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Understanding Health Insurance Costs

by Steven Podnos, Md, Cfp • Sept. 14, 2015 • 1 min read • [original](#)

A recent discussion with one of my adult children on how their health insurance charges were paid by the insurance company revealed the disturbing complexity involved.

The terms, "deductible, cost share, out-of-pocket limits, approved charges, and out of network" all came into the discussion.

I explained that some healthcare providers (such as doctors and hospitals) have "network agreements," with certain insurance companies. So, the provider has agreed to a certain limit on charges (approved charges) that the patient and insurance company will be responsible for. If the provider does not have any agreement with the insurance, then it is called "out of network."

Health insurance policies come with a deductible amount, which is what the patient is expected to pay out of pocket before the insurance company pays anything. Note that the deductible may be different for different types of healthcare inside the same policy (so a routine physical annually may incur no deductible).

Cost Share is the same as "copay", and represents the part of a charge (after the deductible is applied) that the patient may have to pay.

Out-of-pocket limits is the total amount anyone would have to pay in a year, and may include deductible amounts, copays, and out-of-network charges (but not always).

Given all this, let's examine a hypothetical bill from the hospital for a patient with a \$1000 deductible, a 20 percent copay, and a \$2500 out-of-pocket maximum cap on payments. The bill is for \$32,000, but the insurance company has an agreement with the hospital such that "approved" charges are \$14,000. The patient would be expected to pay the \$1000 deductible and then 20 percent of the next \$13,000 (\$2600 dollars) as the copay. However, since there is a \$2500 maximum cap, that would apply as the patient's total responsibility.

Understand that there are other interpretations of bills from healthcare providers and additional complexity in dealing with insurance companies. I have found it useful to call and discuss large bills with the insurance carrier, in order to make sure that all the provider charges have been applied correctly.

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