

Health Insurance Premiums

Determining Health Insurance Premiums An accident or illness could take away your income, deplete your savings, and leave you in debt. Just as important as vehicle insurance is **health insurance**. It protects *you* against overwhelming medical expenses.

Many types of health care coverage plans exist. We will focus on just three group health insurance plans: a **traditional plan**, a **preferred provider organization** (PPO), and a **health maintenance organization** (HMO).

A traditional plan offers health care coverage where the health care provider is paid a predetermined dollar amount for the service given. You may use any health care provider.

A PPO is a group of selected health care providers who offer **comprehensive** services at preset reimbursement levels. You are required to use these “network” providers (that is, a selected group of doctors) unless you are willing to pay additional costs to non-network providers.

An HMO is a prepaid health plan in which care providers contract with (or are) employees of the HMO. You may select a “primary care” physician and agree to receive all non-specialist and non-emergency services from that physician. The physician may refer you to a specialist (an obstetrician, a psychiatrist, or a cardiologist, for example).

Often the employer pays 75% to 80% of the premiums and the employee pays the remaining 20% to 25% in the form of a payroll deduction. The health insurance premium you pay is determined by the following formulas:

$$\text{Employee's Percent} = 100\% - \text{Employer's Percent}$$

$$\text{Employee's Contribution} = \text{Total Premium} \times \text{Employee's Percent}$$

EXAMPLE

Sean Derricotte has a family membership in a group medical insurance program. The annual premium is \$11,880. Sean's employer pays 80% of the total cost. His contribution is deducted monthly from his paycheck. What is Sean's annual contribution? What is his monthly deduction?

Step 1: Find the employee's percent.

$$100\% - 80\% = 20\% \text{ employee's percent}$$

Step 2: Find the employee's annual contribution.

$$\text{Total Premium} \times \text{Employee's Percent}$$

$$\$11,880.00 \times 20\% = \$2,376.00 \text{ employee's annual contribution}$$

Step 3: Find the employee's monthly deduction.

$$\frac{\text{Employee's Contribution}}{12}$$

$$\frac{\$2,376.00}{12} = \$198.00 \text{ employee's monthly deduction}$$

$$100 - 80 = 20$$

$$11880 \times 20\% = 2376 \div 12 = 198$$

Concept Check

Complete the problems. Find the (a) employee's total annual contribution and (b) employee's monthly deduction. Check your answers in the back of the book.

- Dorsey Williams has a single plan. His PPO annual premium is \$4,325. His employer pays 65%.
- Rubina Shaw has a family plan. Her HMO annual premium is \$11,473. Her employer pays 73%.

Lesson Practice

For Problems 3–7, find the (a) employee's percent, (b) employee's contribution, and (c) monthly premium.

	Insurance Plan	Annual Premium	Employer's Percent	Employee's Percent	Employee's Contribution	Monthly Premium
3.	Single PPO	\$ 4,980	60%	a.	b.	c.
4.	Single HMO	\$ 4,368	80%	a.	b.	c.
5.	Family Trad.	\$10,666	75%	a.	b.	c.
6.	Family HMO	\$12,540	85%	a.	b.	c.
7.	Family PPO	\$14,600	75%	a.	b.	c.

- Sing-Chi Chow has a single plan. The PPO annual premium is \$12,436. The employer pays 85% of the cost. (a) How much does Sing-Chi pay annually? (b) How much is deducted from his weekly paycheck?
- Lance Alpern has a single plan. The HMO annual premium is \$9,255. His employer pays 70% of the cost. (a) How much does Lance pay annually? (b) How much is deducted from his weekly paycheck?
- Darrell Morris has a family plan. The HMO annual premium is \$12,240. The employer pays 90% of the cost. (a) How much is Darrell's annual contribution? (b) How much is his semimonthly deduction?