

HIGH DEDUCTIBLE HEALTH PLANS (HDHP)

DEFINITION

These plans have an annual deductible, so the insured typically has to cover initial medical expenses before the insurance policy provides coverage. For 2015, the minimum deductible for HDHPs is \$1,300 for individual coverage and \$2,600 for family coverage. HDHPs were first introduced in 2003 to promote consumerism, and their goal is to promote lower medical costs system wide. They have become increasingly popular as a way to reduce insurance premiums while protecting the insured from the potentially high costs of a catastrophic illness and extended hospital stays.

HOW THEY WORK

An HDHP can allow for either in-network coverage, similar to an HMO, or for in- and out-of-network coverage, similar to PPO or POS plans. If a plan has in-network coverage only, members cannot go outside of the network even if the deductible has been met. For a plan that allows both in- and out-of-network benefits, members can choose but will usually have lower out-of-pocket costs by staying in-the-network. Most HDHP plans will cover preventive and primary care physician (PCP) visits for a low copayment. All in- and out-of-network benefits offered through these plans, including prescription drug coverage if offered, must first apply towards the deductible.

Most HDHPs allow for its members to fund a Health Savings Account (HSA). Contributions to these accounts are made with pre-tax dollars, earnings grow tax-deferred, and can be accessed tax-free for unreimbursed medical expenses including deductibles and copayments. They may also be used to pay for out-of-network providers at any time, without prior approval from the insurer. For this year, the maximum contribution to an HSA is \$3,350 for individual coverage and \$6,650 for family coverage. For individuals ages 55 and over, an additional catch-up contribution of \$1,000 is allowed. Those enrolled in Medicare are not eligible to contribute to an HSA.

An HDHP with an HSA is a great way for individuals to save money for future medical expenses and for those that want greater flexibility with their medical benefits.

ADVANTAGES

- The annual premium is significantly lower than traditional health insurance plans.
- If the member has an HSA-compatible HDHP, it provides them greater flexibility in how they use their health care benefits.

DISADVANTAGES

- The insured has to self-fund until the deductible is met.
- These plans typically have higher deductibles and copayments than traditional plans, which may end up costing the insured more out-of-pocket expenses.

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