanation of the Basics) of Health Insurance

5. Inform students you will read them a series of statements that they can agree or disagree with related to health insurance policies and costs. Draw students' attention to the two pages of Visual 7.7.1: Continuum on opposite sides of the classroom. Tell students they should arrange themselves along the continuum from strongly agree to strongly disagree, based on their values related to the following prompts:

   a. I would rather spend less on **premiums** even if it meant I would have to give up some flexibility to choose my own providers.

   b. I value the ability to see a specialist (e.g. dermatologist, orthopedist, physical therapist) without needing to speak to my primary care provider first.

   c. I would rather pay a lower premium each month knowing that if I do need to go to the doctor, I will likely pay more out-of-pocket.

   d. I would rather have a lower **out-of-pocket maximum** knowing that my premiums will likely be higher.

e. I would rather pay more for health insurance in premiums and not need it.

6. After students place themselves along the continuum for each statement, discuss why students chose to stand where they were. Suggested questions to review vocabulary are provided below.

    a. I would rather spend less on premiums even if it meant I would have to give up some flexibility to choose my own providers.

        - If you were on the strongly agree side, would you prefer an HMO or a PPO plan? (*HMO*)
        - Why would you want the flexibility to choose your own providers? (*More choice to find a doctor that you like or one that has an office that is closer*.)

    b. I value the ability to see a specialist (e.g. dermatologist, orthopedist, physical therapist) without needing to speak to my primary care provider first.

        - If you were on the strongly agree side, would you prefer an HMO or a PPO plan? (*PPO*)
        - Why would you want to see a specialist without talking to a primary care provider? (*Make an appointment quicker or greater autonomy in making health decisions*.)

    c. I would rather pay a lower premium each month knowing that if I do need to go to the doctor, I will likely pay more out-of-pocket.

        - If you were on the strongly agree side, what are the benefits of having lower premiums? (*Yearly cost of healthcare is lower if number of healthcare visits is minimal*.)
        - If you were on the strongly disagree side, what costs are you pondering? (*Any unexpected event may be expensive out-of-pocket*.)

    d. I would rather have a lower out-of-pocket maximum knowing that my premiums will likely be higher.

        - If you were on the strongly agree side, what are the benefits of having a lower out-of-pocket maximum? (*Easier to navigate budgeting and cost sharing*.)
        - If you were on the strongly disagree side, what costs are you pondering? (*Paying more overall if I do not use health care frequently.*)

7. Explain to students that the relative benefit of health insurance policies differs between people depending on their values, risk preferences, and health statuses. Like with other concepts within this course, personal finance is personal.

8. Distribute Handout 7.7.4: Summary of Benefits and Coverage to each student. Tell students that Handout 7.7.4 is a simplified version of a real summary of benefits and coverage. The summary of benefits document lists what insurance covers. Although it is not an exhaustive list, it does provide some details about how much to expect out of pocket as a share of the

medical expenses. Handout 7.7.4 includes the summary for three different insurance plans.

9. Review the information on Handout 7.7.4 by asking students the following questions:
    a. Which policy has the lowest premiums? (*Plan A*)
    b. Which policy has the lowest out-of-pocket maximum? (*Plan C*)
    c. Which policy primarily uses coinsurance as a cost-sharing method? (*Plan B*)
    d. Imagine the cost of an MRI was $2,500 and you had not yet met your **deductible**.
        - How much would you pay if you had Plan A? (*$2,500*)
        - How much would you pay if you had Plan B? (*$2,500*)
        - How much would you pay if you had Plan C? (*$30*)
    e. Now imagine the cost of an MRI was $2,500 and you had met your deductible.
        - How much would you pay if you had Plan A? (*$0)*
        - How much would you pay if you had Plan B? (*$625*)
        - How much would you pay if you had Plan C? (*$30*)
10. Display Visual 7.7.2: Negotiated Rates in the front of the room and distribute one card from Handout 7.7.5: Health Event Cards and one copy of Handout 7.7.6: Out-of-Pocket Cost Calculations to each student. Tell students that they will be calculating the annual cost of different healthcare scenarios using each of the three plans and inform them that this is an extremely simplified version of the billing that occurs in the healthcare industry.

    NOTE: Distribute calculators to students, if needed.

11. Explain the following scenario as an example to model the calculations, if necessary.
    a. You need an appendectomy. Assume you have already spent $1,200 on healthcare costs that would contribute to your deductible and you consume no other health services during the year.

    NOTE: See Answer Key for answers to Handout 7.7.6: Out-of-Pocket Cost Calculations.

12. After students calculate their costs, have them form groups with others that have the same scenario to review their answers. Have them nominate one student to explain their scenario and which insurance was the most and least cost-effective plans.
13. Discuss with the whole class:
    a. Was there one insurance policy that was the cheapest for all scenarios? (*No.*)
    b. Which insurance policy would you prefer? Why? (*Answers will vary. Students should include relevant information regarding their preference, such as their expected health costs and risk preference*.)

14. Inform students that it is important to note you can estimate some of your healthcare costs but there is still a degree of uncertainty. You cannot predict emergencies or the results of diagnostic tests. Furthermore, calculating health care costs is more complex than presented in the lesson, but it is valuable to understand how to find information about your health insurance coverage.

## Closure

15. Review the major points of the lesson by asking students:

    a. What is a deductible? (*The amount you must pay before insurance starts helping with costs*.)

    b. What is an out-of-pocket maximum? (*The most you'll pay in a year for services*.)

    c. How do **copays** and **coinsurance** differ? (*Copays are fixed amounts whereas coinsurance is a percentage of the cost of care*.)

    d. How does cost-sharing work with health insurance companies? (*Policy holders pay monthly premiums and depending on the policy, are responsible for a deductible before insurance will help contribute. After that, policy holders are responsible for copays or coinsurance until they hit their out-of-pocket maximums*.)

    e. When deciding which insurance policy to purchase, what would your criteria be? (*Answers will vary but may include premiums, deductibles, out-of-pocket maximums, current health status, and choice of provider*.)

## Assessment

16. Distribute one copy of Handout 7.7.7: Assessment to each student.

## Standards and Benchmarks

## National Standards for Personal Financial Education

### Standard 6: Managing Risk

People are exposed to personal risks that can result in lost income, assets, health, life, or identity. They can choose to manage those risks by accepting, reducing, or transferring them to others. When people transfer risk by buying insurance, they pay money now in return for the insurer covering some or all financial losses that may occur in the future. Common types of insurance include health insurance, life insurance, and homeowner's or renter's insurance. The cost of insurance is related to the size of the potential loss, the likelihood that the loss event will happen, and the risk characteristics of the asset or person being insured. Identity theft is a growing concern for consumers and businesses. Stolen personal information can result in financial losses and fraudulent credit charges. The risk of identity theft can be minimized by carefully guarding personal financial information.

**Benchmarks Grade 8**

4. Four key insurance terms that contribute to out-of-pocket costs with an insurance policy are: premium, deductible, copayments, and co-insurance.

**Benchmarks Grade 12**

5. Health insurance provides coverage for medically necessary health care and may also cover some preventative care. It is something offered as an employee benefit with the employer paying some or all of the premium cost.

**Visual 7.7.1: Continuum (Page 1 of 2)**

# STRONGLY AGREE

**Visual 7.7.1: Continuum (Page 3 of 2)**

# STRONGLY DISAGREE

**Visual 7.7.2: Negotiated Prices**

| Negotiated Prices for Selected Health Care Services | | | |
|---|---|---|---|
| Visits | Surgeries and Procedures | Diagnostic Tests | Prescriptions |
| Orthopedist ($300) | Inpatient: Appendectomy ($25,000) | MRI without contrast ($2,500) | Generic prescription ($30/month) |
| Otolaryngologist ($350) | Outpatient: Hip arthroscopy ($17,000) | X-ray ($350) | |
| Physical therapy ($100) | Outpatient: Tonsillectomy ($6,000) | | |
| Primary care physician ($150) | | | |
| Urgent care ($250) | | | |

## Handout 7.7.3: Your EOB (Explanation of Benefits) of Health Insurance (page 1 of 2)

Many people buy health insurance policies to help pay for medical related expenses. Like other types of insurance, individuals purchase certain amounts of coverage in anticipation of using the benefits for expected and unexpected health events in the future. Unlike other types of insurance, there may be specific enrollment periods to sign up for health insurance.

**Sources of Health Insurance Coverage**
In the United States, people can purchase health insurance from several organizations depending on their personal circumstances. More than half of all Americans are covered by health insurance policies offered from their employers. However, others purchase health insurance plans that are offered through colleges and universities, the government, a marketplace exchange, or directly from the insurance companies. In other countries, the sources of health insurance coverage differ.

**Cost-Sharing with Insurance**
With health insurance, you and the insurance company share costs:

1. **Premium**: The amount you pay monthly for your insurance policy.
2. **Deductible**: The amount you must pay before insurance starts helping with costs.
3. **Copays**: Fixed amounts you pay for services (like $25 for a doctor's visit). Copays typically do not count towards meeting your deductible.
4. **Coinsurance**: A percentage of costs you pay (like 20% of a hospital bill) after meeting your deductible.
5. **Out-of-pocket maximum**: The most you'll pay in a year for services. After reaching this limit, insurance usually covers 100% of costs for the rest of the year. The out-of-pocket maximum does not include premiums.

*Important*: Plans with lower monthly premiums often have higher deductibles and out-of-pocket costs. This is especially true for catastrophic health insurance plans, which can only be purchased by Americans under the age of 30.

**Choices Among Health Insurance Plans**
Health insurance companies also negotiate the cost of healthcare with providers. A negotiated rate is the amount insurance companies agree to pay for a service. The rate is typically lower than the full cost of the service. When providers accept your insurance policy, you are charged the negotiated rate. These providers are "in-network".
For some policies, you are only covered by your insurance if you visit a provider than is "in-network", unless it is an emergency. These types of policies are known as health

## Handout 7.7.3: Your EOB (Explanation of Benefits) of Health Insurance (page 2 of 2)

maintenance organizations (HMOs), exclusive provider organizations (EPOs), and point of service plans (POS). With these types of plans, your choice of provider may be limited. You may also need to get a referral to see a specialist from your primary care provider.
Other types of insurance are preferred provider organizations (PPOs), where you pay less for seeing doctors within the network, but the plan still offers some coverage for visits outside of the network. With a PPO, you typically do not need a referral to visit a specialist. However, premiums can be higher for PPO policies.

**Directions:** Circle whether the statements are true or false. If the statement is false, correct it so that it is true.

a. True or False: Only employers and the government provide health insurance coverage options in the United States.

b. True or False: You pay premiums every month, regardless of whether you use the insurance or not.

c. True or False: Once you meet your deductible, you are no longer responsible for copays or coinsurance.

d. True or False: Health insurance companies negotiate the price of healthcare.

e. True or False: Health maintenance organizations (HMO) offer more flexibility for seeing providers than preferred provider organizations (PPO).

## Handout 7.7.4: Simplified Summary of Benefits and Coverage

| | Plan A | Plan B | Plan C |
|---|---|---|---|
| **Monthly Premium** | $300 | $400 | $550 |
| **In-Network Deductible** | $10,600 | $3,000 | $0 |
| **In-Network Out-of-Pocket Maximum** | $10,600 | $9,200 | $7,500 |
| **Primary Care Visit** | First 3 visits free, then $0 after deductible | $25, no deductible | $10 |
| **Specialist Visit** | $0 after deductible | $50, no deductible | $20 |
| **Outpatient Mental Health Visit** | $0 after deductible | $50, no deductible | $20 |
| **Physical Therapy** | $0 after deductible | $50, no deductible | $20 |
| **Diagnostic Test-Lab Services** | $0 after deductible | 25%, after deductible | $30 |
| **Diagnostic Test-X-Rays and Imaging** | $0 after deductible | 25%, after deductible | $30 |
| **Urgent Care** | $0 after deductible | 30%, after deductible | $40 |
| **Emergency Services** | $0 after deductible | 30%, after deductible | $400 |
| **Inpatient Procedures** | $0 after deductible | 25%, after deductible | $725/stay |
| **Outpatient Procedures** | $0 after deductible | 30%, after deductible | $300 |
| **Generic Prescription Drugs** | $0 after deductible | $10, no deductible | $0 |

## Handout 7.7.5: Health Event Cost Cards

| | |
|---|---|
| 1<br><br>While playing soccer, the other team's goalie trips you and you break your finger. You visit urgent care to get an X-ray and will visit an orthopedic doctor (a specialist) to reset the bone. You revisit the orthopedic doctor once for a follow-up X-ray. Assume you did not use any health care services before this injury, and you consume no other health services during the year. | 2<br><br>Last year, you tore your MCL and although it did not require surgery, you do need to attend physical therapy sessions. You attend physical therapy three times a week for 10 weeks. Assume you did not use any health care services earlier in the year, and you consume no other health services during the year. |
| 3<br><br>After years of sore throats, you visit an otolaryngologist, a specialist also known as an ENT (ear, nose, and throat) doctor. You are scheduled for a tonsillectomy at an outpatient facility at the end of the year. You are prescribed generic pain medicine to help alleviate discomfort. Assume you have already spent $3,000 on healthcare costs that would contribute toward your deductible, and you consume no other health services during the year. | 4<br><br>After years of sore throats, you visit an otolaryngologist, a specialist also known as an ENT (ear, nose, and throat) doctor. You are scheduled for a tonsillectomy at an outpatient facility at the beginning of the year. You are prescribed generic pain medicine to help alleviate discomfort. Assume you did not use any health care services before this, and you consume no other health services during the year. |

## Handout 7.7.6: Out-of-Pocket Cost Calculations

| A | B | C |
|---|---|---|
| Yearly Premium | Yearly Premium | Yearly Premium |
| Health Costs Already Incurred (if any) | Health Costs Already Incurred (if any) | Health Costs Already Incurred (if any) |
| Event Costs | Event Costs | Event Costs |

## Handout 7.7.7: Assessment

**Directions:** Using Handout 7.7.4: Simplified Summary of Benefits and Coverage, help Claudia decide which policy to purchase.

Claudia is 25 years old and believes herself to be relatively healthy. She visits her primary care physician annually for preventative care. However, she has recently developed recurring hip pain while running. She knows she should probably get it examined and anticipates she will need imaging and physical therapy sessions. Depending on the results of the imaging, she may need surgery.

Which policy would you recommend for Claudia? Provide support for your recommendation. Make sure to explain the costs and benefits of the policy.