

---

# **The New Health Insurance Solution**

**How to Get Cheaper, Better Coverage  
*Without* a Traditional Employer Plan**

**PAUL ZANE PILZER**





---

# **The New Health Insurance Solution**

**How to Get Cheaper, Better Coverage  
*Without* a Traditional Employer Plan**

**PAUL ZANE PILZER**



WILEY

**John Wiley & Sons, Inc.**

Copyright © 2005 by ZCI, Inc. All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.  
Published simultaneously in Canada.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 646-8600, or on the web at [www.copyright.com](http://www.copyright.com). Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permissions>.

**Limit of Liability/Disclaimer of Warranty:** While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

For general information on our other products and services or for technical support, please contact our Customer Care Department within the United States at (800) 762-2974, outside the United States at (317) 572-3993 or fax (317) 572-4002.

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books. For more information about Wiley products, visit our web site at [www.wiley.com](http://www.wiley.com).

ISBN-13 978-0-471-74715-4

ISBN-10 0-471-74715-7

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

*To Miriam, Maxwell, Michael, Mark, and especially Lisa*



<b>EXECUTIVE SUMMARY: NEW HEALTH INSURANCE SOLUTIONS FOR INDIVIDUALS, FAMILIES, SELF-EMPLOYED, AND BUSINESSES</b>	vii
<b>PREFACE</b>	xv
<b>ACKNOWLEDGMENTS</b>	xx

**PART I**

**How to Better Protect Your Family While Saving \$5,000+ Each Year: Savvy and Affordable New Health Insurance Strategies**

<b>CHAPTER 1.</b>	You Are One Serious Illness Away from Bankruptcy: <i>The Huge Gaps in Your Employer's Health Insurance Plan</i>	3
<b>CHAPTER 2.</b>	Why Buying Your Own Health Insurance Is Better, Cheaper, and Safer Than Your Company Plan	18
<b>CHAPTER 3.</b>	Your Legal Rights to Health Insurance When You Lose Your Job or Change Jobs: <i>ERISA, COBRA, and HIPAA</i>	31
<b>CHAPTER 4.</b>	How to Buy Your Own Low-Cost, High-Quality Health Insurance Policy	47
<b>CHAPTER 5.</b>	The Best Options for Employees with a Good Company Plan: <i>High Deductibles, Disability, Cafeteria Plans, FSAs, and HRAs</i>	76
<b>CHAPTER 6.</b>	Health Savings Accounts: <i>Why You Should Fully Fund Your HSA before Putting Even \$1 in Your IRA or 401(k) . . . and How to Build a \$500,000+ HSA Nest Egg</i>	96
<b>CHAPTER 7.</b>	What to Do if You or a Family Member Has a Major Health Problem	115

<b>CHAPTER 8.</b>	How to Get Affordable Medical Care When You Are Over 55: <i>Early Retirement, Medicare, and Long-Term Care</i>	128
<b>CHAPTER 9.</b>	How to Save 10 to 75 Percent on Your Prescription Drugs	151
<b>CHAPTER 10.</b>	How to Be a Smart Healthcare Shopper, Stay Healthy, and Keep the Savings	165

## PART II

### **How Businesses Can Fix Their Health Insurance Nightmare and Still Hire Great Employees**

<b>CHAPTER 11.</b>	How Employers Can Save 50 Percent by Giving Employees Tax-Free Dollars to Buy Their Own Health Insurance: <i>Defined Contribution Health Benefits</i>	179
<b>CHAPTER 12.</b>	HSA Plans for Employers: <i>Why Every Employer Should Encourage Tax-Free Employee Contributions to HSAs</i>	197
<b>CHAPTER 13.</b>	HRAs for Employers: <i>How to Use HRAs to Save \$2,000 to \$6,000 per Employee Each Year While Getting Your Employees Better Health Insurance</i>	207
<b>EPILOGUE:</b>	The Future of Affordable Health Insurance in America—Who Wins and Who Loses?	227
<b>APPENDIX A:</b>	State-by-State Guide to Individual/Family Health Insurance Costs	242
<b>APPENDIX B:</b>	How Americans Get Health Insurance Today . . . and What about the 45 Million Uninsured?	297
	<b>NOTES</b>	301
	<b>INDEX</b>	309
	<b>ABOUT THE AUTHOR</b>	316

---

# **Executive Summary: New Health Insurance Solutions for Individuals, Families, Self-Employed, and Businesses**

**Two basic solutions apply to most readers of this book.**

## **New Solution #1**

Individual/family health insurance policies (that you purchase yourself, just like auto insurance) are better for most people, especially if they are healthy and less than 60 years old. This is because they are:

*Safer*—Individual/family health insurance isn't dependent on an employer, so you don't lose your health insurance if you lose your job. (Losing job-related health insurance is how up to 1 million Americans each year end up in medical bankruptcy.)

*Less expensive*—The cost is about one-half (or less) the price of an employer-sponsored group plan for similar coverage (low deductible/doctor co-pay). Many families will pay less for high-quality individual/family health insurance than they are currently paying in monthly contributions to their employer plan.

## **New Solution #2**

For most people who are healthy, high-deductible health insurance, which is required to open a Health Savings Account (HSA), is better than a low-deductible plan. (High-deductible, HSA-qualified health insurance is available from either an employer-sponsored group plan or as an individual/family policy.) It is better for most people because it:

*Lets you save whatever you don't spend*—Whatever you don't spend each year is saved and invested tax-free in your Health Savings Account for future medical expenses or retirement.

*Is far less expensive*—The average cost of high-deductible, HSA-qualified health insurance is only \$92 per month for a single person, nationwide—about half the price of similar low-deductible/co-pay plans. This mean millions of uninsured Americans can now afford health insurance. In addition, you get to make tax-deductible contributions to your Health Savings Account.

Following are summary solutions for many typical situations. Please refer to the appropriate chapter(s) for more complete information.

## **Summary Solutions for Individuals, Families, and Self-Employed**

**Problem: I work for a company that pays 100 percent for my health insurance but charges me \$450 a month to include my spouse and children in the company plan.**

Solution: You should get your spouse and children their own individual/family policy as described in Chapter 5—a policy for a female, age 35, with two children, costs about \$264 per month in California, for example. You would save \$2,232 per year, and your family members would not lose health insurance coverage should you lose your job. Nationally, employer-sponsored plans cost about twice the price of individual/family policies with similar low-deductible/doctor co-pay coverage.

**Problem: I am self-employed and do not have health insurance.**

Solution: You should get an HSA-qualified high deductible individual/family policy before you or a family member develops a health problem—no one should ever go without health insurance, especially since it has now become affordable for most working people. See Appendix A for examples of affordable policies and rates in your state, which nationally average \$92 per month for a single person and \$272 per month for a family. Health insurance premiums recently became tax deductible for self-employed people, so your after-tax cost will be even less. Also, you should open an HSA and make the maximum tax-deductible \$5,250 (family) annual contribution.

**Problem: I just lost my job and lost my health insurance.**

Solution: You should apply and get accepted for your own individual/family health insurance policy as soon as possible. If you already have a Health Savings Account, you are allowed to withdraw money tax-free from your HSA to pay health insurance premiums while receiving unemployment benefits. When you purchase your individual/family policy, if you are healthy you can get up to three and a half months of free coverage from your former employer, typically worth \$1,400 or more, if you follow the “COBRA loophole” described in Chapter 3.

**Problem: I cannot afford health insurance.**

Solution: If your annual income is below the federal poverty line (FPL)—about \$20,000 for a family and \$10,000 for a single individual—you probably qualify for Medicaid. If your family income is above the FPL but below \$48,000 a year and you live in certain states (e.g., California or New York), you may qualify for other income-based programs—see Chapter 8 for more on Medicaid and other ways to get health insurance if you cannot afford it. You should also check out the new high-deductible HSA-qualified plans, which cost less than \$90 per month for a single individual in most states—see Appendix A for examples in your state and who to contact to get one.

**Problem: What’s the best way to shop for my own individual/family health insurance policy?**

Solution: There are three basic methods to shop for a policy: (1) Call insurance companies yourself. (2) Find a local agent in your state. (3) Shop online. See Chapter 4 for specific instructions on each method, including recommended phone numbers and web sites. The cost is the same regardless of which method you choose, since all states prohibit carriers and agents from discounting the stated prices of their policies or rebating commissions to consumers. Most people prefer to shop online and then work with a licensed agent—Chapter 4 explains how to locate a qualified agent in your state.

**Problem: My employer is offering a high-deductible health insurance option for the first time. Should I take it?**

Solution: In general, if you are healthy, you should choose high-deductible health insurance. The amount you save is likely to be more than the total of your out-of-pocket medical expenses. See Chapter 5 for

the best options to choose from your employer's health insurance plan, and see Chapters 9 and 10 for how to save money once you have high-deductible health insurance.

**Problem: A member of my family has a preexisting condition that has prevented my family in the past from getting an individual/family health insurance policy.**

Solution: First, you should get the healthy members of your family their own policy before one of them develops a preexisting condition. Then, for the member of your family with the preexisting condition, carefully read Chapter 4 on how to apply for affordable individual/family health insurance without getting rejected, how to get a free copy of your Medical Information Bureau (MIB) file, and how to locate an agent in your state who knows which carriers may accept the preexisting condition. Also, read Chapter 7, which discusses six options for your unhealthy family member, including how to get state-guaranteed coverage, which, for example, costs about \$194 per month for an adult in Maryland (see Appendix A for the rates in your state). Although state-guaranteed coverage is about twice as expensive, you typically need it for only the one family member with a health issue, so the blended price is not that much more for your entire family.

**Problem: I work for a company that supplies me with free health insurance, but I would like to quit before age 65—either to retire or to start my own business.**

Solution: You should get yourself an individual/family policy as soon as possible because if you or a family member should develop a health problem, you may not be able to get one after age 55—see Chapter 4 for how to buy an individual/family policy and Chapter 8 for more solutions for early retirees. Because of your age, your employer will save a lot of money when you drop out of its group plan, so you should ask your employer to reimburse you tax-free for the premiums on your individual/family policy. Chapter 8 tells you how to do this.

**Problem: If someone in my family has a significant monthly prescription drug expense, what are our options?**

Solution: See Chapter 9 for how to save up to 75 percent on prescription drugs by using drug discount cards, choosing the right pharmacy coverage, shopping overseas pharmacies, substituting generics, and using different, less expensive prescriptions. Also see Chapter 10 for how to save

100 percent—by working with a doctor to stop taking prescriptions entirely. If you or your parents are seniors, make sure you know about the new Medicare Part D prescription drug program that begins in 2006 and costs only about \$37 per month. This is explained in Chapter 8, along with how to enroll immediately before you experience a permanent lifetime price increase.

**Problem: I am about to change jobs. How can I transfer my family's health insurance coverage between employers?**

Solution: When you leave your current employer, you should get a "Certificate of Creditable Coverage," as described in Chapter 3. This will prevent your new employer from excluding from coverage any preexisting conditions you or a family member may have. Under HIPAA, employers cannot exclude from coverage conditions for which you have had "continuous coverage" for the previous 12 months. See Chapter 3 for more details and other advice on what to do when changing or losing your job. You should also consider getting your spouse and children their own coverage, as described in Chapter 5, so you don't have to worry the next time you change jobs.

**Problem: My parents are getting older and needing more medical care. What is the best health insurance solution for seniors?**

Solution: Medicare is almost always the best solution for Americans over age 65, since the government pays most of the cost. However, the average senior on Medicare still spends about \$4,000 a year for out-of-pocket medical items and supplemental insurance that Medicare does not cover—which is why every senior should have a Health Savings Account. Chapter 8 explains the components of Medicare, how to choose the best options for your parents, supplemental "Medigap" insurance policies, and the new Medicare Part D prescription drug insurance that begins in 2006.

**Problem: My parents would like to leave money to their grandchildren but are concerned about home-care or nursing home expenses destroying their nest egg as they age.**

Solution: Your parents are right to be concerned. The average nursing home today costs \$82,500 per year per person, and Medicaid has closed the loopholes for government assistance unless you and your family are very poor. As explained in Chapter 8, there are four basic ways to finance your long-term care and, since it is unknown how long anyone will live and how much care each person will need, the best financial

choice is usually long-term-care insurance. Chapter 8 also explains how to choose a long-term-care policy and how to pay the premiums with tax-free dollars from your HSA.

**Problem: My wife and I want to have a baby. What are our insurance options?**

**Solution:** If you or your spouse work for a company with a good employer-sponsored health plan, you are in luck—under HIPAA, employers must cover maternity and offer coverage to newborns regardless of their health. If you don't work for a company with a good health plan, consider switching employers, even if you are pregnant—HIPAA also requires employers to immediately cover pregnancy and newborns, even in cases where an employee marries a pregnant woman (see Chapter 3). If you choose to buy or have an individual/family policy, most carriers offer either a \$5,000 separate deductible for pregnancy or optional pregnancy coverage, but will not cover pregnancy until at least six months after you obtain the policy or elect maternity coverage.

**Problem: I work for a company with a good company health plan, but I don't know which options (HSAs, high deductible, FSAs, etc.) I should choose.**

**Solution:** If you have a spouse or family, you can probably buy them their own permanent individual/family policy for less than you currently pay your employer to cover them. If you choose a high-deductible plan, you should get \$1,000 to \$2,000 tax-free contributed by your employer to your HSA for future medical expenses or retirement. If you have any medical or child-care expenses not covered by your employer (and who doesn't!), you can gain 50 to 90 percent additional spending power by paying these expenses with pretax dollars through an FSA or Section 125 salary redirection plan. If your employer doesn't provide it, you can (and should) also purchase long-term-disability insurance funded with pretax salary contributions. See Chapter 5 for specific strategies to follow on these and other options offered by your employer group health plan.

## Summary Solutions for Businesses

**Problem: I own a small business and would like to see all my employees have health insurance, but we cannot afford a traditional group plan.**

**Solution:** You should (1) create a Health Reimbursement Arrangement (HRA) that reimburses employees tax-free for at least the price of an

individual/family health insurance policy for a typical employee—about \$92 per month for a male, age 35, and (2) establish a Section 125 salary redirection plan that allows your employees to redirect some of their wages to tax-free contributions to their HSA—you save 7.65 percent on FICA on the amount they redirect, and employees save up to 50 percent in FICA plus state and federal income taxes. Chapters 11 to 13 explain in detail how to set up a simple HRA and Section 125 HSA plan and how to help your employees obtain the best individual/family policies.

**Problem: I own a small business that has group health insurance, but we no longer can afford the rising annual premium on our group policy.**

Solution: You should terminate your existing “defined benefit” group health insurance plan and set up a fixed-cost “defined contribution” health plan as follows: (1) Establish an HRA to reimburse employees, say \$100 to \$200 per month, for their own individual/family policies, which typically cost only 25 to 50 percent of the price of your group plan; and (2) contribute 100 percent of the savings to HRAs and/or HSAs that cover employee medical expenses and allow employees to save unspent funds for future medical expenses or retirement. This will lock in your health benefit expense at today’s level, and your employees will have equal or better coverage than they have now. Chapters 11 and 12 explain how to do this and how to get your employees to enthusiastically embrace your new “defined contribution” health plan.

**Problem: My organization has an expensive traditional group health insurance plan. What new solutions can save money without hurting benefits?**

Solution: There are many new things you can do to save \$2,000 to \$6,000 each year per employee on your group health insurance without hurting benefits for existing employees. For example, instead of offering new employees coverage from day of hire, you should have a 180-day waiting period and offer employees an HRA for company-paid short-term health insurance during the waiting period. Short-term coverage typically costs about one-eighth the price of an employer group plan because it lasts only six months—but this time limit is acceptable since new employees automatically get group benefits at the end of their waiting period. Chapter 13 explains how you can save \$1,950 per single or \$6,528 per family for each new hire using waiting period coverage and offers other new ways to save thousands per employee on COBRA, older employees, dental, vision, and more, without decreasing benefits.



**I**n 1999, my wife and I were elated to learn that she was pregnant, but our joy turned to panic that same month when we lost our employer-sponsored health insurance. If our baby was born prematurely, it could cost up to \$60,000 a day for four months. And this amount didn't include care that a preterm child might need afterward or any medical care for my wife.

Fortunately, our baby was born healthy, and I found a new way to buy affordable health insurance for my family. But in the process of researching our health insurance options, I discovered that I had been wasting thousands of dollars a year by getting health insurance from employers instead of purchasing health insurance myself.

Here are some of the problems I discovered with employer-sponsored health insurance:

- Employer-sponsored health insurance has become so expensive that most employers are cutting benefits, raising employee contributions, or no longer offering health insurance at all.
- Employees receiving “free” health insurance from their employers are often paying their employer twice what they should be paying for health insurance coverage on their spouse and children.
- Many employees feel trapped in jobs they don't want only because they don't know how to get affordable health insurance without an employer.

- Employees of large companies who often feel the safest are actually the most at risk for “medical bankruptcy” because they lose their company-sponsored health insurance if they become ill and can’t work.
- Many Americans are wasting thousands of dollars a year paying for health insurance benefits that they don’t need—such as pregnancy coverage when they are single.
- Most health benefit plans pay enormous sums when you become ill, but contribute nothing to help you prevent illness from developing in the first place.

## **How I Found Solutions to These Issues, Saved \$4,000 a Year, and Became an Expert on Health Insurance**

After earning an MBA from Wharton in 1976, I began my career with Citibank, where I received traditional company benefits. Like most people, I never thought too much about health insurance as a potential threat to my financial future. Later, I became an entrepreneur and experienced firsthand the enormous economic burden health insurance places on small businesses.

In 1979, I began teaching finance at New York University and studying the problems surrounding employer-provided health benefits. I wrote articles on the economics of healthcare, testified before Congress in the 1980s, and served as an appointed economic adviser for two White House administrations. I began writing popular books on economics, wealth, and personal finance—five of which became international best sellers. Although I wrote about health insurance in my books, I didn’t realize how easy it is to lose your health insurance until I faced my own crisis in 1999.

I solved my crisis by buying “individual/family” coverage directly from the Blue Cross Blue Shield carrier in my state—after researching for months to understand health insurance and how self-employed individuals could get their own individual or family policy. Amazingly, the brand-new type of individual/family policy I bought cost my family \$4,000 less per year than we had been paying for the employer-sponsored policy that was canceled. Furthermore, this policy could not be canceled, nor could the monthly premium be increased due to someone in our family becoming ill.

As an economist and businessman, I realized that millions of self-employed Americans faced the same problems but were completely unaware of these individual/family policies and the options available to them. In late 1999, I cofounded a company to help other self-employed

Americans get these new affordable health insurance policies. As the company grew, we hired some of the top health insurance executives in the nation, most of whom had spent their entire working lives in the field.

In the period from 2003 to 2005, the floodgates opened. The federal government passed revolutionary legislation that made Health Savings Accounts and other related health insurance products (originally designed for self-employed people) legally available to all Americans—independent of whether they worked for a company that provided health insurance. Unlike traditional employer-sponsored health benefits, this new kind of health insurance is affordable and stays with you when you leave your job.

As a result of these changes in the law and in the health insurance industry, America's entire \$2 trillion healthcare industry is undergoing the biggest change since health insurance was created during the Great Depression: it is shifting from employer-based health insurance to consumer-directed plans that individuals buy themselves. These new individual/family plans reward you for staying healthy and are better, cheaper, and safer than traditional employer-sponsored health insurance.

## **Two Reasons Why the Individual/Family Policy I Purchased Cost \$4,000 Less than I Was Paying for an Employer-Sponsored Group Policy**

Most working Americans and their families receive health insurance through their employer's group policy. Among these working Americans, 80 percent are healthy and consume less than \$1,000 a year for health care. In contrast, 20 percent have major health problems in their families and, on average, consume more than \$25,000 a year for health care. If you are closer to the 80 percent healthy group, new legislation allows you to purchase an "individual or family" policy directly from a carrier that is priced extremely low based on the fact that your actual health costs are closer to \$1,000 a year. These individual/family policies typically cost less than half of what you and your employer are paying for your current traditional group policy. Insurance carriers offer this enormous discount because they only accept the 80 percent of applicants who are healthy and will most likely stay that way.<sup>1</sup>

Don't despair if you are in the 20 percent group (typically because of the preexisting health problems of one member of your family). In this book I explain ways to get "state-guaranteed coverage" for individual family members who are unhealthy so that the rest of your family can still qualify to be in the 80 percent pool of healthy applicants.

---

**Not only can you now purchase an individual/family policy for yourself and/or your spouse and children, in 2006 employers can reimburse employees tax-free for the cost of health insurance premiums on individual/family policies.**

---

The second reason my policy cost \$4,000 a year less was because it had a higher annual deductible than our canceled employer policy. Insurance carriers will typically lower your annual premium by \$3,000 a year for a \$2,000 increase in your annual deductible—putting a guaranteed \$1,000 a year in your pocket! Insurance carriers offer this great deal because it saves them \$1,000 in paperwork costs on the 20 or so transactions that typically make up your first \$2,000 in annual medical expenses.

In addition to saving thousands on our annual premium, we also received a Health Savings Account (HSA) to pay medical expenses tax-free until we reached the annual deductible on our policy—the HSA also allowed us to keep anything we didn't spend, up to \$4,500 each year, for future medical expenses or retirement. Until 2004, HSAs were called "Medical Savings Accounts" and were legal only for a limited number of self-employed people. New legislation has now made them universally available for all working Americans.

---

**Beginning with the October 2005 benefits enrollment period for 2006, higher deductible Health Savings Account (HSA) plans are being offered by most major employers—HSAs allow you to choose any medical provider and accumulate hundreds of thousands of dollars tax-free for future medical expenses or retirement.**

---

## **The Health Insurance Revolution Has Begun**

In the past two years, new legislation and regulations have dramatically altered the landscape for health insurance. However, very few individuals, and even fewer employers, are aware of the revolution that is taking place and of the following potential solutions to their problems:

1. Most Americans can now buy their own health insurance that is better, cheaper, and safer than their employer's insurance. But even if you choose to get health insurance from your employer, you can still