Insight

Health Insurance for your Health Insurance

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In addition to the rising costs of health insurance premiums, prescription medications and co-payments, health care deductibles are also increasing. However, the free market has responded by offering a potential solution.

People who have high deductible insurance plans are responsible for covering all claims until a certain threshold. If unexpected medical costs like an emergency department visit or an appointment with a specialist become necessary, this gap in coverage may be unaffordable for many Americans. A Kaiser Family Foundation study found that half of all Americans do not have enough liquid assets to cover a higher deductible if needed.[1] That is why many companies now sell insurance to cover that gap, or insurance for your health insurance.

Some consumers choose to buy additional coverage to supplement their primary health insurance and help cover out of pocket costs incurred with a high deductible plan. Companies can also purchase these types of plans in addition to standard high deductible plans for employees. Gap insurance takes some of the unpredictability out of providing insurance to employees, because employers know how much they will paying each year instead of wondering how much of an employee's deductible they will be responsible for covering.

Individuals purchasing coverage on the individual market can use this additional insurance to their benefit by switching from a lower deductible plan to a high deductible plan. The monthly premium would be much lower, and a gap plan could be used to cover the difference in benefits. The average deductible for a bronze plan in 2016 was $5,765 and $3,064 for a silver plan.[2] In 2017 the highest deductible allowed by Affordable Care Act (ACA) regulations is $7,150 for an individual plan. A consumer could switch to a plan with a deductible closer to the maximum and use supplemental gap insurance to cover costs until the higher deductible is reached. This is done by paying an additional low monthly premium to an outside insurance provider. Gap insurance is especially useful for family coverage, where deductibles are much higher. For many families a set monthly payment is much more manageable than paying a lump sum of money after an accident or illness. The highest ACA family deductible for 2017 is $14,300 regardless of household size.[3] Once the primary deductible is reached, the original insurer would pay for remaining expenses.

There is a wide variety in the types of supplemental insurance available for purchase, some only cover unexpected hospitalizations, while other gap plans offer more extensive coverage, including medications, co-pays and co-insurance. This market could expand in the future as health care costs rise and premiums paid on the individual market continue to increase.

Gap insurance is not considered a qualified health plan (QHP) so it is not subject to the regulations of the ACA. Gap plans may have pre-existing insurance provisions and can deny coverage to some applicants. Reimbursement can also be complicated, many plans offer cash reimbursement, but purchasers must wait to submit the clam until after it has been processed by their original insurance provider.

Health Savings Accounts (HSAs) are another alternative to Gap insurance for High Deductible Plans, especially for employers offering health care. Employers who spend money on gap insurance can instead make a monthly contribution to an employee HSA. The money is owned by the individual, meaning that if employees do not end up needing to use the money to cover health expenses, savings are still there. HSAs roll over from year to year and are tax free. With Gap plans you do not get to keep the money you do not use. HSAs also have a set cost; gap insurance coverage is hard to budget for, because premium prices increase each year. Gap plans are only of use if something bad happens, HSAs are of benefit no matter what. Unfortunately for those purchasing insurance on the individual market, HSAs are currently not compatible with all plans offered on the health exchange. A rule initiated for the 2017 plan year makes standardized exchange plans incompatible with IRS regulations for HSAs. Many of the Republican replacement plans encourage the use of Health Savings Accounts. HSAs will likely play a large role in of health reform in the future, but until a replacement plan is implemented, gap insurance may be a better option for individuals while HSA coverage will offer greater value to employers.

[1] http://kff.org/private-insurance/issue-brief/consumer-assets-and-patient-cost-sharing/

[2] http://kff.org/health-costs/issue-brief/patient-cost-sharing-in-marketplace-plans-2016/

[3] https://data.healthcare.gov/dataset/2017-QHP-Landscape-Individual-Market-Medical/v7sn-c66v