

Health Insurance Basics

Premiums, co-pays, deductibles, in-network, out-of-network — welcome to the world of health insurance. And you thought advanced calculus was confusing.

What Exactly Is Health Insurance?

Health insurance is a plan that people buy in return for coverage on all kinds of medical care. Most plans cover doctors' appointments, emergency room visits, hospital stays, and medications.

The idea behind insurance is simple: Medical care can be expensive. Most people can't pay for it all out of their own pockets. But if a group of people gets together, and each person pays a fixed amount every month (whether they need medical care at that time or not), the risk is spread out over the whole group. Each person is protected from high health care costs because the burden is shared by many.

Do I Really Need It?

You're young, you spend more time in the gym than an Olympic athlete, you rarely get anything worse than a cold, and your great-grandparents are still kicking at 99. Why bother spending money on insurance? Aren't the odds pretty good that you'll never get seriously sick?

We hope so. But every day, thousands of perfectly healthy people break bones, need stitches, get into car accidents, find out they have illnesses, or are told they need surgery.

You may never be one of them. But what if you are? Medical bills from even a minor car accident can mess up your finances. A major illness can wipe out your family's savings. Insurance may be expensive, but not having it might cost way more.

Health insurance is now required for everyone in the United States. People who don't have insurance have to pay penalties that get more expensive each year. Your parents can keep you on a family plan until you're 26. After that, you'll have to get health insurance on your own or through your job.

OK, So Maybe I Do Need It. How Can I Get It?

There are many different ways to buy health insurance, and the costs and benefits vary widely for each one. You'll need to see which options are available to you, given your health needs, age, and job status. You'll probably have to wade through a lot of health care buzzwords, too.

Here are some ways you might get insurance:

- **Parents' plan.** In the United States, kids can stay on their parents' health insurance plan until age 26. This is true even if you're married, live somewhere else, and have a job.
- **COBRA.** COBRA is short for the Consolidated Omnibus Budget Reconciliation Act of 1985. It's designed to protect people from losing their health insurance by allowing them to continue buying their current health plan for a limited time. COBRA is designed to protect people from suddenly losing their health insurance.
- **Short-term policy.** Many insurance companies let you buy short-term, or "student," insurance policies to bridge the gap between school and your first job. These plans are similar to COBRA, though they're usually more basic and affordable.
- **Employer plans.** This is the way most people in the United States get their health insurance. It is also usually the least expensive option, since employers often help pay for part of the insurance. Some employers



Timing Is Everything

It's best to buy health insurance before you actually need it so you won't be put on the spot for thousands of dollars in an emergency. If you're switching plans from your parents' plan, time it so you always have coverage.

offer health insurance coverage on your first day of work. Others may make you work a period of time first (30, 60, or 90 days).

- **Individual policy.** Buying health insurance on your own might be a more expensive option than sharing risk with a larger group of people (such as other students, employees, etc.). You may have to pay more if you're considered a higher risk — for example, if you do anything that affects your health, like smoking.
- **The Health Insurance Marketplace.** This option allows people who need to buy health insurance on their own to choose the best insurance to meet their needs. It's also sometimes called a **Health Insurance Exchange**.
- **Subsidized state program.** If you're under 19, uninsured, and your family's income is below a certain level, you might be able to get state help through a program called SCHIP (State Children's Health Insurance Program). Benefits vary from state to state so you'll need to check with your state's Department of Health and Human Services.
- **Medicaid.** Medicaid is sometimes also called "medical assistance." It's another type of government-funded health insurance that's available only to certain people, like low-income adults and people with disabilities. Check your state's Department of Health and Human Development (HHD) program to find out if you are eligible for Medicaid.

What If I Have a Health Problem?

If you've been living with an illness, like asthma or diabetes, insurance companies call that a "**pre-existing condition**." Insurance companies are no longer allowed to deny coverage to anyone because of a pre-existing condition.

What Type of Insurance Do I Need?

Each insurance plan is different when it comes to what's covered, what's not, and how much things cost. Figuring out which one is right for you is a bit of a balancing act: You want to get the most benefits at the least cost.

Start by looking at all the parts of the plan, not just the price you pay. For example, a plan with a low monthly premium isn't necessarily the cheapest — your co-pay might be very high or you might pay more for your prescriptions. If you don't have any health problems, that might be OK. But if you see a doctor a lot or take prescription medications regularly, a more expensive plan that covers more of the cost to see a doctor or get a prescription may actually turn out to be cheaper.

You'll also have to look at whether your plan covers things that are important to you. For example, many plans don't cover things like dental or vision care, counseling sessions, or alternative therapies like chiropractic or acupuncture.

The three major plans you'll likely have to choose from are: indemnity plans, managed care plans, or consumer-driven health plans.

Indemnity Plans

Indemnity plans are also called **fee-for-service** or **reimbursement** plans. With this kind of plan you can see any doctor you want any time you want. You pay the doctor directly and then send your claim to your insurance company. The company pays you back for part of the total cost. (For example, if your doctor charged \$100, you might get 80%, or \$80, back.)

Indemnity plans generally don't pay for preventive care, like annual physical exams. Because they offer you the most choice, the monthly premium is usually higher than other types of health plans.

Managed Care Plans

When you get insurance through an employer, it is often through a managed care plan. With managed care, a health insurance company negotiates a contract with certain health care providers, hospitals, and labs to provide care for its members at a lower cost.

The four basic types of managed care plans are:



Where to Go for Advice

An insurance agent can help you sort through different plan options. Ask your parents if you can talk to their agent. It doesn't mean you have to buy one of that agent's plans. Consider it part of the service that your parents pay for.

1. **HMO (Health Maintenance Organization).** When you join an HMO, you choose a **primary care doctor**. This doctor coordinates all your medical care, from annual physicals to hospitalizations. Although the co-pay for these services is usually fairly low, the tradeoff is that you can only use doctors and hospitals who are approved by your plan. Also you can't see any kind of specialist without a written referral.
2. **PPO (Preferred Provider Organization).** A PPO is like an HMO, only with more flexibility. Instead of choosing a primary care doctor, you can see any doctor you want. However, if you choose a doctor who participates in your plan, you will pay less.
3. **POS (Point of Service).** With a POS plan, you generally choose an in-network doctor for most of your care, but you may go outside the network if you need to see a specialist. If you do go out of network, you may have to pay more.
4. **EPO (Exclusive Provider Organization).** An EPO is like a PPO, only the network of participating doctors is smaller.

Consumer-Driven Health Plan (CDHP)

This type of plan is fairly new. It lets you set aside a certain amount of money in a special health insurance savings account. You are in charge of how you use this money to cover your health care costs. However, the deductible you have to reach is usually higher than in the other types of plans.

It can seem odd buying something that you might never need. So think of health insurance as an investment in your peace of mind. Since peace of mind means less stress, you'll start enjoying health rewards right away!

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