

Is Low-Cost Health Insurance Worth It?

Premiums look low, but you give up a lot of expensive medical coverage—that is, you transfer the risk from the insurer to yourself

by Karyn McCormack

Infomercial king Billy Mays, known for screaming about the wonders of cleaning solutions Kaboom!, OxiClean, and other household products, is now starring in a commercial for what he calls "the most important product I've ever endorsed:" health insurance. The bearded salesman started pitching iCan Benefit Group's "health insurance that you can actually afford" in May 2008, pointing to the need for its health plans given that 47 million Americans are uninsured. In the commercial, Mays says iCan's plans include guaranteed acceptance, starting as low as \$160 per month for individuals and \$260 for families, and can allow you to lower your monthly premium, increase coverage, or both. Concludes Mays: "You can't afford not to make this call."

His pitch shows how difficult it has become for many hard-pressed Americans to afford basic necessities, such as health care, as the cost of food, gasoline, and many adjustable-rate mortgage payments climb, while wages barely budge and employers cut jobs. To protect your assets, it's important that your insurance policies give you enough coverage in case something horrible happens to you or a loved one.

Mays is understandably "passionate about health care." We all need health insurance, yet many Americans can't afford it, while the cost of the plans and of medical care keeps rising. Mays is pitching iCan's Mini Medical, a type of limited health insurance for those who can't afford major medical insurance or have been turned down because of preexisting health conditions.

Low Premiums Mean High Risk

These limited plans are not for everyone, and they could end up costing more if you need expensive care. "The problem is they're advertising these unbelievably low premium health insurance plans," says Mark Kenison, a financial adviser who specializes in insurance at Turning Point Benefits Group in Charlotte, N.C. "All you're doing is transferring risk to yourself so your monthly premiums are lower."

Consumers might focus on the low monthly price and not examine the cost and coverage of each health service, Kenison says. Beware of policies that don't set a maximum amount that you'd be responsible for paying for a health service, he advises. For example, iCan's mini-medical plan will probably not provide enough coverage if you get badly injured or need surgery. Looking at an example of the company's lowest-cost offering, iCan's mini-medical plan costs an individual \$160 per month in North Carolina—plus an additional, \$100 one-time enrollment fee—and covers a maximum of just \$1,000 for surgery per year, with anesthesia limited to \$250 per surgery. If you're hospitalized, the plan would cover only \$200 for the first day and \$100 each additional day, with a maximum of \$1,100 for up to 10 days. On average, hospital care is estimated to cost \$1,931 a person per year, according to the latest figures (2004) from the U.S. government's Centers for Medicare & Medicaid Services.

The low maximum benefits—and the prospect of huge additional out-of-pocket expenditures—bothers some financial pros. "It just feels wrong," says Kenison, adding that most people would be better off getting a major medical plan that limits their risk to a certain dollar amount.

If you end up with a large medical bill, members of iCan's health plans have a health advocate to negotiate pricing and hospital charges, says Harold Shatz, managing member of iCan Benefit Group in Boca Raton, Fla. A \$40,000 to \$50,000 medical bill can be reduced to \$10,000 to \$12,000 through network pricing and use of a health advocate to examine the bills and find errors, he says. iCan's plans, Shatz says, are based on studies that found that 95% of people with major medical health plans did not have expenses that exceeded their deductible, and are geared for people who can't afford or get coverage. Shatz calls iCan's medical plans a "concierge service that gives you access to the medical community before you need it and when you need it, and holds your hand through it and helps you negotiate the pricing to what it should be."

"It's a very common-sense program for people who don't have another choice," Shatz says. "It beats the heck out of having nothing."

Pushy Marketing

Advisers recommend ignoring outfits that use such strong marketing-driven tactics as iCan and 123 Health Plan, both of which offer plans through enrollment in a nonprofit organization called Health Care Credit Union Assn. (HCCUA) The HCCUA's other membership benefits include entertainment, dining, movie and travel discounts, and roadside assistance.

Consumers should understand exactly what services a health plan covers and estimate what their out-of-pocket expenses will be. Steven Weydert, a financial adviser at Bowyer, Weydert Wealth Planning Partners in Park Ridge, Ill., says his No. 1 rule is to insure only things you absolutely can't afford to lose and to take as high a deductible as you can afford. A good place to compare health plans, he says, is eHealthInsurance.

If you lose your job during these tough economic times, you can sign up for your employer's COBRA health-care plan for the next 18 months. But some similar plans cost less. "COBRA might be more expensive than a policy that suits your needs," Kenison says. "Don't assume COBRA is the best way to go." Start shopping when you lose your job, as it usually takes two to four weeks to get a policy in place, he says.

Get Term Life

Amid the economic squeeze, it's vital to address other insurance needs, too. Consumers should make sure they have enough life insurance, which replaces income when you or a family member dies. Weydert recommends buying a term life policy covering 10 times your gross salary. If you want to be more conservative—and depending on your age—Kenison advises getting a term life policy that covers 20 times what you earn to keep your lifestyle going. So if you earn \$10,000 per month, or \$120,000 per year, you should have \$2.4 million in term life. "This would be enough to generate \$120,000 per year, using a 5% cash flow, and hopefully, you would never touch the principal," he says. That amount can be reduced, he points out, if a person can expect some other sources of income, from Social Security, say, or a pension.

Kenison also likes term life policies that are portable—that is, you can take the policy with you if you leave or lose your job. Most companies offer a \$50,000 policy at no cost, and you should be able to buy an affordable policy with additional coverage on your own. Weydert compares life insurance policies and rates for his clients at Insure.com.

Individual disability insurance (BusinessWeek.com, 8/4/08) is also a good idea, advisers say. Large corporations usually offer an employee disability plan that covers 65% to 70% of your salary if you get hurt and can't work. But your net benefit after taxes, Weydert figures, will be closer to 45% of your gross income. "Your standard of living will go way down if you take a claim, so you need another policy to bring you back closer to whole," he says. Look for an individual disability policy that covers 65% to 70% of your gross income. Also, make sure the insurance provider has a liberal definition of disability—which will help you qualify as disabled and get benefits, Weydert says. And look for an insurer with high ratings, such as John Hancock, he says.

The loud pitch from Billy Mays might entice some consumers to buy insurance out of fear, without understanding the policy. After you shop around, find an agent who will take the time to explain the policy to you and don't buy until you understand it. Remember, says Marc Vorchheimer, an adviser at Integrated Financial Consulting in Spring Valley, N.Y.: "Your goal is to protect against catastrophe."