How To Save Money On Your Health Insurance

Increase Your Out Of Pocket Expenses. (Applies To Individual & Group Health)

Why pay a big premium to cover occasional care that you can afford? Don't be concerned with routine medical expenses that cost $100 here and $200 there. You can afford that. You should be scared to death of the accident or sickness that will cost you $50,000; $100,000; $250,000; $1,000,000 and more. If you don't have a good health insurance plan, you'll be financially ruined.

- Take at least a $1,000 deductible. Forget the plans with $0, $250, or $500 deductible. They cost too much. This will save you a tremendous amount of money.

- Increase your coinsurance percentage. After you pay your deductible, you have to pay your share of the coinsurance, 10% or 20% of the next $5,000 or $10,000 (or more) while the insurance company pays 90% or 80%. If you have a 90% or 100% plan nowadays, you're paying dearly to have it. Change it to an 80% or 70% plan.

- Increase the coinsurance stop loss amount. Instead of you paying 20% of the next $5,000 after the deductible, increase it to 20% of the next $10,000 or $15,000 or $20,000.

- Increase your doctor visit co-pay. If you had to pay $30 or $40 for a visit instead of $10, it's not going to break you, but it will save you premium.

- Maybe go without a doctor visit co-pay just like the plans of the early nineties and before. All a doctor visit co-pay does is cover the costs of a basic visit in exchange for a smaller co-payment. For example, the doctor charges the insurance company $110 for a basic visit. He's in the network, and the company discounts the charge down to $75. Your co-pay covers the $75 charge. Without a co-pay on your plan, the $75 simply goes toward your deductible. If you had to pay $75 instead of a $20 or $30 co-pay, that's not going to hurt you unless you're going to the doctor three times a week.

- Increase your drug card co-pay if offered by the company. Prescription drugs are a major force behind increasing health insurance premiums, and you'd be surprised how much premium you can save by this small change.

- As with the doctor visit co-pay, maybe go without a drug card co-pay. Some insurance companies offer plans where the drugs are covered, but subject to deductible and coinsurance just like a hospital stay or surgery. In other words, instead of paying $25 at the drug store for a $75 drug, just pay the $75. The $75 will be applied to your deductible. Once the annual deductible is met by all your expenses (drugs, hospital stays, outpatient surgery, etc.), the insurance company will then pay 80% (or whatever your coinsurance amount is). This really isn't too unusual since drugs were covered this way on plans of the early nineties and before.

Premium Only Plan (Applies To Group Health)

If you are an employer that provides a group health plan for your employees, and require that the employees pay for part of their premium and/or the premium for their dependents, the P.O.P. is a win-win solution for you and your employees. Put simply, <u>the P.O.P. increases employees' take home pay and reduces employer payroll taxes</u>.

P.O.P. is made possible through certain provisions of Section 125 of the Internal Revenue Code.

It allows employees to pay for their employer-sponsored health, dental, disability, and group term life (up to $50,000) premiums with before-tax dollars rather that from after-tax dollars. This reduces taxable compensation.

- Employees benefit by paying less tax and taking home more pay. The pretax premiums paid by each employee reduce the income on which their Medicare, Federal, and State income taxes are calculated. Most employees accumulate a tax savings between 20% to 40% on the pretax premium contributions. It's almost like buying insurance wholesale thanks to the tax savings.

- Employers benefit by paying less payroll taxes. Employers save on the matching Social Security and Medicare taxes as well as federal and state unemployment taxes, which more than covers the cost of the plan.

- Employers benefit by increasing the efficiency of payroll dollars . . . by getting more money into employees' take-home pay without having to increase their gross pay.

Flexible Spending Account (Applies To Group Health)

Health care flexible spending accounts are employer-established benefit plans that reimburse employees for specified medical expenses as they are incurred. These accounts are allowed under section 125 of the Internal Revenue Code and are also referred to as "cafeteria plans" or "125 plans." The employee contributes funds to the account through a salary reduction agreement and is able to withdraw the funds set aside to pay for medical bills. The salary reduction agreement means that any funds set aside in a flexible spending account escape both income tax and Social Security tax. Employers may contribute to these accounts as well.

There is no statutory limit on the amount of money that can be contributed to health care flexible spending accounts. However, some companies place a limit of $2,000 to $3,000 on flexible spending accounts. Once the amount of contribution has been designated during the open enrollment period that occurs once each year, the employee is not allowed to change the amount or drop out of the plan during the year unless he or she experiences a change of family status. The downside is the "use it or lose it" rule. By law, the employee forfeits any unspent funds in the account at the end of the year.

Health Savings Account (Applies To Individual & Group Health)

Whether you have a group or individual plan, consider a Health Savings Account (HSA). An HSA is a High-Deductible Health Plan (HDHP) with a tax-exempt savings account on the side. With an HSA, the HDHP is used to cover large expense items like hospitalizations and surgeries while the savings plan is used to pay for minor things like doctor visits, prescription drugs, lab work, etc. The advantages to an HSA plan are:

- **Lower Premiums:** Since you are buying a plan with a high deductible, you will probably save 35%-50% on your premium. The money you save can help fund the separate savings account.

- **Tax Break #1:** The money you deposit into your account is on a pre-tax basis. You save on federal and state income taxes.

- **Tax Break #2:** Any growth of your money in the account will not be taxed.

- **Tax Break #3:** When you pay for qualified health care expenses out of your HSA, no taxes will be assessed.

- **More Expenses Covered (and with pre-tax dollars):** You can use your HSA money to pay for many types of expenses that may not be covered under your medical plan such as dental, vision, alternative medicine (chiropractic, accupuncture, homeopathy, herbal medicine, etc.), household medical expenses (aspirin, bandages, cold medicine, etc.), and more.

- **Pay Medicare Expenses With Pre-Tax Dollars:** You can use your HSA money to pay for Medicare premiums, deductibles, copays, and coinsurance.

- **Pay For Long Term Care Insurance With Pre-Tax Dollars.**
- **You Have Total Control:** You own and control the money in your HSA. Decisions on how to spend the money are made by you without relying on a third party or a health insurer. You will also decide what types of investments to make with the money in the account in order to make it grow. The money in that account will always be yours even if some of the contributions were from an employer.

For more information about HSAs see our report “Health Savings Account Questions & Answers.”

Health Reimbursement Account (Applies To Group Health)

The Health Reimbursement Arrangement is ideal for businesses with 5 or more employees.

The HRA combines a high deductible insurance plan with a separate funding vehicle which is used to pay for day to day medical expenses. Dependent on the insurance carrier and final plan design, an employer can normally lower the fixed cost of insurance premium by an average of 40%.

The HRA funding vehicle is an interest bearing account owned by the company and is provided to the employee on a defined credit limit basis. Monies in that account are used on an as needed basis to reimburse expenses on behalf of the employee when those medical expenses are actually incurred. Any unused balance can either return to the corporation or roll forward to off-set future expenses.

The HRA...

- Controls annual fixed costs by lowering premiums an average of 40% annually
- Pays for claims on an “as incurred” basis rather than in advance.
- Can provide for benefits not normally included in the plan design.
- Reimbursements may be tax free if used for “qualified medical expenses (see. Pub. 502 at www.irs.gov)
- Contributions made by the employer may be excluded from the employee’s income.

The Plan consists of three components:

1. **The Health Reimbursement Account.** The HRA is an unfunded allocation of healthcare credits assigned to each plan member. The member uses these credits to pay for all minor day to day services covered by the plan until they reach their Individual Responsibility Gap. At the end of the plan year, a percentage of any remaining balance (from 0% to 100% depending on how the employer sets initially sets it up) may roll-over into the member's account for the following year to increase his annual benefit. **The HRA accomplishes two main goals:**
    - **It saves the employer money.** The HRA is handled as an unfunded promise to pay. The only time funds are deposited into the account are when claims are actually made. Unused funds remain with the corporation. Additionally, HRA credits are not subject to COBRA rules and do not have to be made available to employees when they leave the service of the employer.
    - **It turns the employee into a healthcare consumer.** When the employee has a fixed amount of dollars to work with, he will budget and limit his expenses to stay within his annual allotment while still having the enhanced ability to see the doctor of his choice.
2. **Individual Responsibility.** Should an employee exhaust his annual HRA credit limit, he/she would be

responsible for paying the difference between the annual credit limit and the point where the insured portion of the plan takes effect. Individual Responsibility works as a natural buffer between the HRA and the actual insurance plan. By placing it after the HRA the employee has incentive to find a way to keep from having to pay out of his own pocket. Also by placing Individual Responsibility after the HRA, an employee benefits by having no out of pocket expense until he exhausts his HRA. The employer benefits as well because it sets the HRA level to limit the company's maximum liability.

3. **High Deductible Insurance Plan.** The insurance kicks in after the HRA and Individual Responsibility phases have been exhausted. It's used to cover what insurance was designed to cover…large claims. The insurance works as a safety net rather than as the primary source of claims payment. By changing to this model, an employer can expect to cut the premium cost by an average of 40%.

For more information about HRAs, see Publication 969 at www.irs.gov

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And Save Money To Boot

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