

# Concepts, contracts, and basics

## General insurance concepts

- **Risk types**
  - **Pure:** Only loss possible; insurable. Insurance restores, it does not create profit (principle of indemnity).
  - **Speculative:** Loss or gain possible; not insurable (e.g., gambling, investing).
- **How to manage risk**
  - **Avoid:** Eliminate the risk entirely (e.g., don't drive).
  - **Reduce:** Lower the chance or severity of risk (e.g., healthy habits).
  - **Retain:** Accept and pay for the risk yourself (e.g., deductibles).
  - **Share:** Spread the risk with others (e.g., business partners).
  - **Transfer:** Shift the risk to another party (e.g., buying insurance).
- **Law of large numbers**
  - The larger the group, the more accurately insurers can predict losses and set premiums. It's the statistical foundation of insurance.
- **Insurable interest**
  - Must have a financial or personal stake in the insured at time of application (e.g., self, family, business).
- **Free look period:** Policy owners have at least 10 days (or as required by state law) to cancel a new policy and receive a full refund.

## Insurance contracts

- **Four elements of a valid contract**
  - **Offer:** Made when the applicant submits the application (and usually the first premium); accepted when the insurer approves and issues the policy.
  - **Acceptance:** Acceptance occurs when the insurer agrees to the offer as written or with counter-offers.
  - **Consideration:** Consideration is the exchange of value – the applicant's premium for the insurer's promise to pay claims.
  - **Legal capacity and purpose:** Both parties must be legally able to enter the contract, and the purpose must be legal (no fraudulent intent).
- **Key features**
  - **Adhesion:** The insured cannot negotiate terms ("take it or leave it"). Any ambiguity is interpreted in favor of the insured.
  - **Aleatory:** Unequal value exchange (small premium for large benefit).
  - **Unilateral:** Only the insurer makes a binding promise (the insured does not promise anything in return).
  - **Conditional:** Terms and conditions must be met to receive benefits.
- **Utmost good faith**
  - Both parties must act honestly and rely on each other's representations.
- **Representations vs. warranties**
  - **Representation:** Statements believed to be true to the best of the applicant's knowledge.
  - **Warranty:** Guaranteed truth; false = void policy.
  - **Misrepresentation:** Knowingly false information may void the contract.
- **Doctrine of adhesion**
  - If contract terms are ambiguous, they are interpreted in favor of the insured.
- **Principle of indemnity**
  - Insurance restores the insured to their financial position before the loss; no opportunity for gain.

## Health insurance basics

- **Types of policies**
  - **Disability income**
    - Pays monthly income (typically 60–70% of gross income) if unable to work due to illness or injury.
    - **Elimination period:** Waiting period before benefits begin (e.g., 7–90 days).
    - **Benefit period:** How long benefits are paid (short-term <2 yrs, long-term ≥2 yrs or to age 65).
    - **Own occupation:** Pays benefits if you can't perform the duties of your specific occupation.
    - **Any occupation:** Pays benefits only if you're unable to work in any occupation for which you're reasonably qualified by education, training, or experience.
- **Medical expense insurance (HMO, PPO, POS)**
  - **Basic medical expense**
    - Covers hospital, surgery, and miscellaneous expenses from the first dollar.
  - **Major medical**
    - Covers high expenses after deductible, with coinsurance (e.g., 80% insurer, 20% insured).
  - **Comprehensive major medical**
    - Combines basic and major medical coverages with a deductible after the basic limit.
  - **Key providers:**
    - **HMO:** Preventive care, must use HMO-approved providers.
    - **PPO:** More provider flexibility, but higher costs for out-of-network care.
- **Long term care (LTC)**
  - Pays for care if unable to do 2+ ADLs (e.g. bathing, eating, moving).
  - Must be guaranteed renewable and offer inflation protection.
  - Covers home or facility care; includes Alzheimer's.
- **Accidental Death and Dismemberment (AD&D)**
  - Pays lump sum for accidental death (principal sum) or dismemberment.
  - Covers loss of limb (above wrist/ankle) or total blindness.
  - Excludes injuries from crime, substance use, or workers' comp cases.
- **Regulations and provisions**
  - **ACA:** Bans pre-ex conditions, requires dependent coverage to age 26, and guarantees issue/renewability. No \$ caps on 10 essential health benefits; preventive care must be free; max 90-day waiting period. Employers with 50+ FTEs must offer affordable coverage or face penalties; subsidies apply in the Marketplace.
  - **HIPAA:** Portability & access; limits pre-ex to 12 months (tested), but ACA overrides — no pre-ex limits now.
  - **COBRA:** Employers (20+ employees) must offer 18–36 months of group plan continuation after qualifying events (e.g., termination, divorce, disability).
  - **Coordination of Benefits (COB):** Ensures no more than 100% of a loss is paid when multiple policies apply.
  - **Preauthorization:** Required approval for certain procedures or specialists before care is given; avoids denied claims.
- **Common terms**
  - **Deductible:** Amount you pay out-of-pocket first before insurance kicks in.
  - **Coinsurance:** After deductible, you split costs (e.g. 80/20 insurer/you).
  - **Copayment:** Flat fee (e.g. \$20) you pay per visit or service.
  - **Out-of-pocket max:** Max you pay in a year; after that, insurance pays 100%.