By Mike Grumet

Combining Healthcare and Health Savings Plans

The solution to skyrocketing health care premiums?

While there is no perfect health plan, the insurance industry has developed products to help many people save on their health care costs – and government incentives (i.e. tax-breaks) have made these new programs even more desirable.

Some consumers and business owners may have better control of their health care cost by combining a High Deductible Health Plan (HDHP) with an HSA (Health Savings Account). This combination can offer significant savings to your healthcare costs, as premiums for HDHPs are much lower than benefit-rich plans – often as much as 60 percent or more!

HSA plans have a tax-favored status - meaning what you contribute is either pre-tax or tax deductible. Interest earned on the money is tax-deferred. Using the money to pay for qualified medical expenses is tax-free. Lower insurance premiums combined with using tax-free money can lead to significant savings. Money not used for qualified health care expense rolls over to the next year so there is no "use it or lose it" feature.

Is an HSA plan for you?

HSA-qualified health plans are not for everyone. Common belief is that individuals and families that are healthy and don't visit the doctor often are going to save on premiums and out-of-pocket cost for health care. Since these plans have high deductibles ($1,100 or more for singles and $2,200 or more for families starting in 2008), you have some front-end risk for medical expenses. In addition, after high deductibles are met, the Out-of-Pocket Maximums can be as high as $5,600 for a single person and $11,200 for a couple or family. So, if you or a family member has a serious injury, illness or disease, you may offset your premium and tax savings with out-of-pocket expenses and deductibles. The risk and reward differs for each consumer.

In addition to lower premiums, an individual can (starting in 2008) put $2,900 into a tax-favored savings account and a couple or family on a HDHP can save $5,800 per year. The tax savings could easily be $1,000 per year or more for a family.

One reason these plans are considered "consumer-driven" is the fact that you will typically pay much higher costs for most medical expenses until you meet your deductible. Unlike traditional plans with $10, $20 or $30 office visit co-pays, you will likely pay much more for office visits, drugs, emergency room visits, lab and x-rays until you meet your deductible. This puts you in a "think twice" mode before you go to the doctor for common colds, flu, fevers and other routine illnesses.

Take a look at how often you or your family has gone to the doctor the last 12 months. One family I consulted said they rarely went to the doctor. Upon review of the expenses they incurred in the previous year, they discovered that they spent over $6,000 in medical bills. The HSA plan, however, still "penciled" to save them money.

If you have chronic illnesses or disorders, how often to you go to the doctor or specialists, what types of medications are you on? Find out from the insurance company or agent what the cost would be if you were on an HSA plan.

In addition, plan to take advantage of the "savings" portion of the plan in order to help pay for unexpected health expenses and benefit from the associated tax-breaks.

Lastly, shop around for which carrier and which financial institution you are going to use. The plan choices vary greatly and expenses and investment choices for the savings account vary as well.

I suggest you look up HSA plans on the web and study the tax benefits and how they work. Then, with the assistance of an experienced and knowledgeable agent, study the plans offered by several carriers and crunch the numbers to see if it might work for you. HB

Mike Grumet has been offering help with health, life and disability insurance since 1992. Consultations are always complimentary and without obligation. Your inquiries are welcome by phone: 714 698-6453 or by email: thehblifeguy@aol.com. Mike Grumet Insurance Services, Inc. is located at 16541 Gothard St., Suite 202, Huntington Beach Ca 92647. California Lic. #OF06646.