

KNOW YOUR BENEFITS



Comparing Embedded and Nonembedded Deductibles



Health insurance is crucial for everyone to have, but it's also something many people don't completely understand. One of the concepts that is essential to grasp is how your deductible works. There are two basic types of deductibles for family coverage, and knowing which one you have and how it works can help you plan for out-of-pocket health care expenses.

This article explores the differences between embedded and nonembedded deductibles for family health coverage.

Deductible Overview

A deductible is the amount you must pay out of pocket for medical care before the insurance company will begin paying. For example, if you have an \$800 deductible, you will have to pay for all health care costs until you've reached \$800. After that, your insurance will start paying, although you may still owe a copay or coinsurance amount. The deductible starts over annually.

The deductible may not apply to all health care services, such as preventive care, which may be covered by an individual's insurance regardless of whether they've met the deductible. In addition, not every medical expense you have counts toward your deductible; for example, if you have a service such as plastic surgery, which is typically not a covered benefit, those out-of-pocket expenses won't help meet your deductible.

Insurance plans can cover an individual or a family. If the plan is for family coverage, the deductible can be designed as either an embedded or nonembedded deductible.

Embedded Deductibles

Embedded deductibles have two components: the individual deductibles for each family member and the family deductible. When a family member meets their individual deductible, the insurance company will begin paying according to the plan's coverage for that member. If only one person meets an individual deductible, the rest of the family still has to pay their deductibles.

However, out-of-pocket expenses used to meet an individual deductible are also counted toward meeting the family deductible, which is generally two to four times larger than an individual deductible. Depending on your specific plan, once two or three family members meet their individual deductibles, you will likely have met your family deductible. Keep in mind that after an individual meets their deductible, coinsurance or copays typically will not count toward the family deductible.

Once the family deductible is met, all family members will have medical expenses paid according to the plan's coverage, even if they have not met their own individual deductibles. An embedded deductible is most common for plans that are not high deductible health plans (HDHPs).

While embedded deductibles allow for a more personalized approach and help ensure that individuals with higher medical needs receive coverage sooner, tracking different individual deductibles can be more complex.

Embedded Deductible Example

Susan and John have a family health plan that covers them and their three children. Each family member has a \$500 individual deductible, and they have a \$1,000 family deductible. Susan meets her \$500 deductible after giving birth to their youngest child in February. Son Tommy breaks his leg and also meets his \$500 individual deductible in March, which means the family deductible of \$1,000 has now been met. Later in the year, when John needs carpal tunnel surgery, he only owes a copayment because the family deductible is already met.

Nonembedded Deductibles

A nonembedded, or aggregate, deductible is simpler than an embedded deductible. With a nonembedded deductible, there is only a family deductible. All family members' out-of-pocket expenses count toward the family deductible until it is met, and then they are all covered with the health plan's usual copays or coinsurance. It doesn't matter if one person incurs all the expenses that meet the deductible or if two or more family members contribute toward the family deductible. Nonembedded deductibles are most common in HDHPs.

Nonembedded deductibles are often easier to understand with one combined deductible for the entire family. However, there are some disadvantages, such as delayed coverage activation and lack of flexibility in tailoring coverage to individual family members' needs.

Nonembedded Deductible Example

Antonio and his family have a health plan with a nonembedded deductible. The family deductible is \$2,600. Daughter Isabella has acute appendicitis in February that requires surgery costing \$2,300. Antonio sprains his ankle in April, and medical care costs \$400. The combined out-of-pocket expenses from Isabella's and Antonio's medical treatments meet the family deductible; any further medical care for anyone in the family will be covered by the insurance company according to the plan benefits.

Conclusion

Regardless of which type of deductible your health plan uses, remember that you will need to pay that amount out of pocket before your insurance will start paying. Understanding how your deductible works will help you plan and save for your family's medical expenses.

Talk to your HR representative if you have any concerns or other benefits-related questions.

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