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Be wary of medical discount cards

Some buyers think they are getting health insurance

BY GETAHN WARD • STAFF WRITER • SEPTEMBER 23, 2008

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Mark Sarmadi, a diabetic, thought he had found the answer to getting health coverage when a salesman pitched him what he thought was a low-cost [insurance](#) program.

Instead, it turned out to be a medical [discount](#) card that didn't live up to its promised benefits.

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"Clearly it was all a big hoax," said his wife, Debbie Sarmadi, who was able to recover \$498 in fees after the state's attorney general got involved. Direct Benefit Services LLC, the Brentwood-based company that sold Mark Sarmadi the card, has since folded after agreeing to refund money to 91 Tennesseans among its clients nationwide.

With the rising cost of health insurance, many more consumers are likely to be pitched similar discount programs. But experts warn that the plans often promise big savings that never fully materialize.

"A lot of people who are selling, they make it sound like it's insurance but it's really not," said

Jim Walker, president of Individual HealthCare Specialist Inc., an insurance broker in Brentwood. "They're easy to sell because people think that they're getting a really good deal, but it's not a really good deal."

For a one-time fee of roughly \$150 to sign up, plus monthly fees that range from \$49.95 to \$199.95, medical discount cards promise a certain level of care from participating dentists, doctors and even hospitals.

Some of the programs work well, especially for people not otherwise able to get insurance. But many programs have shortcomings, experts said. Some exaggerate the savings they provide; some have a small number of medical providers; and sometimes people who don't buy the cards can negotiate similar discounts with their own providers.

"If you see a promise that sounds too good to be true, it probably is," said Jennifer Libster, a senior research associate with Georgetown University's Health Policy Institute in Washington, D.C., a co-author of a 2005 study critical of the industry.

States Pass Regulations

"I've just heard so many horror stories of people who thought it was health insurance and ended up with thousands of dollars in bills," said C. Steven Tucker, president of [Small Business](#) Insurance Services Inc., a broker in Palatine, Ill.

Some companies in the discount card industry have pledged full disclosure to consumers as a way to protect their reputations. Through the Consumer Health Alliance, a trade group, several companies disclose that their programs aren't insurance, and they allow consumers to cancel within 30 days for a full refund.

"We want to preserve consumer access to discounted health-care benefits and services and ensure that



JEANNE REASONOVER / THE TENNESSEAN

Mark Sarmadi, owner of Brentwood Auto Sales, was sold what he thought was insurance, but it turned out to be a discount card that offered little benefit.

HEALTH DISCOUNT CARDS: PROS AND CONS

A study by Georgetown University's Health Policy Institute in Washington, D.C., found discount card programs sometimes made promises they didn't keep, such as:

- Out of 44 listed medical providers contacted, 16 honored the cards but only nine provided an estimated discount.
- Cards promised savings of up to 80 percent, but the highest actual discount was 36 percent.
- Most of the companies refused to give a full refund when customers tried to cancel the cards.

How much they cost

Some low-cost cards that include vision, dental, prescription drugs and chiropractic benefits charge \$8 to \$30 a month. When physician and hospital discounts are included, costs can range from \$49.95 a month to as much as \$199.95. Many companies also charge a one-time enrollment fee.

Are the cards worth it?

Consumers should compare prices so they're not paying considerably more for the same benefits they could get elsewhere at a more reasonable price, consumer advocates say. Individual insurance policies can range from \$250 to \$600 a month and the cost for family coverage can easily range from \$800 to \$1,200 a month, depending on age, medical history, location and family size.

— GETAHN WARD

RULES IN TENNESSEE

State law bans the sale or marketing of such cards unless they clearly disclose that the discounts offered are not insurance; each health-care provider listed in connection with a card must have a contract to deliver the promised discounts; and the discounts can't be misleading, deceptive or fraudulent.

— GETAHN WARD

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programs are being offered in a responsible, consumer-friendly way," said Allen Erenbaum, an attorney with the Dallas-based association. The group's membership lists about 500,000 people in Tennessee, or about 10 percent of the insured population, covered by such plans or cards.

Some consumers have discount cards for certain services — perhaps just prescription drugs — in addition to regular insurance coverage. Even mainstream insurers have created discount card products. Aetna's Vital Savings, for instance, offers savings up to 50 percent off some dental services and up to 40 percent off some prescription drugs.

Several states, meanwhile, have passed regulations governing medical discount plans. Florida requires such companies to be registered with the state, file annual reports and obtain approval of rates that rise above a certain level.

Alaska requires a number of disclosures and says the discount plans must have contracts with providers, including doctors, in the state. Linda Hall, director of Alaska's division of insurance, said the laws were passed two years ago after residents bought discount cards that had no medical providers signed up in Alaska.

In Tennessee, the state's Department of Commerce and Insurance has received complaints or inquiries from consumers, including ones about companies not paying for what was promised. Shannon Ashford, the agency's spokeswoman, said more of the plans are emerging as health insurance becomes more expensive and harder to obtain.

"Consumers need to be alert and investigate these types of plans before enrolling in one and paying out any money," she said.

Law Requires Disclosure

Annie Gifford, who lives in Franklin County, Tenn., said her husband, Bobby, paid a \$498 fee for a discount program after a saleswoman told him that past medical problems that had made him uninsurable elsewhere didn't matter. Gifford later realized her husband had signed up for a discount card, not health insurance.

"She promised 80 percent off surgeries, hospitalizations like a major medical policy," Gifford said of the saleswoman. "It turned out to be discounts of 10 percent to 15 percent."

Tennessee law bars the sale or marketing of such cards unless they clearly disclose that the discounts offered are not insurance. Also, each health-care provider connected with a card must have a contract to deliver the promised discounts, which can't be misleading, deceptive or fraudulent.

Mark Sarmadi, who spends \$300 a month on insulin, syringes and other diabetic supplies, said he was wooed by promises of paying only \$10 — in addition to a \$498 sign-up fee — whenever he bought medicine. But when the Brentwood car dealer went to the pharmacy, he was told the card carried no benefits at all.

Georgetown researcher Libster said targets of such plans include the elderly, immigrants and low-income consumers. She expects an increase in the plans as people face more out-of-pocket medical expenses, including higher deductibles for health-care visits.

"There are some cards that offer legitimate discounts and do represent themselves honestly," Libster said. "Unfortunately, there are enough bad actors in the industry that it makes it hard for consumers."

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