

Cutting the cost of health cover

If you're thinking about taking out a private health insurance policy, we explain the different levels of cover and look at how you can reduce your premiums



FOREVER YOUNG

Paul Horrell 71, retired chartered accountant Paul took out a policy with Exeter Friendly five years ago, when he left his company's scheme. He chose Exeter Friendly because it has a fixed-age policy, which means the premium is calculated each

year on the age you were when you joined the scheme. This helps keep annual premium rises to a minimum.

His wife Gaye, 62, recently had to go into hospital for an operation. She could have had the operation quickly as an NHS patient but Gaye chose to

go private as she wanted to have a room to herself. This is the Horrells' second claim in five years.

Gaye says: 'Exeter Friendly Society's service has been excellent. It gave rapid approval to meet the cost less our excess.'

Health is the most important thing we have. When we're ill, we want to be treated quickly, but this isn't always possible on the NHS. Private medical insurance (PMI) allows you to skip the waiting list and arrange treatment at a time of your choosing. This can be a great advantage, especially if you're self-employed or in pain. You might also want PMI so that you can be treated in the plusher surroundings of a private hospital.

However, PMI is one of the few financial products that also has a free alternative – the NHS. This means it is not essential but, if you have enough disposable income and all your finances are in order, it's certainly something to consider buying. You need to choose carefully, though, as PMI policies vary greatly in what they offer and how much they cost.

If you want to keep costs down, there are some innovative schemes that allow you to do this, for example, by paying something towards the cost of your treatment or by making a commitment to a healthy lifestyle. See 'Cutting the cost of PMI', opposite, for more on this.

HOW PMI WORKS

PMI covers the cost of being treated privately, either at a private hospital or in a private NHS bed. It is designed to cover short-term, curable medical problems. Anything that isn't short-term or curable is likely to be excluded. So, for instance, your policy won't pay for longer-term treatment, such as kidney dialysis or illnesses, such as asthma. Other common exclusions include normal pregnancy and cosmetic treatments not required due to accident or injury. Each policy is different, so it's important to check carefully what is and isn't included before you buy.

PHOTOGRAPHY: DAVID MORRISON

Levels of cover

Private medical insurers typically offer a variety of policies with different levels of cover. Most offer at least one top-level comprehensive policy, a medium-level standard policy and a lower-level budget policy.

Some insurers also have specialist policies. For example, some policies cover you only when you have to wait longer than six weeks for treatment on the NHS. Other policies are designed specifically for the over-55s, or have a special focus on one disease, such as cancer.

Modular policies are becoming increasingly common. These cover you for in-patient treatments but also allow you to add cover for different things so that you tailor-make your insurance package.

What treatments are covered?

Most policies cover all the costs of in-patient treatment (tests and surgery) and daycare surgery. Cover for out-patient treatment (diagnostic tests, scans, physiotherapy, consultations and chemo- and radio-therapy) varies. Comprehensive policies usually cover all out-patient treatments.

Standard policies cover most out-patient treatments but may limit the cost of treatment covered. Budget policies cover fewer types of out-patient treatment and have lower financial limits on the amount of treatment covered. With budget policies, out-patient treatment may also be covered if it directly relates to in-patient treatment – for example, follow-up physiotherapy after a stroke.

Cover for psychiatric treatment varies between insurers. This is a difficult area for insurers to categorise as it blurs the line between curable illness (which is covered by PMI) and long-term care (which isn't covered). Comprehensive policies are more likely to include psychiatric treatment, but not all do, so you have to check.

Some policies also offer extra cover, for example, for complementary therapies, a private ambulance, home nursing, a 24-hour advice line and parental accommodation if your child is in hospital. Again, the higher grade the policy is, the more likely it is to cover these areas.

Underwriting

With health insurance, there are two methods of dealing with your existing medical history – full medical underwriting and what's known as moratorium.

With full medical underwriting, you supply the insurer with full details of your medical history. Any pre-existing medical conditions are not usually covered, either indefinitely or for a set period. Insurers provide a registration certificate which lists all the exclusions so customers know what they're not covered for upfront.

If you're covered on a moratorium basis, you don't supply medical data upfront. But you won't get cover for any condition that you have previously had, usually in the past five years. If you remain free of that condition for a period of time, usually two years, that condition may be covered from then on.

The key difference is that with full underwriting, you know upfront what will be covered. With moratorium, you don't know what's covered until you claim.

Limitations of PMI

It's important to be aware of PMI's limitations before you take out a policy.

■ PMI doesn't replace all NHS services – for example, accident and emergency treatments aren't covered.

■ With very serious illnesses, you will not necessarily receive treatment more quickly with PMI than you would under the NHS.

■ You won't always get treatment in a private hospital. You may be put in a private patient unit within an NHS hospital. You could also end up on an NHS ward rather than in a private room.

CUTTING THE COST OF PMI

Many employers offer PMI to staff as a company perk, but the number of people taking out PMI policies independently is decreasing. In the last ten years, it has fallen by about a quarter to roughly a million people a year. Including dependants, around 1.8 million people are now covered by individual PMI policies.

One of the major reasons for this decline is the increasing costs of premiums. Annual rises are partly due to the fact that you are a year older and therefore more likely to need treatment. But they also go up because of inflation. Medical inflation goes up faster than inflation in general due to salary growth and more expensive treatments. The average individual PMI premium is now well over £1,000 a year. However, this varies substantially, depending on your age and whether or not you have dependants on your policy. See our table, overleaf, for examples of premiums.

Switching insurers

Health problems can tie you to your insurer

Switching health insurer to take advantage of more competitive premiums can mean that you lose cover for any conditions you've developed since you started your policy.

However, some insurers may allow you to switch policy without losing cover for pre-existing conditions. Others will agree to cover you for these conditions

after a set period if you remain free of the conditions in that time. Check this carefully with the insurer before you buy the policy.

If you're moving from a policy you've had as a perk through your employer, check whether it allows you to switch to its individual policy without losing any cover.

In a bid to attract more individual policy holders, insurers have devised innovative PMI schemes that help keep costs down in a number of ways.

Insurers have devised innovative PMI schemes that help keep costs down

Shared responsibility schemes

With these PMI policies, premiums can be kept down if you agree to pay a percentage of the cost of any treatments you have. The theory is that doing so gives you an incentive to keep costs down.

Exeter Friendly's Shared Care plan and Western Provident Association (WPA)'s Flexible Health policy both use this method. With Exeter Friendly, you pay either 25 per cent of the costs capped up to a £5,000 annual limit or 50 per cent of the costs up to a £10,000 limit. With WPA you pay 25 per cent of the cost, with your contribution capped at £500, £1,000, £3,000 or £5,000. The more you agree to pay, the lower your premium.

Charlie MacEwan of WPA says: 'By paying a percentage of their treatment costs, customers are active participants in their treatment, rather than passive patients who pay their premium and regard treatment as free. Shared responsibility can cut premiums by up to 70 per cent.'

No-claims discounts

Many PMI insurers offer no-claims discounts to help cut costs. If you don't claim or, in some cases, if the cost of your claim

You can earn higher discounts by adopting a healthy lifestyle

is less than your premium, you build up a discount. No-claims discounts can grow to impressive levels – for example, up to 65 per cent with some Standard Life policies after five years.

PruHealth has a very innovative no-claims discount system. All policyholders get the basic bronze-level discount (25 per cent) to put towards next year's premium. You can earn higher discounts by adopting a healthy lifestyle. Activities such as going to a gym (PruHealth has special deals with Holmes Place and Cannons), having health checks and taking nutritional advice from PruHealth's website all earn policyholders points towards a higher no-claims discount. If you hit the top platinum-level discount and haven't made a claim, you get 100 per cent of last year's premium towards the next year's when you renew.

Excesses

Excesses for PMI policies work in a similar way to excesses on car or house insurance. If you need private treatment, you pay your

chosen excess and the insurer foots the rest of the bill. It's important to check your policy document to find out exactly how your excess works because definitions can vary considerably between policies.

The higher the excess, the lower your premium will be. The maximum voluntary excess varies substantially between insurers but is typically £1,000 or less. Bupa offers a voluntary excess of up to £2,000.

There are specific high-excess plans such as Standard Life Choices and WPA XS Health, which have minimum excesses of £1,000 and £1,500 respectively. You can opt to pay up to £5,000, depending on your age. Effectively, you bear the cost of minor treatment with these schemes but are covered against the open-ended cost of serious illness.

Fixed-age method

With most Exeter Friendly Society plans, the age at which you join the scheme is the age you stay at for purposes of premium calculation. This means the only premium



CONCERNS OVER RISING COST OF PREMIUM

Robert Elvy 44, account manager

Robert recently had keyhole surgery to treat a problem with his knees caused by schoolboy rugby. It was covered by the Bupa policy he's held since 1999. Robert is very happy with Bupa's service. He says: 'Bupa has always been quick to respond. I never fill in

a claim form, I just get an authorisation code over the phone and the bills are sent directly to Bupa by the hospital. It is so simple and easy that I would not consider changing.'

But Robert is worried about the cost: 'Over the seven years I've been with Bupa, the policy has risen to £78.62 a month from

about £50 a month, so it has been a steep rise (57 per cent in seven years). But I consider the service valuable, and it offers value for money.'

Robert could cut his monthly payments by taking on a voluntary excess. He could also pay annually (instead of monthly) to get 5 per cent off his premium.

SELF-PAY COSTS		
	COST (£)	NHS WAITING TIMES (weeks)
Cataract removal	1,800 to 2,900	13
Heart bypass	12,000 to 15,550	14
Hernia treatment	1,300 to 2,450	18
Hip replacement	7,000 to 8,900	27
Knee replacement	8,800 to 10,300	29

Average cost and waiting times. Source: Bupa; Health and Social Care Information Centre (England) 2004-2005

increases you face are those caused by medical inflation. This is especially useful as you get older as premiums can rise steeply with age.

Delayed treatment

Another option for cutting costs is to use your private insurance only if the NHS can't treat you quickly. Some insurers, including AXA-PPP, Norwich Union and Standard Life, cut premiums by between 10 and 30 per cent by offering plans with a six-week wait option. This means that if you are told you have to wait for more than six weeks for NHS treatment after your specialist says that you need treatment, your insurer will pay for you to be seen more quickly privately. Our self-pay costs table, above, shows some average waiting times for typical procedures on the NHS in England.

Other available discounts

Paying your premium in one lump sum annually instead of making monthly payments will usually save you 5 per cent. Buying your policy online also gets you a discount in the first year with WPA and Exeter Friendly.

SELF PAY

You can still go private and be seen quickly without insurance by paying for treatment as the need arises. If you don't have enough savings, you could apply for a competitive personal loan.

We've included the guide price of some common treatments in the table, above. The prices include the cost of the operation, consultants' fees, nursing care, accommodation, physiotherapy, medication, after-care and one follow-up out-patient appointment. The actual cost to you will depend on your individual circumstances.

Contacts

AXA-PPP
www.axapphealthcare.co.uk
0870 608 0850

BCWA
www.bcw.co.uk
0117 9295555

Bupa
www.bupa.co.uk
0800 600 500

Cigna HealthCare
www.cigna.co.uk
0845 601 2867

Exeter Friendly
www.exeterfriendly.co.uk
08080 55 65 75

HSA
www.hsa.co.uk
0800 072 10 10

Legal & General
www.legalandgeneral.com
0800 197 3367

Norwich Union
www.norwichunion.com
0800 42 42 42

PruHealth
www.pruhealth.co.uk
0800 092 6666

Standard Life
www.standardlifehealthcare.co.uk
0800 33 33 50

WPA
www.wpa.org.uk
0800 783 3 783

USING THE TABLE

The table shows the annual cost of PMI policies for particular scenarios. The price you pay will depend on your particular circumstances. We've included

comprehensive, standard and modular policies. The modular policies include the basic cover and all optional levels of cover.

Prices are for new customers paying by annual direct debit,

opting for the widest choice of hospital with no voluntary excess. Where there is a compulsory excess, we've footnoted the lowest excess you can opt for.

PRIVATE MEDICAL INSURANCE	ANNUAL PREMIUM (£)		
	INDIVIDUAL: AGE 34	COUPLE: AGE 43 & 47, TWO CHILDREN	INDIVIDUAL: AGE 64
COMPREHENSIVE POLICIES			
AXA-PPP HEALTHCARE Premier	554	1,855	974
BCWA Preferential Private Health Cover Personal Membership	2,003	4,521	4,689
BUPA Heartbeat Health Care Select 1	793	2,396	2,240
CIGNA HEALTHCARE Parent	1,185	2,557	1,795
CIGNA HEALTHCARE Premier	1,063	2,641	1,572
LEGAL & GENERAL Lifetime Comprehensive	1,000	2,835	2,428
NORWICH UNION HEALTHCARE Express Care	1,174	3,863	2,286
NORWICH UNION HEALTHCARE Select Care	1,149	3,779	2,237
PRUHEALTH Comprehensive	631	2,082	1,850
STANDARD LIFE HEALTHCARE Primecare Gold	1,618	4,727	3,462
STANDARD LIFE HEALTHCARE Primecare Plus	1,327	3,873	3,015
STANDARD LIFE HEALTHCARE Primecare	1,095	3,221	2,589
STANDARD LIFE HEALTHCARE Choices ^a	442	1,181	1,235
WPA XS Health	156 ^b	661 ^b	565 ^c
STANDARD POLICIES			
AXA-PPP HEALTHCARE Key	427	1,504	751
BUPA Heartbeat Health Care Select 2	656	1,873	2,010
EXETER FRIENDLY ExeterCare Preferred Plan	1,462	3,839	2,490
LEGAL & GENERAL Lifetime Essential Plus	741	2,099	1,885
NORWICH UNION HEALTHCARE Trust Care	639	1,828	1,155
NORWICH UNION HEALTHCARE Trust Care Starter	359	1,111	890
PRUHEALTH Essential	506	1,652	1,507
PRUHEALTH Core	407	1,334	1,238
STANDARD LIFE HEALTHCARE Primecare Saver	893	2,626	2,229
MODULAR POLICIES			
BCWA Personal Health Private Health Cover Personal Membership	461	1,965	1,146
EXETER FRIENDLY Shared Care ^d	379	1,179	692
EXETER FRIENDLY GoPrivate Health Plan ^e	744	2,474	2,148
HSA Personal Medical Plan	456	972	744
NORWICH UNION HEALTHCARE Health Solutions	573	1,670	1,397
WPA Flexible Health ^f	279	764	667

a £1,000 excess b £1,500 excess c £3,000 excess d You pay 50 per cent of treatment costs up to a limit of £10,000

e £100 compulsory excess f £500 limit on patient shared responsibility contribution

Correct at 11 April 2006

Checklist

Before you buy a PMI policy, sort out your finances and get advice

■ **Financial priorities** Don't take out a PMI policy (unless it is offered as a company perk) before your finances are in order. Pay off any debts and build up a cash fund to deal with unforeseen emergencies. If you have dependants, make sure you have enough life insurance. Also think about protecting your income if you can't work for a period of time through illness, accident or injury. Make sure you have some form of private pension provision in place.

For more on getting your finances into shape, see 'Financial health check', *Which?*, March 2006, p34.

■ **Choosing a policy** PMI policies are complex so it's best to take independent financial advice to help you choose one. A good financial adviser will check that your existing finances are in order and will recommend a PMI policy suitable for your needs. However, you need to stay in control and check that their recommendation is appropriate. Ask your adviser the following questions:

■ What does the policy cover?
■ What level of cover should I go for?

■ What are the exclusions?
■ Is there a compulsory or voluntary excess?

■ Does this policy build up a no-claims discount?

■ Should I go for a moratorium or a fully-underwritten policy?

■ Have you checked the whole market before coming to your recommendation?

■ How much commission will you receive for this policy and how does this compare with other suitable policies?