

When Health Insurance Costs Too Much

For years the cost of health care has been out of control. The reasons are many and frustrating, and consumers and business owners alike feel helpless when their insurance comes up for renewal with yet another double-digit increase. It's becoming more and more difficult to afford traditional health plans, and as the economy tightens that trend will accelerate. People are being forced to seek alternative health care solutions, and while some have opted out of health insurance altogether, trusting to youth, fitness, and/or good luck, many others have discovered a happy medium that is saving them thousands of dollars every year. In lieu of traditional health plans, these people have combined

1. **High-Deductible-Healthcare-Plans (HDHPs)** to take care of catastrophic emergencies,
2. **Tax-deferred Health Savings Accounts (HSAs)** to pay out-of-pocket medical expenses, and
3. **And Supplemental Insurance – paycheck insurance –** to help cover living expenses when an accident or medical condition renders a person temporarily unable to work.

By combining these products, consumers and employers can reduce health care costs by one-third or more while maintaining high-quality coverage. Here's a real-world example:

ONE) My family reached the breaking point when our health care premiums hit \$1400 per month. We're a typical family of four – mom and dad entering their 50s but in good shape, and two healthy kids in public school. We did not see the benefit of spending \$1400/month when our medical needs were a small fraction of that. So we looked into an HDHP. Wanting maximum financial relief, we looked for a plan that was truly intended to cover catastrophic emergencies. The option we settled on has a maximum deductible of \$5,000 per individual, and \$10,000 for the family, with annual wellness exams covered 100%. By making that switch, our monthly health insurance premiums dropped to \$650. We saved \$750 per month, or \$9,000 on an annual basis.

TWO) If push comes to shove, \$10,000 is a lot to come up with. So we addressed this potential liability by using some of the money saved on premiums to open an HSA. An HSA allows you to put pre-tax money aside – like an IRA – to use towards covering qualified medical expenses. What's "qualified?" Pretty much the same things a traditional health plan would cover. As with an IRA, the money you deposit in an HSA accrues value, and what you don't use rolls over. Health Savings Accounts also offer a triple tax-advantage: Contributions are tax deductible (the maximum family contribution in 2009 is \$5,950); withdrawals to pay for medical expenses are tax exempt; and there are no taxes on the account's earnings.

THREE) To protect our income in the event of a health-related emergency, we purchased Supplemental Insurance. Supplemental plans target specific health concerns. Some are designed for people with a family history of cancer or heart disease; other plans are geared towards accident coverage. Because our family is very active, we purchased an accident policy for about \$600 annually. If a family member suffers an accident that needs medical attention, our policy pays cash directly to us to supplement lost income, and we can use the money as we see fit.

Assembling this sort of layered health care coverage is sometimes referred to as a “consumer-driven health plan.” Creating your own plan is not difficult. You need to assess your risk profile and finances to decide what combination of plans best suits your needs. By assembling your own “consumer-driven health plan,” you’ll be taking a lot more responsibility for how your healthcare dollars are spent, and this all by itself can inspire healthier living habits. And benefits like that are immeasurable.

So how did things work for us? At the end of our first year we’d paid for items like routine doctor visits for colds or the flu, and one diagnostic fee – an MRI costing \$2,000. We paid these expenses from our HSA, and they were applied toward our HDHP’s deductible. Bottom line? We spent \$5,900 less than if we’d maintained our traditional health plan. For 2008, this translated into a 40 percent savings on the single biggest line-item in our household budget! By repeating the process – expecting some years to be better, some worse – the math becomes very compelling. If you need to save money on health care, take a good look at covering your needs with an HDHP, HSA, and supplemental insurance.

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