

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 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:** An offer is made when the applicant completes the application; it's accepted when the insurer 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:** "Take it or leave it", the insurer sets terms.
 - **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, walking).
 - 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**
 - **HIPAA:** Limits pre-ex condition exclusion to 12 months; no wait if <63-day break. Guarantees group access (2–50 employees). Newborns/adoptions covered from birth/legal date.
 - **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%.