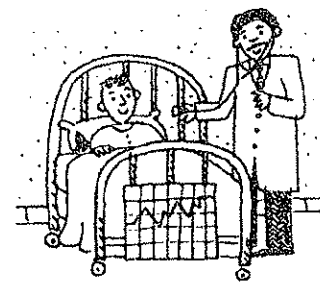


## Health Insurance

Many employers offer **health insurance** as a “fringe benefit” to their employees. Health insurance helps people pay their medical bills. The employer may pay all of the cost, part of the cost, or none of the cost of the health insurance policy. Employees pay the part of the insurance premium that the company does not pay. Some employers provide health insurance coverage to the spouses and children of employees.



Health insurance policies may cover the cost of doctors, hospitals, and medicine (prescriptions). Some policies also cover the cost of dental and eye care, but often these are separate policies that employers offer in addition to health insurance.

A common feature of health-insurance policies is a **deductible**. This is the amount that the insured person must pay before the insurance company pays anything. After the insured person has paid the deductible, the insurance company then pays all or part of the remaining balance. The deductible is usually an amount of expenses you must pay over the course of one year, and it is sometimes called an “annual deductible.” Once you have paid the amount of the deductible, the insurance company pays bills according to the terms of your policy.

**Example 1:** Your employer provides you with health insurance that has a \$175 deductible. After you have paid the \$175 deductible during the year, the insurance company will pay 80% of the remaining medical expenses during that year. You have minor surgery that costs \$1,245. How much will your insurance company pay, and how much will you pay?

**THINK:** The insurance company will pay 80%, or 0.80, of the costs after subtracting the deductible.

**Step 1** Find the insurance company’s share of the bill.

Subtract the deductible from the bill.  $\$1,245 - \$175 = \$1,070$

Multiply by the rate.  $0.8 \times \$1,070 = \$856$

The insurance company will pay \$856 of the bill.

**Step 2** Find your share of the bill

Subtract what the insurance company pays from the bill.  $\$1,245 - \$856 = \$389$

Your share of the bill will be \$389.

Name \_\_\_\_\_ Date \_\_\_\_\_

Sometimes the cost of health insurance is split between an employee and his or her employer. The employee's share is taken out as a **payroll deduction**. You can find this deduction on an earnings statement or paycheck stub along with other deductions like taxes and Social Security.

Edward Employee 157 Working Way Anywhere, USA		Employee ID: 123456 Location: Anywhere Pay Rate: 2,145 Biweekly	TAX DATA: Federal Marital Status: Single Allowances: 1 Addl. Amt: 0
HOURS AND EARNINGS		TAXES	
Description	Earnings	Description	
Regular	2,856.96	Fed Withholding	491.51
		Fed MED/EE	39.78
		Fed OASDI/EE	170.08
Total	2,856.96	Total	701.37
		<b>NET PAY DISTRIBUTION</b>	
		<b>2,155.59</b>	

**Example 2:** Norma's company pays 60% of the cost of her family-coverage health insurance. The monthly premium for the insurance is \$347.20.

What is Norma's monthly payroll deduction for health insurance? How much does she pay per year for health insurance for her family?

**THINK:** Norma's employer pays 60% of her health insurance premium.  
Norma's share of the premium is 40%, or 0.4, of the premium.

**Step 1** Multiply to find Norma's share of the premium.  $0.4 \times \$347.20 = \$138.88$

Norma's monthly payroll deduction is \$138.88.

**Step 2** Multiply to find the annual cost.  $12 \times \$138.88 = \$1,666.56$

Norma pays \$1,666.56 per year for health insurance for her family.

**Think About It**

1. Why do health insurance policies usually have deductibles?

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Name \_\_\_\_\_ Date \_\_\_\_\_

2. Why is health insurance usually less expensive when purchased for a large group than when purchase for an individual?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## Practice

*Remember to estimate whenever you use your calculator.*

Complete the table.

Medical Bill	Deductible Amount	% of Coverage over Deductible	Amount paid by insurer	Amount paid by you
\$475	\$165	80%	1. _____	2. _____
\$88	\$500	80%	3. _____	4. _____
\$245	\$125	70%	5. _____	6. _____
\$2,485	\$175	90%	7. _____	8. _____
\$746	\$250	65%	9. _____	10. _____

Complete the table. Round to the nearest cent.

Monthly premium for insurance	% Paid by employer	Monthly deduction for insurance	Annual cost
\$238.70	50%	11. _____	12. _____
\$146.00	80%	13. _____	14. _____
\$328.50	75%	15. _____	16. _____
\$272.80	90%	17. _____	18. _____

Name \_\_\_\_\_ Date \_\_\_\_\_

*Remember to estimate whenever you use your calculator.*

Complete the table.

Medical Bill	Deductible Amount	% of Coverage over Deductible	Amount paid by insurer	Amount paid by you
\$1,420	\$100	70%	19. _____	20. _____
\$362	\$500	80%	21. _____	22. _____
\$3,645	\$250	75%	23. _____	24. _____

**Solve.**

25. Terry's insurance pays 80% of all costs. Last year, Terry had doctor bills of \$47.50, \$73.00, and \$26.75. How much did Terry pay her doctor? \_\_\_\_\_
26. Dan's bills were \$275 for a doctor, \$897 for the hospital, and \$92.30 for medicine. If his policy has a \$150 deductible and pays 80% of all costs over \$150, how much did Dan pay? \_\_\_\_\_
27. From each of Janet's weekly paychecks, \$13.50 is deducted for health insurance. If her employer is paying 80% of the cost of this insurance, what is the total annual premium for Janet's health insurance? \_\_\_\_\_
28. Ted's health insurance costs a total of \$87.50 per month, but his employer pays 70% of the premium. If Ted paid \$283.50 for medical expenses last year, how much did he pay for health care, including his share of the insurance premiums? \_\_\_\_\_
29. After a short hospital stay, Samuel received a bill for \$535 from his doctor, another for \$1,620 from the hospital, and another for \$108.20 for medicine. If Samuel's policy has a \$250 deductible and pays 85% of all costs over \$100, how much must Samuel pay? \_\_\_\_\_
30. Carl's company pays 60% of his family-coverage health care. The monthly insurance premiums are \$640. How much does Carl pay for a year of health insurance? \_\_\_\_\_

**Practice**

- |             |                |
|-------------|----------------|
| 1. \$133.75 | 2. \$162.50    |
| 3. \$655.20 | 4. \$33.10     |
| 5. \$790.77 | 6. \$80.29     |
| 7. \$756.77 | 8. \$63.14     |
| 9. \$425.50 | 10. \$1,480.96 |
| 11. \$474   | 12. \$1,548.25 |
| 13. \$450   | 14. \$2,121.88 |
| 15. \$8,400 | 16. \$707.85   |

**Extension**

- |            |          |
|------------|----------|
| 1. \$400   | 2. \$500 |
| 3. \$4,250 | 4. \$510 |
| 5. \$1,410 |          |

**Pages 101-103****Practice**

- |              |               |
|--------------|---------------|
| 1. \$2,400   | 2. \$4,400    |
| 3. \$7,040   | 4. \$4,740    |
| 5. \$7,600   | 6. \$8,137.50 |
| 7. 3%        | 8. 4%         |
| 9. 3.5%      | 10. 4.5%      |
| 11. 4.5%     | 12. 1.5%      |
| 13. \$2,800  | 14. \$7,125   |
| 15. \$6,340  | 16. \$4,425   |
| 17. \$5,370  | 18. \$3,960   |
| 19. 3%       | 20. 2%        |
| 21. 4%       | 22. 2.5%      |
| 23. 4.5%     | 24. 2%        |
| 25. \$760    | 26. \$32,500  |
| 27. 2.5%     | 28. \$62,500  |
| 29. 4.5%     | 30. \$14,760  |
| 31. \$93,750 | 32. \$5,010   |

**Pages 105-107****Think About It**

1. Federal withholding tax deductions are prepayments on your annual federal income tax. This money helps fund the activities of the federal government. Social Security taxes are worker contributions to the Social Security fund.

This fund pays benefits to retired or disabled workers.

**Practice**

- |                |              |
|----------------|--------------|
| 1. \$378       | 2. \$314.60  |
| 3. \$314       | 4. \$233.21  |
| 5. \$332.50    | 6. \$240.79  |
| 7. \$280.68    | 8. \$234.09  |
| 9. \$114.50    | 10. \$103.74 |
| 11. \$402.38   | 12. \$402.38 |
| 13. \$45.50    | 14. \$40.78  |
| 15. \$15.30    | 16. \$8.50   |
| 17. \$292.30   | 18. \$2,366  |
| 19. \$2,120.56 | 20. \$795.60 |
| 21. 73%        | 22. \$103.20 |
| 23. 76%        | 24. \$372.03 |
| 25. 80%        | 26. \$492.50 |
| 27. \$243.95   | 28. \$76.05  |
| 29. City tax   | 30. \$30.13  |

**Pages 109-111****Think About It**

- Health Insurance*
1. There are many routine and relatively inexpensive medical expenses. Having a deductible allows these expenses to be paid by you and leaves the insurance for greater expenses that you might not be able to afford. A deductible means that you will always be responsible for some of the cost of health care. As a result, you may not rush to the doctor for unnecessary treatments since you must pay for some of this yourself.
  2. When insurance companies set the price of the policies for large groups, they can use probabilities and previous experience to predict the kinds of medical expenses

they will have to pay. With a large group, the risks are spread out over many people, and the risks can be more evenly shared.

**Practice**

- |                            |                |
|----------------------------|----------------|
| 1. \$248                   | 2. \$227       |
| 3. \$0                     | 4. \$88        |
| 5. \$84                    | 6. \$161       |
| 7. \$2,079                 | 8. \$406       |
| 9. \$322.40                | 10. \$423.60   |
| 11. \$119.35               | 12. \$1,432.20 |
| 13. \$29.20                | 14. \$350.40   |
| 15. \$82.13                |                |
| 16. \$985.50 (or \$985.56) |                |
| 17. \$27.28                | 18. \$327.36   |
| 19. \$924                  | 20. \$496      |
| 21. \$0                    | 22. \$362      |
| 23. \$2,546.25             |                |
| 24. \$1,098.75             |                |
| 25. \$29.45                | 26. \$372.86   |
| 27. \$3,510                | 28. \$598.50   |
| 29. \$551.98               | 30. \$3,072    |

**Pages 113-115****Think About It**

1. As you get older, the probability that you will die increases each year, so the likelihood that the insurance company will have to pay death benefits also increases. This is why rates and annual premiums increase with age.
2. Whole life premiums cover more than just death benefits. The premiums build up like a savings account. Eventually you can decide to cash in the policy and receive this money. This savings feature adds to the cost of the policy.

