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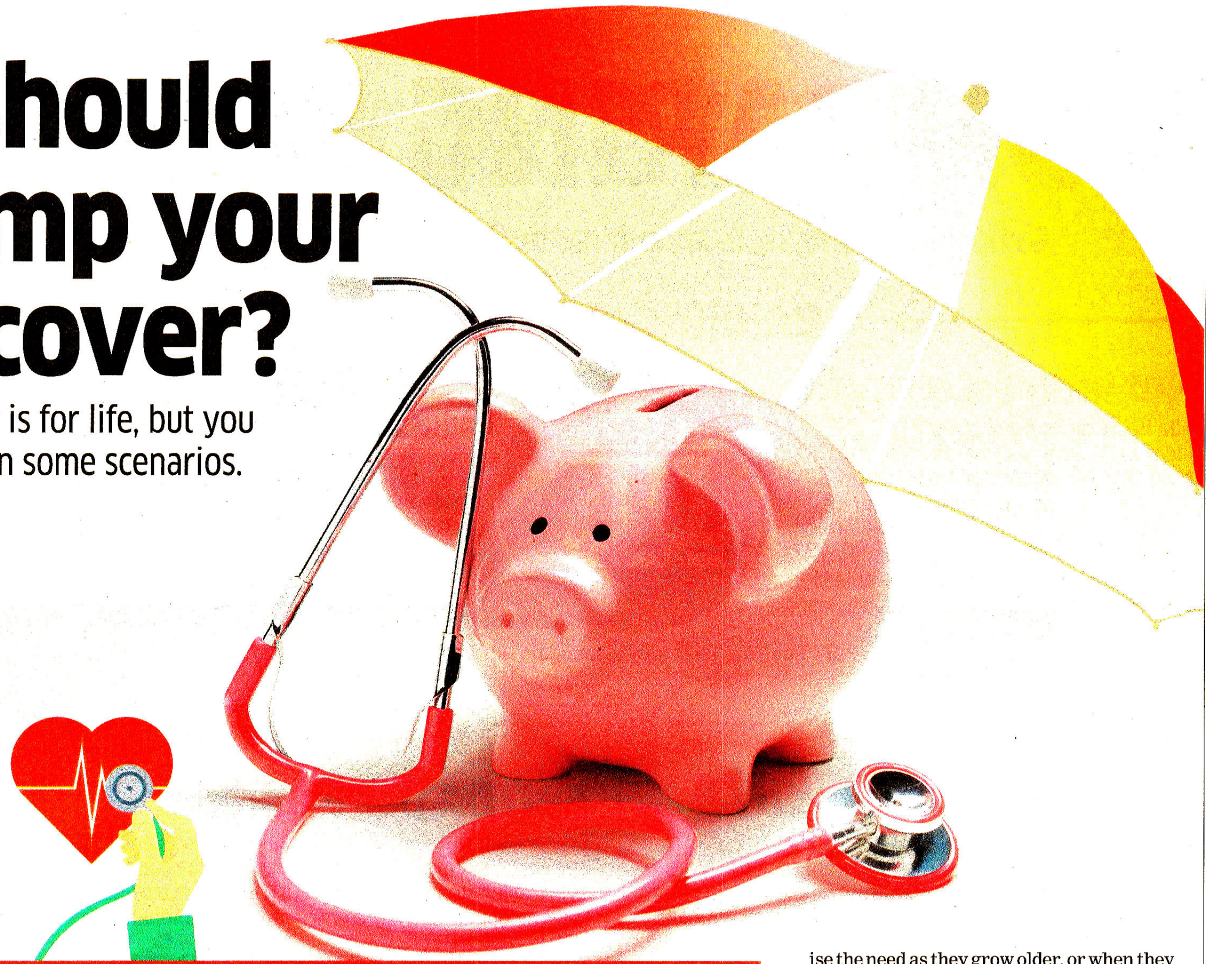
When should you dump your health cover?

A health insurance policy is for life, but you should review its utility in some scenarios.



by **Preeti Kulkarni**

A health insurance policy is a must in any protection portfolio. However, in some situations, continuing with a policy may not add value to your protection portfolio. The following scenarios illustrate how and when a policy renewal or purchase may cease to be healthy.

Hikes in renewal premiums

In recent years, some senior citizens have had to deal with up to 100% increase in their health insurance renewal premiums. Faced with the prospect of not being covered at a time when they need it the most, many have continued to service such premiums. However, financial planners do not advocate this approach. "A cover with a premium-to-sum assured ratio of more than 20% is not viable," says independent financial planner Bhakti Rasal.

You should put your policy on watch even if the premium crosses the 10% threshold. For example, if you are a senior citizen with a ₹4 lakh cover and your renewal premium shoots up to ₹54,000 per annum, let the policy lapse, particularly if it also comes with co-pay or room rent restrictions. "If the premium amount crosses 10% of the sum insured, study its utility before taking a call. If it goes to as high as 25%, it makes no sense," says Suresh Sadagopan, Founder, Ladder7 Financial Advisories.

In such circumstances, you would be better off building a separate, medical emergency fund by setting aside the required amount in a fixed deposit or identifying substitutes.

When the outgo does not justify premiums

Sum assured	₹3 lakh
Annual premium	₹20,000
Room rent sub-limit	₹3,000 (1% of the sum insured)
Rent of the room category opted for	₹5,000
Claimed amount	₹1.6 lakh
In claimed amount, expenses linked to room rent	₹1.5 lakh
Deductions on account of registration charges, non-medical expenses etc	₹10,000
Approved amount	₹1 lakh*
Total outgo (premium and amount not reimbursed by the insurer)	**₹80,000**

*After 33% proportionate deduction; registration and non-medical expenses are exclusions. Illustration based on a range of premiums for a 65-year-old female.

Room rent sub-limits

Consider this scenario: you bought a ₹3 lakh cover 20 years ago, when you were 45, with a room rent limit of 1% of the sum insured (₹3,000). The amount was enough to take care of hospital bills and get you a room of your choice. Now the premium has gone up to say ₹22,000, and the room and hospital you prefer are of premium variety. What served you well for 10 years may not meet your requirements going forward. In this scenario, the total claim payout will be reduced heavily, as the overall charges—doctor's fees, anaesthesia, OT charges etc—are linked to the room rent category. If you have chosen a room that costs ₹5,000, while you are eligible for a room type that costs ₹3,000, there will be proportionate deduction of 33% on all charge heads. Therefore, if your claim amount is say ₹1.5 lakh you might end up receiving only around ₹1 lakh. Your total outgo, therefore, would be ₹72,000, which does not justify a renewal. "If there are sub-limits, co-pay conditions as well as exclusions from coverage, it is a better idea to create a medical contingency corpus," says Sadagopan.

Do ensure, however, that you do not go overboard hunting for a feature-rich policy with the largest possible sum insured only to maximise tax benefits. Ideally, a family of four, where the eldest member is under 40, should start with a cover of ₹5 lakh and review requirements and medical inflation every five years and hike cover accordingly.

Co-pay, disease-wise capping

If you are paying a premium of ₹35,000 for a ₹4 lakh policy that comes with a co-pay of 20%, evaluate your cover. If your approved claim is ₹1 lakh, the actual payout will be ₹80,000. Your total outgo would be ₹55,000, not factoring exclusions for registration and non-medical charges. Similarly, disease-wise cappings, too, can blunt your cover's utility. Here, the payout for certain diseases, surgeries or charges can be restricted to an ad-hoc amount or 25-50% of the sum insured.

Higher premiums at older ages

While insurers and experts recommend buying a health policy at a younger age to ensure favourable terms and conditions, many realise the need as they grow older, or when they suffer from ailments. Insurers do extend covers to such individuals, but with prohibitively high premiums and restrictions. "If a person suffers from severe pre-existing conditions and is issued insurance with many restrictions then it may not be worth buying," says Kapil Mehta, Co-founder, *Securenow.in*.

The alternatives

Your claim experience with your insurer also counts. "If your insurer consistently rejects your claims, it may be better to move," says Mehta. If you are facing an insurer-specific challenge, port to another if a better deal is being offered. There are other options in addition to creating a health contingency fund. "Instead of regular health insurance, go for a critical illness or a cancer plan. At least one expensive disease is covered. You could also buy top-up insurance if the base policy is too expensive," says Mehta. Top-up add-ons come into the picture only after a pre-agreed amount is exhausted. The decision to let go of your policy should taken carefully after exhausting all other options. Once lapsed, it will not be easy to sign up for another. "Health insurance is the perfect tool as it is a yearly contract and comes with guaranteed lifelong renewal. It has the ability to act as the perfect wealth protector in one's portfolio. Any size corpus would get exhausted while the cover gets renewed every year," points out Ravi Vishwanath, ED and CEO, Reliance Health Insurance.

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