Accident, Health & Disability Table of Contents

Section I. Types of Policies- Disability Income Insurance ..........................................................5
  Risk Management......................................................................................................................5
  Disability Income Insurance..................................................................................................6
Section I Review .........................................................................................................................10
Section II. Types of Policies- Accidental Death and Dismemberment and Others .....................11
  Accident Insurance and Accidental Death and Dismemberment Insurance .........................11
  Hospitalization Income Indemnity Insurance ......................................................................11
  Long Term Care (LTC) Insurance ..........................................................................................12
  Medical/Major Medical Expense Insurance .......................................................................13
  Limited Coverage Plans .......................................................................................................14
  Special Risk Policies .............................................................................................................14
  Fee-for-Service Basis vs. Prepaid ..........................................................................................14
TRICARE..................................................................................................................................14
Health Insurance Portability and Accountability Act of 1996 (HIPAA). ................................15
Employee Retirement Income Security Act of 1974 (ERISA) ..................................................15
Medicare.................................................................................................................................16
Supplementary Medicare Plans ............................................................................................18
Medicaid.................................................................................................................................19
Workers’ Compensation Programs ........................................................................................19
Health Saving/Spending Accounts ........................................................................................20
Section II Review .......................................................................................................................23
Section III. Policy Provisions, Options, and Benefits .................................................................25
  Insurance Policies are Contracts.............................................................................................25
  Required Uniform Policy Provisions .....................................................................................26
  Optional Uniform Policy Provisions ......................................................................................28
  Other Common Terms and Provisions ..................................................................................29
Section III Review .......................................................................................................................30
Section IV. Completing the Application and Delivering the Policy .............................................32
  Completing the Application. ..................................................................................................32
  The Effect of Money on the Application. ..............................................................................32
  Signatures ...............................................................................................................................33
  Legal and Compliance Issues ...............................................................................................33
  Underwriting the Policy .........................................................................................................34
  Premium Determination .........................................................................................................36
  Policy Delivery .......................................................................................................................37
  Group Accident and Health Insurance ................................................................................38
  Dental Insurance ....................................................................................................................40
  Taxation Issues .....................................................................................................................41
  Other Provisions Affecting Insurance Benefits ....................................................................42
  Medical Terminology Related to Health Insurance ............................................................43
Section IV Review .......................................................................................................................44
Section V. Types of Health Insurance Providers .......................................................................45
  Types of Insurance Companies ............................................................................................45
  Types and Duties of Agents ....................................................................................................47
  Laws and Rules Regulation Insurance Companies and Agents ...........................................48
Section V Review .......................................................................................................................50
Preliminary Quiz........................................................................................................................52
Practice Exam 1 ..........................................................................................................................57
Practice Exam 2 ..........................................................................................................................62
Accident, Health, and Disability Crossword Puzzle ..................................................................68
Answer Keys .............................................................................................................................72
Health Insurance Basics

Section I. Types of Policies - Disability Income Insurance

Risk Management

Insurance
A contractual coverage binding the insurer to indemnify the insured against a specified loss in return for paid premiums.

Indemnification
The concept of restoring individuals to the same financial position they were at before a loss occurred. Indemnification is the central idea behind the concept of insurance.

- Insurance is based on the Law of Large Numbers. The bigger the sample observed, the more accurate and predictable are the results.
- Health Insurance transfers economic loss that would impact an individual due to an unforeseen incident, in this case illness or disability from the insured to an insurer.

Pure Risk
A risk involving the probability or possibility of loss with no chance for gain. An example would be a homeowner who wants to guard against a possible house fire. Pure risks are generally insurable.

Speculative Risk
A risk for which it is uncertain whether the final outcome will be a gain or a loss. Gambling is a speculative risk. Speculative risks are generally not insurable.

Insurable Risks
Not all risks insurable. Speculative risks or certain risks are generally not insurable.
To be considered insurable a risk must be:
- Due to chance
- Measurable
- Predictable
- Based on a large enough pool of individuals so that the law of large numbers can allow the insurer to accurately predict losses.
- Selected from a diverse, randomly selected pool of insurable risks.

The Role of Health Insurance
Health care is one of the largest expenses in our economy today. Businesses have paid most medical insurance costs but have started shifting costs to employees. Who should offer coverage, businesses or government, or should the individual be responsible for their own coverage? This issue is currently the subject of much debate.

Types of Health Insurance Policies
Three main categories of health insurance:
- Disability Income Insurance
- Accidental Death and Dismemberment
- Medical Expense Insurance
Disability Income Insurance
(Loss of Income Insurance)

Disability insurance is one of the most frequently overlooked exposures. At most ages the probability of a serious, long-term disability is greater than that of death.

- Pays up to a maximum of about 60% of income lost as the result of disability.
- Reimburses for loss of income while disabled.
- No hospitalization required in order to receive benefits.

Non-Occupational Policies
Coverage is excluded for an individual’s hazardous occupation but includes general accident, sickness, or disability coverage. These policies have lower premiums. Examples of such hazardous occupations could include firefighting or test aircraft pilots.

Coordination of Benefits
Comparing benefits in different policies held by the policyowner at the time of a claim to avoid overpayment or double payment of benefits.

Historically,
- Individually held policies do not coordinate if more than one policy is involved. (We’ll talk later of how this changes if a coordination of benefits provision is included in the policy.)
- Policies on groups usually do coordinate with other existing disability benefits such as Workers’ Compensation, other group disability programs, and Social Security, but not with individually owned disability benefits.

Definitions of Disability

Total Disability

- **Any Occupation:** Most strict definition of total disability. The insured cannot perform duties of any occupation for which his education, training or experience makes him reasonably suited.

- **Your Occupation/Specific Occupation:** Insured cannot perform duties of his regular profession, or the profession in which he is engaged when the disability begins. There is usually a provision that the insured must be in a doctor’s care.

- **Specialist Occupational Disability:** Tighter definition of the “your occupation” definition. This applies when the insured is highly trained in a specific field and cannot do those demanding skills, even though he can still do much less complicated work but would suffer a reduction in income.

Example: A neurosurgeon might lose the intricate dexterity to perform that specialty’s duties but could perform as a family physician.

The more specific the definition of what constitutes a total disability, the more expensive the policy.
**Partial Disability**

- Usually defined in terms of ability to perform duties as well as time the insured can work only on a part-time basis, or cannot perform all of the major duties of his occupation.
- Benefits are usually paid only for a limited time, such as six months.

**Residual Disability**

An optional coverage in the disability policy that replaces the partial disability concept, residual disability income benefits are paid in proportion to the reduction in income and can continue indefinitely, until the disability is over. Once the disability is over, however, benefits also stop.

Partial and Residual disability benefits are considered to be “at-work” benefits.

**Occupational vs. Non-Occupational Disability**

Disability benefits on an occupational basis are coordinated with Workers' Comp and Social Security benefits.

- Short-term disability policies usually cover non-occupational disabilities only.
- Long-term policies usually cover both occupational and non-occupational sickness and accidents.

**Partial Disability**

- Usually defined in terms of ability to perform duties as well as time the insured can work only on a part-time basis, or cannot perform all of the major duties of his occupation.
- Benefits are usually paid only for a limited time, such as six months.

**Residual Disability**

An optional coverage in the disability policy that replaces the partial disability concept, residual disability income benefits are paid in proportion to the reduction in income and can continue indefinitely, until the disability is over. Once the disability is over, however, benefits also stop.

Partial and Residual disability benefits are considered to be “at-work” benefits.

**Occupational vs. Non-Occupational Disability**

Disability benefits on an occupational basis are coordinated with Workers' Comp and Social Security benefits.

- Short-term disability policies usually cover non-occupational disabilities only.
- Long-term policies usually cover both occupational and non-occupational sickness and accidents.

**Partial Disability**

- Usually defined in terms of ability to perform duties as well as time the insured can work only on a part-time basis, or cannot perform all of the major duties of his occupation.
- Benefits are usually paid only for a limited time, such as six months.

**Residual Disability**

An optional coverage in the disability policy that replaces the partial disability concept, residual disability income benefits are paid in proportion to the reduction in income and can continue indefinitely, until the disability is over. Once the disability is over, however, benefits also stop.

Partial and Residual disability benefits are considered to be “at-work” benefits.

**Occupational vs. Non-Occupational Disability**

Disability benefits on an occupational basis are coordinated with Workers' Comp and Social Security benefits.

- Short-term disability policies usually cover non-occupational disabilities only.
- Long-term policies usually cover both occupational and non-occupational sickness and accidents.

**Partial Disability**

- Usually defined in terms of ability to perform duties as well as time the insured can work only on a part-time basis, or cannot perform all of the major duties of his occupation.
- Benefits are usually paid only for a limited time, such as six months.

**Residual Disability**

An optional coverage in the disability policy that replaces the partial disability concept, residual disability income benefits are paid in proportion to the reduction in income and can continue indefinitely, until the disability is over. Once the disability is over, however, benefits also stop.

Partial and Residual disability benefits are considered to be “at-work” benefits.

**Occupational vs. Non-Occupational Disability**

Disability benefits on an occupational basis are coordinated with Workers' Comp and Social Security benefits.

- Short-term disability policies usually cover non-occupational disabilities only.
- Long-term policies usually cover both occupational and non-occupational sickness and accidents.

**Presumptive Disability**

Protects against sudden, drastic disabilities.

- Generally protects against loss of hearing, sight, speech or the loss of any two limbs.
- Definition varies between contracts, mainly in wording- Total, Irrevocable or Permanent. Total losses protect from temporary loss of broken limbs, hearing, sight and speech. With an irrevocable loss the disability must be permanent.
- All contracts that have a presumptive disability provision pay first benefits for these losses (no deductible).
- Similar to benefits through an accidental death and dismemberment contract.

**Injury vs. Sickness**

Disability policies are designed to pay for loss of income due to either injury or sickness, as long as the probationary and elimination periods have been met. Benefits are coordinated if the individual is both injured and sick- they will not be paid for both at the same time.

**Deductibles of Disability Insurance**

**Probationary Period/Qualification Period**

- The period of time between the policy inception and the point at which coverage begins
- Only one Probationary Period during the policy.
- Probationary Period can be 15, 30, or up to 60 days for a long-term policy.

**Elimination Period/Waiting Period**

- There is an Elimination Period every time there is a new disability.
- The period of time between the disability’s onset and the beginning of benefit payments.