'Money $ense': High deductible health plans

By Marc Hebert
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EMPLOYER-SPONSORED health insurance plans with high-deductibles have gained in popularity. According to the Kaiser Family Foundation, a non-profit focusing on national health information, in 2020 these represented 31% of plans versus 24% in 2015. It isn't just employers offering these plans — private insurance companies and health insurance marketplaces have them available as well.

Why would you want a high deductible health plan (HDHP)? Here are a few things to consider:

In 2020 the average HDHP for family coverage cost $4,852. This is lower than the average cost of a PPO plan at $6,017. There could be a savings on the premiums when using an HDHP.

Most significantly, an employee may make contributions to a health savings account (HSA). HSAs are a type of savings account attached to high deductible plans that let you set aside money on a pre-tax basis to pay for qualified medical expenses. Money saved to an HSA grows tax free and can be withdrawn tax free when used for qualified expenses. HSA money can be used for current or future medical expenses, so save your receipts for health expenses if you want to redeem money from your HSA in the future.

HSA contributions can be made via automatic payroll contributions or by manually funding an account through an HSA provider. Contributions can be made up to the April tax filing deadline of the following year. There is an annual limit, which can change to keep up with inflation. Employers may contribute to the HSA, and these contributions are considered part of the annual limit.

There could be investment options for money contributed to an HSA. Remember, the contributions and earnings can be withdrawn tax-free if the money is spent on qualified health care expenses. Check with your HSA plan administrator or pharmacist to see which medical expenses can be paid. Generally, HSA funds cannot be used to pay insurance premiums. Check the laws of your state to be sure it follows the same rules.

If you become unhappy with your choice of HSA provider, you can roll the funds to a new HSA. This is helpful if you change employers or retire. The money is available to pay for future expenses. Keep in mind, an HDHP plan is needed to establish and contribute to an HSA.

The tradeoff for the lower premium of an HDHP is more out-of-pocket expenses paid for medical services. The first is through a higher deductible. When evaluating the HDHP plan, it is important to compare the deductible with the PPO deductible for both individual and family coverage.

PPO plans usually have copays for using certain services and prescription drugs. An HDHP, on the other hand, generally requires that you pay for most services out-of-pocket until your deductible is met. The HDHP plan may often negotiate a rate for these costs. This is another area to review when considering which plan is right for you: how do the copays compare to the negotiated rates for services such as a doctor's visit, for example? How does the deductible and/or copay work for each plan you are considering? Note that preventive care is generally covered at no cost for all health plans including HDHPs.

With most health insurance plans there are maximum costs. Anything above these amounts are the insurer's responsibility to pay. Be sure to see what these maximums are for any plan you are considering.

With both HDHP and other types of health plans, there is a network of providers that incentivize those insured to use certain health-care facilities and doctors. It is important to make sure the doctor of your choice is included in the network.

As you can see, utilizing HDHP plans effectively by funding an HSA has many factors and can be complicated. Be sure to check with your plan administrator or a Certified Financial Planner that an HDHP is right for you and that you are maximizing your benefits.

Marc A. Hebert, MS, CFP, is a senior member and president of the wealth management and financial planning firm The Harbor Group of Bedford. Email questions to Marc at **mhebert@harborgroup.com**. Your question and his response might appear in a future column.