

BRIGHTADVISOR®

Gap Insurance Guide

Understanding Supplemental Health Coverage That Fills the Gaps in Your Primary Plan

What Is Gap Insurance?

Gap insurance, also known as supplemental medical insurance or health gap coverage, is a type of employer-sponsored benefit that helps employees cover the out-of-pocket costs not paid by their primary health insurance plan. As high-deductible health plans (HDHPs) become more common, gap insurance has emerged as a critical tool for protecting employees from financial hardship while keeping employer healthcare costs manageable.

The average deductible for employer-sponsored health plans has increased over 60% in the last decade. For single coverage, the average deductible now exceeds \$1,700, with many HDHP plans featuring deductibles of \$3,000 or more. Gap insurance bridges this cost exposure.

How Gap Insurance Works

Gap insurance pays a fixed benefit amount when an employee receives covered medical services. These payments go directly to the employee and can be used to pay deductibles, copays, coinsurance, or any other expense not covered by the primary health plan.

Feature	Gap Insurance	Traditional Health Insurance
What it covers	Out-of-pocket costs from primary plan	Medical services directly
Payment method	Fixed benefit to employee	Pays provider after deductible/copay
Coordination	Supplements primary plan	Stands alone as primary coverage
Underwriting	Typically no individual underwriting	May require health screening
Premium cost	\$50-\$200/month (employer/employee shared)	\$500-\$2,000+/month
Claim trigger	Employee receives covered medical service	Employee seeks medical care
Tax treatment	Employer premiums are tax-deductible; benefits may be tax-free	Employer premiums are tax-deductible

What Gap Insurance Typically Covers

- Inpatient hospital stays (per-day or per-admission benefit)
- Outpatient surgery and procedures
- Emergency room visits
- Diagnostic imaging (MRI, CT scan, X-ray)
- Laboratory and pathology services
- Physician office visits and specialist consultations
- Physical therapy and rehabilitation services
- Prescription drug costs (some plans)

Gap Insurance with Primary Health Plans

Gap insurance is designed to work alongside any primary health plan but provides the greatest value when paired with high-deductible health plans. Here is how the coverage coordinates.

Common Scenarios

Scenario	Primary Plan Pays	Employee Owes	Gap Plan Pays	Net Cost to Employee
ER visit (\$3,500)	\$1,000 (after deductible)	\$2,500	\$2,000	\$500
Outpatient surgery (\$8,000)	\$5,600 (after deductible)	\$2,400	\$2,000	\$400
3-day hospital stay (\$15,000)	\$12,000 (after deductible + coinsurance)	\$3,000	\$2,500	\$500
MRI (\$1,200)	\$0 (below deductible)	\$1,200	\$750	\$450
Annual wellness visit	\$Full (preventive)	\$0	N/A	\$0

In these scenarios, gap insurance reduces the employee's effective out-of-pocket cost by 60-80%. This can mean the difference between an employee seeking necessary care and delaying treatment due to cost concerns.

Enrollment Process

1. Employer selects gap insurance plan design and contribution level during benefits setup
2. Gap insurance is offered alongside primary health plan during open enrollment
3. Employees elect coverage; most plans allow employee-only, employee + spouse, or family tiers
4. No individual health questionnaires or medical underwriting required in most group plans
5. Coverage effective date aligns with primary health plan effective date
6. Premiums deducted from payroll alongside other benefit deductions
7. Employee receives gap insurance ID card and claims submission instructions

Claims Filing Process

1. Employee receives medical care and submits claim to primary health insurer as normal
2. Primary insurer processes claim and issues Explanation of Benefits (EOB)
3. Employee submits EOB to gap insurance carrier (online portal, app, or mail)
4. Gap carrier verifies covered service and calculates benefit payment
5. Benefit payment sent directly to employee (check or direct deposit)
6. Typical processing time: 5-15 business days after receiving complete documentation

Employer Benefits Strategy

Gap insurance allows employers to offer high-deductible plans (with lower premiums) while still providing employees with meaningful financial protection. This creates a win-win that controls costs without shifting excessive burden to employees.

Cost Comparison: HDHP + Gap vs. Traditional PPO

Cost Component	Traditional PPO	HDHP + Gap Insurance	Savings
Monthly premium (employer)	\$650/employee	\$420/employee	\$230/month
Monthly gap premium (employer)	N/A	\$75/employee	(\$75/month)
Net monthly employer cost	\$650/employee	\$495/employee	\$155/month

Annual employer savings per employee	---	---	\$1,860
Annual savings (50 employees)	---	---	\$93,000
Employee deductible exposure	\$500-\$1,500	\$1,500-\$3,000 (offset by gap)	Similar net cost

Implementation Considerations

- Select a gap plan that aligns benefit amounts with your primary plan deductible and coinsurance
- Decide employer vs. employee premium contribution split (100% employer-paid maximizes engagement)
- Communicate the value clearly: employees often do not understand gap coverage without education
- Include gap insurance explanation in new hire onboarding and open enrollment materials
- Train HR staff and managers to explain gap coverage and assist with claims questions
- Review gap plan annually alongside primary health plan renewal to ensure continued alignment

Gap insurance is not a substitute for primary health insurance and does not satisfy ACA minimum essential coverage requirements. It must be offered as a supplement to, not a replacement for, a qualifying health plan. Consult a licensed benefits advisor for plan design guidance.

BrightWealth® helps employers design benefits strategies that combine competitive health coverage with cost-effective supplemental products like gap insurance. Our approach reduces employer spend while improving employee satisfaction and financial protection. Contact us for a complimentary benefits strategy review.