Moving From a Standard Plan to an HDHP

There is no such thing as a one-size-fits-all health plan. Everyone has different health insurance needs depending on their health care requirements along with those of their dependents. While some prefer standard deductible health insurance (often called a PPO health insurance plan), people are increasingly switching to a high deductible health plan (HDHP) with a health savings account (HSA) as a better way to maximize their health care dollars.

Standard Plans vs. HDHPs

Standard plans and HDHPs are set up much in the same way. Under both plans, the member pays a premium for coverage. Both must cover preventive services free of charge. If a member receives nonpreventive medical care, he or she pays a deductible—a specified amount of money that the insured must pay before an insurance company will pay a claim. The chief difference between the plans is that under an HDHP, premium payments are considerably lower and the deductible is considerably higher.

The minimum deductibles for HDHPs are established by the IRS. For 2019, these limits are $1,350 for self-only coverage and $2,700 for family coverage. For 2020, these limits will increase to $1,400 and $2,800, respectively. Comparatively, standard plans come with a deductible that is generally quite a bit lower.

The cost of the higher deductibles for HDHP plans is offset by two factors. First, as previously mentioned, the premium price for an HDHP is much lower than standard plans. This means that members who use little or no medical care during the year can save hundreds of dollars that would otherwise go to unnecessary health coverage, while still remaining compliant with the individual mandate provision of the Affordable Care Act (ACA).

The second major factor setting HDHPs apart from standard plans is the addition of an HSA.

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Health Savings Accounts

HSAs are one of several types of tax-advantaged health accounts, and are exclusively available to people enrolled in an HSA-compliant HDHP.

With an HSA, the account holder or his or her employer (usually both) make contributions into a savings account. No taxes are deducted from money placed into the account, as the HSA contribution is withdrawn from a paycheck before taxes are assessed. While in the savings account, the money can earn interest. The employee is free to spend that money on qualified medical expenses.

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The total amount that can be placed in an HSA per year is capped by the IRS. For 2019, these limits are $3,500 for self-only coverage and $7,000 for family coverage. For 2020, these limits will increase to $3,550 and $7,100, respectively. It is important to note that account holders over 55 years old may contribute an extra $1,000 to those totals.

These limits are significantly higher than other types of tax-advantaged health accounts, and unlike the other options, HSAs have additional unique features that allow you to save more money and keep it over a longer period of time. Whereas funds in health flexible spending accounts (FSAs) and health reimbursements arrangements (HRAs) come with an expiration date or a maximum carry-over dollar amount, HSAs allow you to build your balance as high as you wish in perpetuity. Except for the cap on total contributions per year, there are no limits on how much money can be in your account and how long it remains open.

Additionally, HSAs are individually owned accounts, meaning employees take the account—including any employer contributions—with them if they leave their employer.

Using Health Care with an HDHP

Because of the high deductibles associated with HDHPs, having an HDHP means you need to become a smart health care shopper.

The most important thing to keep in mind is that some types of health care products and services cost much more than similar items, and the more expensive option may not be necessary for the treatment you require.

Additionally, like most other health plans, HDHPs cover preventive services at no cost. Preventive care is defined as medical checkups and tests, immunizations and counseling services used to prevent chronic illnesses from occurring. Preventive care not only keeps you healthy, but it can also monitor and even reduce the risk of developing future, costly health problems.

Most types of specific preventive services are listed here. While it can sometimes be difficult to determine if a specific medical service qualifies as preventive, you can call your health plan to learn if a service is considered preventive before receiving it.

Other medical savings strategies people with HDHPs should consider are:

- **Prescriptions.** Using a generic in place of a name brand prescription can result in significant savings. While there is not a generic version for every type of drug, the only difference between a branded drug and a generic counterpart is the name; they both have the same active ingredients. If you need medication, find out what class of drugs your prescription is classified under. If you receive a name brand prescription from a doctor, ask if a generic is available.
- **Emergency Room vs. Urgent Care.** Like prescriptions, there is a sizable cost adjustment between emergency rooms and urgent care. It is very expensive for hospitals to support all of the equipment and staff that an emergency room requires, so visits to the emergency room generally cost much more than those to a doctor's office or an urgent care center. If you develop a problem that needs to be treated quickly, but it is not life threatening or risking disability, go to an urgent care clinic.

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- **Qualified Medical Expenses**. Use your HSA to pay for qualified medical expenses without paying taxes. Qualified medical expenses include the costs of diagnosis, cure, mitigation, treatment or prevention of disease, and the costs for treatments affecting any part or function of the body. These expenses include payments for medical services rendered by physicians, surgeons, dentists and other medical practitioners. They also include the costs of equipment, supplies and diagnostic devices needed for these purposes. Like preventive care, there can sometimes be uncertainty surrounding what is an allowable qualified medical expense. Specific qualified medical expenses are approved by the IRS, and a list of them can be found here.

HDHPs and HSAs are not the ideal health coverage plan for everyone. However, for many people, HDHPs are a great way to avoid paying for superfluous coverage and HSAs are an excellent vehicle for stockpiling tax-free money to use on future health care needs.