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CHAPTER 35 Life and Health Insurance

Staying Insured When You're on Your Own

How to sort out health-care options for the self-employed

by Ellen Hoffman

Obtaining health insurance if you're leaving the corporate fold or already on your own can be a grueling endeavor. Ask Ruth Sheridan, a freelance business writer from New York. When she wanted a change from her health maintenance organization recently, Sheridan turned herself into a one-woman search engine. She scoured the yellow pages, read articles, and grilled friends to find insurance companies with plans for the self-employed. A physics major in college, Sheridan also explored coverage through her alumni association, the national physics honor society, and the National Writers Union. Then, Sheridan made a spreadsheet to compare premiums, out-of-pocket costs such as copayments and deductibles, and coverage of such services as flu shots, Pap smears, and prescription benefits.

Eventually, Sheridan signed up for a policy through the Dramatists Guild, which she was eligible to join because she had written a play. The policy's selling points: It allowed her to go out of network and provided coverage for preventive measures such as physicals and mammograms.

Comparison-shopping is a must if you're self-employed and in the market for health coverage, says Maryland Insurance Commissioner Steven Larsen. "People don't think anything of going from Best Buy to Circuit City and several other stores to save $50 on a television set," he observes, but often they don't devote similar energy to finding a health policy that will protect them and their family when they really need it.

MANY CHOICES. Effort is necessary. Not only does coverage vary from state to state, but premiums can differ widely even within one state, says Alpha Center, a Washington, D.C., nonprofit health policy center. Its March, 1998, study showed that the monthly premium for an individual California Blue Cross/Blue Shield policy for a 45-year-old could cost anywhere from $97 to $211; for a 60-year-old it ranged from $172 to $339. A commercial insurer offering a similar policy charged 45-year-olds $229 to $403 per month, and as much as $807 for someone of 60.

Despite the disparate choices, there are some common options that experts recommend you check out in your search. If you're leaving a corporate job, you may continue your health insurance under the federal Consolidated Omnibus Budget Reconciliation Act (COBRA). But you must pay the entire premium, including the portion that your employer paid before, and the insurer may charge up to 102% of the total charged to the employer for current employees. Remember that you're only guaranteed coverage for 18 months. Ask your employer for details before you leave.

The federal Health Insurance Portability & Accountability Act provides extra protection for individuals with preexisting medical conditions that limit access to coverage. If they have exhausted their COBRA or other options for continuing their policy, they must be offered at least two individual insurance options. The rules are complex, though, and states have wide latitude in implementing the law. To find out if you qualify, check with your state insurance department. Be forewarned that policies that cover a preexisting condition—for example, diabetes—often cost more than a standard policy.

If your COBRA coverage has ended or if you want a less pricey policy, Larsen suggests you call your state insurance department for a list of companies that offer individual policies. Many states provide consumer tips and summaries of the benefits they mandate. You can also ask an insurance agent to search for you. Martha Spenny, vice-chair of the individual insurance committee of the Health Insurance Association of AmErica, says when choosing an agent, "ask how much health insurance they sell. An agent who sells $100,000 in premiums annually probably knows the business and products out there pretty well."

When considering a particular policy, Spenny advises, "ask the agent how many years that product has been on the market in that state." A new policy could turn out to be mispriced, she cautions. If claims are more expensive than the company anticipated, you might find your premium soaring when it is time to renew.

Internet-based services that claim to offer health coverage for the self-employeD may not offer as good a menu of choices as real, live agents or brokers. A search of Net insurance site www.quotesmith.com in my home state of West Virginia delivered a list of options that was much shorter than those offered by an agent or by the state insurance department. A search of www.eHealthInsurance.com yielded nothing. Quotesmith and eHealthInsurance say they're making their databases more comprehensive.

A few states, including Florida, require insurers to offer the same coverage to a self-employed individual as to employees of a business with up to 50 workers. To verify that you really are in business, these states allow the insurance company to ask to review your tax forms and other relevant information. But the least expensive way to buy coverage is usually as a member of a group rather than as an individual. Organizations that offer such insurance include local chambers of commerce, alumni associations, professional organizations such as the American Bar Assn., or national small-business groups.

You also can join a company for independent professionals such as Aquent in Boston, which offers various types of insurance, retirement savings plans, and other services to self-employed people by making them ''employees'' of the company. To buy Aquent's health insurance, which costs $190 per month for an individual and $450 for a family, you must pay a monthly $99 membership fee. So if health insurance is the only benefit you use, be sure to factor the $1,188 per year cost into the price you'll pay to be insured. Aquent CEO John Chuang says that in a few months a related company, Aquent Insurance Brokerage Services, will offer insurance without requiring the membership fee.

FLEXIBLE PLAN. In recent years, Uncle Sam has created a new health insurance option. Called a Medical Savings Account (MSA), it's available only to the self-employed or people who work for businesses with 50 or fewer employees. Modeled on the Individual Retirement Account, the MSA is an account to pay medical bills that allows you to receive a tax deduction for money you stash in it. Along with the account, you buy a catastrophic health insurance policy, with a deductible of $1,500 to $2,250 a year.

You may put up to 60% of the amount of the deductible on your insurance policy (and up to 75% for a family policy) into the savings account. The account can be located at an insurance company, a bank, or other financial institution. The money in the MSA will pay deductibles and other medical expenses not covered by the policy. When you've used up the deductible, the policy kicks in.

To start an account, you'll need the cash to pay the premium and all your expenses up to the high deductible, as well as contribute to the account. A costly illness shortly after opening an MSA can quickly leave you with an empty account and a bill for next year's insurance premium. In fact, however you go about it, insurance shopping is not easy. But with careful research, you can find options that will give you peace of mind and protection against medical bills draining your savings.

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