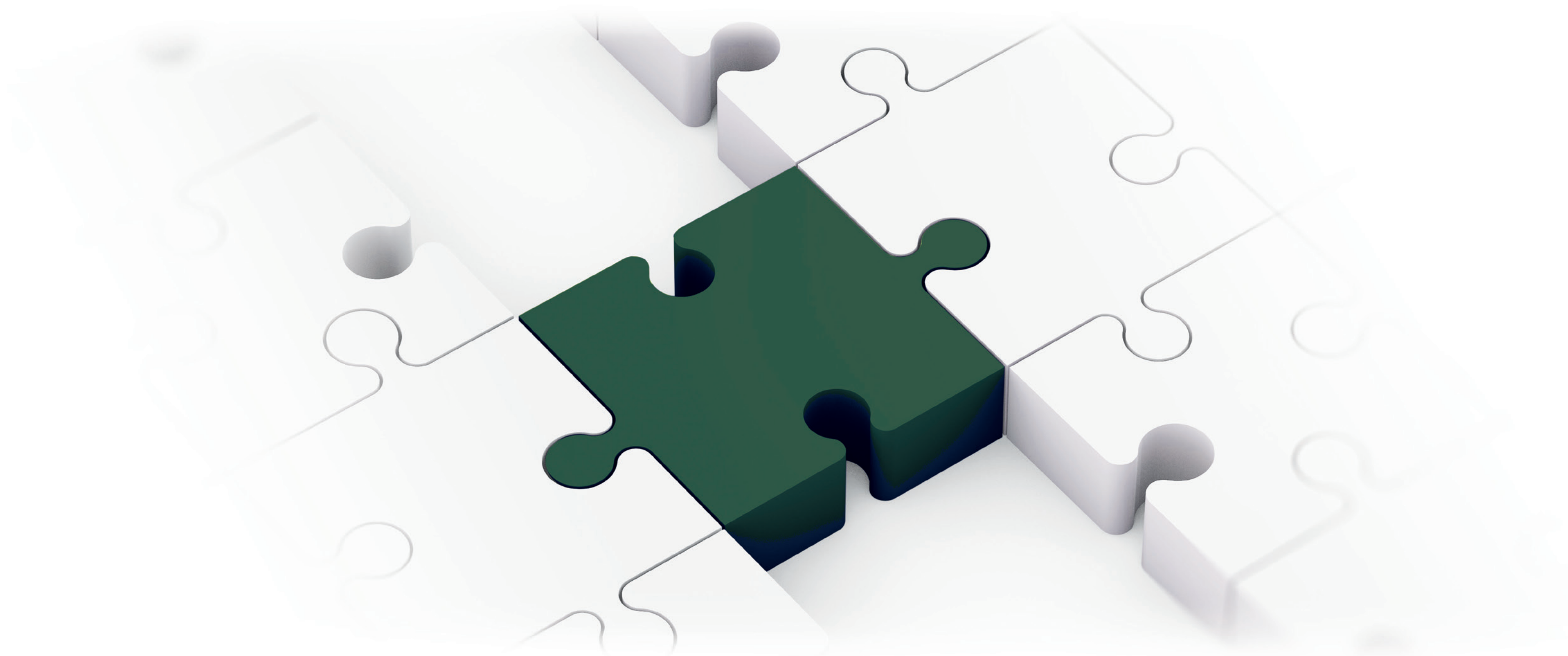
EMPLOYEE BENEFIT SERVICES, INC.

The Consumer Guide to Medical Gap Benefits



Read this guide and you will discover:

- The basic concept behind medical gap insurance
- Why medical gap coverage has become so popular in recent years
- The Eight (8) worst gap insurance policy provisions
- Eleven (11) things you need to know before purchasing gap coverage
- The importance of value & price when evaluating medical gap coverage
- Ten (10) questions to ask to determine if medical gap is a good fit for your organization

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Dear Business Owner:

Providing a strong medical benefit package to your valuable employees isn't easy these days. Cost increases in the form of premium rate hikes, and increases in deductibles and coinsurance limits have forced employers to turn to new benefit options. One such option is known as "gap insurance" or "medical gap insurance".

But, choosing a medical gap benefit isn't easy either. Why, because the marketplace is full of gap-type insurance products. Sales material and other information can be confusing and employers are often left with more questions than answers.

How do you know if a medical gap benefit is a fit for your organization? And, how do you evaluate the various medical gap insurance products in the marketplace? You start by reading this consumer guide in which you will learn:

- *The basic concept behind medical gap insurance*
- *Why medical gap coverage has become so popular in recent years*
- *The Eight (8) worst gap insurance policy provisions*
- *Eleven (11) things you need to know before purchasing gap coverage*
- *The importance of value & price when evaluating medical gap coverage*
- *Ten (10) questions to ask to determine if medical gap is a good fit for your organization*

We wrote this guide so that employers can make an informed, intelligent decision when evaluating medical gap benefits.

And, if you have any questions about medical gap benefits, you are invited to call us at (601) 353 - 0002. We have dedicated our business to educating consumers and we will be happy to help you in any way we can.

Cordially,
Employee Benefit Services, Inc.

Medical Gap Insurance – The Basic Concept

The concept behind gap insurance is strait forward; the employer increases the deductible and coinsurance limit (also called out-of-pocket expense limit) on their group medical insurance policy, thereby saving premium dollars. This action creates a gap between the new benefits and the former benefits.

Then, some of the dollar savings is used to purchase gap insurance, which will replace some (or all) of the benefits that were lost by raising the deductible and coinsurance limit.

Assuming the cost of the gap coverage is less than the premium dollars that are saved by raising the deductible on the group health policy, then the employer realizes some dollar savings and the employees have some (or all) of their deductible and out-of-pocket expense limit restored by the gap coverage.

Why Medical Gap Coverage Has Become So Popular In Recent Years

Medical gap insurance gained popularity in the 1990s when medical inflation began to drive up the cost of healthcare resulting in premium rate increases in the group health market. Gap insurance continued to grow in popularity during the first decade of the 21st century.

With the passage of The Affordable Care Act in 2010, high deductibles and high coinsurance limits have become commonplace.

Employers have therefore continued to seek out ways to provide a strong benefit package to their valuable employees at a reasonable cost, and medical gap coverage is one such way.

Today, there are many medical gap insurance choices in the marketplace. Gap benefits are typically provided through an insurance policy written either on a “group” basis or an “individual” basis.

The benefits and policy provisions provided by these gap insurance policies vary widely, depending on the insurance company.

Note, in this guide the terms “company” and “carrier” both refer to the insurance company providing the gap insurance.

8 The Eight Worst Gap Insurance Policy Provisions

As stated previously, the gap insurance benefits and policy provisions vary widely, depending on the insurance company writing the policy. Below are eight (8) policy provisions that employers should be aware of before making a purchase decision. These policy provisions will negatively impact your employees.

1. Gap Policy does not cover **outpatient hospital charges** the same as inpatient hospital charges.

   Some gap policies limit coverage of outpatient hospital charges to half (or some other percentage) of the amount that it covers for inpatient charges. In order to receive the full benefit from the gap policy, your covered employee has to be admitted to the hospital. Your valuable employees are **much more likely to incur medical services in an outpatient hospital setting than an inpatient hospital setting.** Thus, your employees will be left with large dollar out-of-pocket medical expenses.

   For example, assume an employer raises the deductible on their group major medical policy to $5,000 and buys a gap policy with a $5,000 maximum benefit. However, the gap policy has a $2,500 limit on outpatient hospital services. Your employee receives treatment and services in an outpatient setting totaling $5,000. The gap policy will pay $2,500 and your employee will be responsible for the remaining $2,500.

2. Gap Policy does not cover **ambulance** services.
   Many gap policies simply do not cover ambulance services (even though your group major medical policy does). While only a small percentage of your employees will require ambulance services in a given year, those who do require ambulance services will be left with large dollar out-of-pocket medical expenses at the precise time that they need help the most.

3. Gap policy does not cover **physical therapy**.

   Many gap policies do not cover physical therapy (even though your group major medical policy does). Physical therapy is commonly prescribed and recommended by physicians. If your gap policy does not cover physical therapy, then your valuable employees will be left with hundreds or thousands of dollars of out-of-pocket expenses.

4. Gap policy does not cover **other important** medical services (services that are covered by your group major medical policy).

   Examples of services not covered by some gap policies:

   - Professional Fees at a physician's office
   - X-rays or other diagnostic imaging received at a physician's office
   - Lab work received at a physician's office

- Outpatient Prescription Drugs
- Chiropractic services
- Durable medical equipment
- Outpatient Therapy (physical, speech, or occupational therapy)
- Drug or alcohol treatment
- Mental or nervous treatment
- Skilled Nursing Care
- Hospice Care
- Outpatient Immunotherapy (such as treatment for arthritis)
- Cardiac Catheterization
- Outpatient dialysis
- EKG, EEG, or ECG

5. Gap policy limits coverage of certain services to a specified dollar amount.

   A gap policy may cover some of the items shown in 2, 3, and 4 above, but the coverage is limited to a fixed dollar amount.

   For example, a gap policy might cover physical therapy, but only up to $500 per year. Or, a gap policy might cover ambulance services, but only up to $500 per year. With these type policy provisions, your employees might be left with hundreds or thousands of dollars of out-of-pocket expenses.

6. Gap policy maximum benefit is too low (the gap policy does not provide coverage up to the major medical deductible).

   For example, if your group health policy has a $5,000 deductible, and your gap policy has a $3,000 policy limit, then your employees will be responsible for $2,000 in out-of-pocket medical expenses before the major medical begins to pay.

7. Gap policy will not accept claim from medical provider.
   Some gap policies will not honor the assignment of benefits from the medical provider. Therefore, your employee will have to file the claim in order to get reimbursement.

8. Gap policy does not pay medical provider.
   Some gap insurance policies do not pay benefits to the medical provider. Therefore, your employee will have to pay the medical provider, then file the claim with the gap carrier, and wait for reimbursement. Your employee will be out the money while they wait for reimbursement.

11 Eleven Things You Need to Know Before Purchasing Gap Coverage

1. Does the gap policy coordinate benefits with your group major medical policy?

   You need to know the answer to this question in order to determine exactly how much help the gap benefit will provide to your employees.

   If a gap policy **does not** coordinate benefits with your group major medical policy, then the gap policy likely pays a fixed dollar amount based on the medical service received by your employee. With these type gap policies, it is difficult for the employer to determine how much help the gap benefit will actually provide to the employee. It is also likely that your employee will have to file the claim with the gap carrier in order to receive reimbursement.

   If a gap policy **does** coordinate benefits with your group major medical policy, then when medical services are received, the medical provider must first file a claim with the major medical carrier. Then, the major medical carrier processes the claim and sends the medical provider an Explanation of Benefit ("EOB"). The EOB documents how the major medical policy covers the claim; whether or not the service is covered, how much of the charges are allowed, the amount of allowed charges that apply to deductible, out-of-pocket, etc. The medical provider then files the claim and the major medical EOB with the gap insurance carrier. The gap carrier then processes the claim using the major medical carrier EOB to determine the gap benefits.

   For gap policies that **do** coordinate benefits with the major medical carrier, it is possible to determine how much help the gap policy will actually provide. For example, suppose an employer has a group major medical policy with a $5,000 deductible, 80%/20% coinsurance, and $6,850 total out-of-pocket expense limit. And, suppose the employer would like to purchase a gap insurance policy that will effectively lower the employee deductible from $5,000 to $1,000 and the total out-of-pocket from $6,850 to $2,500. A gap policy that pays benefits based on the major medical EOB can accomplish this goal because the gap carrier will know how many dollars have been applied to the major medical carrier $5,000 deductible based on the EOB.

   A gap policy that does not coordinate benefits with the group major medical policy simply cannot provide the employer with assurance that their goal will be met.

2. What is the Maximum Annual Policy Benefit or Limit?

   You need to know the maximum annual policy benefit to make sure that the gap between the high deductible major medical policy and the benefit that you desire for your employees is actually filled.

   For example, an employer raises the deductible on their group health policy from $1,000 to $5,000 and purchases a gap insurance policy, but the gap policy has a $3,000 maximum annual benefit. In this case, the gap benefit will not pick up all of the $4,000 of additional employee liability by raising the deductible from $1,000 to $5,000. Therefore, your employees will have additional financial exposure and risk.

3. Other than the Maximum Annual Benefit, what are the **other** policy dollar limits?

   It is very important to know whether the gap policy has separate policy limits for various medical services. Some gap insurance policies have lower limits for Outpatient Hospital services than for Inpatient Hospital services. This is important since Outpatient Hospital services are much more common than Inpatient Hospital services. For example, an employer raises the deductible on their group health policy from $1,000 to $5,000 and purchases a gap insurance policy. The policy has a $5,000 Inpatient Hospital benefit maximum and a $2,500 Outpatient Hospital benefit maximum. If a covered employee receives Outpatient Hospital services, the gap benefit will not pick up all of the $4,000 additional financial liability by raising the deductible from $1,000 to $5,000 deductible. Therefore, your employees will have additional financial exposure and risk.

4. Does the gap policy cover **any** medical service that is covered under the employer's group major medical policy which apply to the deductible or out-of-pocket-expense limit?

   This is a very important question. If the answer is **yes**, then you don't have to worry so much about what the policy does not cover. If the answer is no, then you will want to dig deeper and find out exactly what the policy **does** cover. This information can be found in the actual policy language. Ask the gap carrier to provide an example or specimen policy so that this language can be reviewed.

5. Specifically, what medical services are **excluded** by the gap policy?

   The best way to know what is excluded under the terms of the policy is to obtain an example or specimen policy. Even if the answer to question 4 is yes, it is always good to know exactly what services are excluded.

   As discussed previously, many of the gap policies on the market exclude ambulance services, physical therapy, speech therapy, occupational therapy, and many other services. Your valuable employees will have additional financial risk for any medical service that is covered by the group major medical policy but excluded by the gap policy.

6. Does the employee have to file the claim with the gap carrier?

   With some gap policies, the covered employee has to file the claim with the gap carrier and the gap benefit is paid directly to the covered employee. With these policies, the employee is responsible for paying the medical provider first and then waiting for reimbursement from the gap carrier.

7. Does the gap policy honor assignment of benefits from the medical provider?

   If the gap policy honors the assignment of benefits, then the gap carrier will pay the benefit directly to the medical provider. Also, the medical provider will usually file the claim as well. This will be of great value to your employee because they will not have to pay the medical provider first, then file the claim with the gap carrier and wait for reimbursement.

8. Will covered employees have proof of coverage or some type of I.D. Card?

   It is very important that medical providers be aware that your employees have gap coverage. Otherwise, they will attempt collection based only on the benefits of the high deductible group health policy.

9. Does the gap insurance company have a customer service center and web-site that maintains eligibility and benefit information?

   Medical providers will want to verify that your covered employee has gap coverage in force at the time medical services are rendered. Therefore, it is important that the gap company have a customer service center and on-line eligibility and benefit information. Otherwise, the medical provider will attempt collection based only on the benefits of the high deductible group health policy.

10. How will the gap benefit be communicated to your employees?

    It is vital that your employees fully understand their gap benefit. They should be provided with easy to understand information regarding the benefit, how it coordinates with their primary group health coverage, claim filing instructions, who to call for questions, etc.

    The more time spent at the front end explaining the gap benefit, (what is does and does not cover), the less confusion your employees will have. This is true regardless whether the gap policy covers everything covered by the group major medical policy or not.

    It is always good to have handouts and other material that employees can take home and share with their spouse. Your insurance agent will help you with these communication issues.

11. Who will handle ongoing customer service issues?

    Questions and service issues will arise, even with the best benefit programs. You will want the contact information of the service team well before the plan is implemented.

The Importance of Value & Price When Evaluating Medical Gap Coverage

It is very important to understand the relationship between price and value. The price of a medical gap benefit is the premium rate that the employer pays. And, the value of the medical gap benefit is the actual coverage that your employee receives. With gap insurance, like so many other purchases, you get what you pay for. A low premium rate is a strong indication that your employees will receive a reduced benefit.

The gap premium rate is a function of the estimated gap benefit that is going to be paid ("claims"), and the overhead and sales cost of the insurance company ("overhead").

The **first** pricing component is claims. Gap benefits are reasonably predictable and can be accurately estimated by an actuary. The **second** pricing component is the overhead requirements of the gap insurance company. All insurance companies have overhead including: salaries of officers, supervisors, claims and customer support staff, advertising, office space, and sales costs. Insurance companies also have profit requirements from shareholders, state insurance reporting requirements, and insurance companies pay state insurance taxes based on premiums.

The main point in considering value and price is this: if the insurance company selling the gap benefits has **high overhead costs**, then the claims component must be reduced in order to keep the premium rates competitive. And, if the claims component is reduced, then the **gap benefits must be reduced**.

This is the reason why much of the gap insurance sold in the marketplace today have so many policy exclusions and dollar limits, it is because a large portion of the premium dollar must go to cover the overhead costs of the insurance company leaving less money remaining to pay claims.

When considering medical gap insurance, remember that the premium you pay is directly related to the benefits (claims) that are going to be paid out to your employees, and the overhead cost of the insurance company. Since gap benefit claims are fairly predictable, the premium rate is a direct reflection of the benefits that your employee will receive. Be wary of a super low premium rate. Your employees may wind up paying the price later, when the coverage does not live up to expectations.

10 Ten Questions to Ask to Determine if Medical Gap is a Good Fit for Your Organization

As an employer, you need two key pieces of information when evaluating whether a medical gap arrangement is a good fit for your organization:

a. How much money will this arrangement save your company?

b. Will your employees lose any benefits that they currently have?

The answers to the following ten (10) questions will help you make this determination.

1 How important is saving money on employee benefits?

Only you, the employer, can answer this question.

A medical gap approach (high deductible major medical policy combined with gap benefit) is a way to realize front-end savings versus remaining with the major medical carrier on with low deductible benefit.

2 What is the target medical deductible that you would like for your employees to have?

There is no hard and fast rule, but if the goal is for your employees to have a deductible of $1,500 or less, then you should consider a medical gap benefit. If the desired employee deductible is $2,000 or over, you may not see a big financial savings with the gap approach.

3 What is the target medical total out-of-pocket that you would like for your employees to have?

More and more, group major medical policies have total out-of-pocket costs exceeding $6,600 per year. Some medical gap policies can lower the total out-of-pocket at an affordable cost.

4 Are there other benefits that you would like the gap policy to pick up?

Sometimes, the major medical carrier is not flexible on physician office co-pays, prescription drug co-pays, emergency room co-pays, etc. Some gap policies will pick up and cover those type services. These benefit options can be requested by the employer to be included in the gap pricing.

5 What is your renewal major medical premium rate?

The answer to this question and the following question will give you the first piece of financial information needed to determine if the gap approach will result in enough cost savings to merit making a change.

6 How much will the premium rate be reduced by moving to a higher deductible major medical policy?

This is the second piece of financial information needed.

As example, assume your current major medical policy has a $500 deductible. The renewal rates are as follows:

Employee Only	$ 400
Employee & Spouse	$ 820
Employee & Child	$ 740
Family	$1,140

Now, assume the premium rates for a $5,000 deductible benefit are:

Employee Only	$ 300
Employee & Spouse	$ 615
Employee & Child	$ 555
Family	$ 855

Thus, moving to a higher deductible will free up dollars as follows:

Employee Only	$ 100
Employee & Spouse	$ 205
Employee & Child	$ 185
Family	$ 285

7 How much will the gap coverage cost?

This is the third piece of financial information needed. To continue the example, assume the premium rates for the gap coverage are as follows:

Employee Only	$ 80
Employee & Spouse	$ 165
Employee & Child	$ 150
Family	$ 230

8 How much overall savings will be generated by moving to a high deductible combined with gap?

This is the final piece of financial information needed to determine whether the gap approach will generate enough savings to justify making the change.

Once the information in question 5 and 6 is obtained, determining overall dollar savings is simply a matter of calculating the difference in the gap premium rate and the dollar savings generated by moving to a higher deductible.

So, in this example the gap approach will save the employer as follows:

	Dollars Saved	# Covered Employees	Monthly Savings
Employee Only	$ 20	50	$1,000
Employee & Spouse	$ 40	10	$ 400
Employee & Child	$ 35	10	$ 350
Family	$ 55	20	$1,100
		90	

Total Monthly: $ 2,850
Total Annual: $**34,200**

Assumes the employer has 50 employees with single coverage, 10 employees with employee & spouse, 10 employees with employee & child, and 10 employees with family coverage.

9 Is there enough savings to justify the move to the gap approach?

Once the dollar savings generated by moving to a high deductible combined with a gap benefit is calculated, the employer can determine if the savings is enough to justify making the change. In the example above, moving from a low deductible major medical policy to a high deductible/gap policy will save the employer $34,200 a year.

10 What benefits will your employees lose by moving to a high deductible combined with gap coverage?

Using the information contained in the previous sections of this guide, list out the benefits that will be lost by moving to a gap policy. This is perhaps the most important consideration. In the example above, the employer will save $34,200 a year by moving to a gap benefit. But, if the covered employees will have a reduced outpatient benefit, no gap coverage for physical therapy, and no gap coverage for ambulance services, the savings may not justify making the change.

Thank You

We thank you for taking the time to read this guide and we hope that you have found the information helpful.

If you would like more information, please contact us at (601) 353 - 0002.

Employee Benefit Services, Inc. ("EBS") administers The EBS Bridge Program™, an alternative to traditional gap insurance. EBS works through insurance professionals (i.e. group health insurance agents) throughout the Southeastern United States.

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