Don’t Be Afraid of the Big Bad HSA plan?

What could you buy with $7,680 in your pocket? Would you buy Cubs or Sox tickets? How about a much needed vacation? That amount of money could pay for 75 to 100 rounds of golf. Would you invest the money? Unbelievably, an insurance agent had asked a new client of ours to waste that much money on her health insurance premiums over the next 12 months.

Jill who has couple of kids and lives in the far west suburbs wanted to replace her health insurance, which she currently had through COBRA, with an individual health plan. The COBRA rate was just over $1100 per month and placed a huge strain on her finances. This is a common problem for many people today.

She asked a local insurance agent in her town for help and he recommended she apply for a $500 deductible PPO plan with $20 co-pays for Doctor office visits from a well respected insurance company. The copay plan provided a savings but still cost $955 per month.

Jill didn’t feel comfortable after talking to her friends and she was referred to our office. After reviewing her situation, we looked at an individual plan that qualifies for a Health Savings Account or frequently called a HSA plan. At first Jill was hesitant because of the conflicting views and the high deductible.

An HSA plan with a $5000 single deductible had a monthly premium of $315 per month. The savings from the $500 deductible plan is $640 per month. That amounts to a savings of $7680 from the original plan she was contemplating purchasing.

Jill was stunned, amazed and frustrated all in the same moment! She realized that over the next 12 months she could reach her deductible of $5000 and still have $2680 left over to invest or spend on the kids. She also knew that her family spent less than $1000 per year in medical costs. Why hadn’t anyone told her about this type of plan before?

Many people are scared by the HSA health plans because of the high deductible and they seem confusing. However, they are fast becoming a very popular health plan because the savings in premium can be significant. HSA’s also can provide additional tax savings.

What is an HSA plan?

An HSA plan is an insurance plan that requires a single deductible of no less than $1200 per year or $2400 per family. Claims are submitted to the insurance company first (so a potential PPO discount may be applied) before a participant pays their bill if it is below the deductible. If there are 2 or more family members on the plan, then all claims would apply to the deductible from everyone.

The maximum out of pocket as HSA plan can have is $5950 for a single person and $11,900 for a family in 2011. The plan can have no co-pays for office visits or prescriptions below the deductible just like it was 40 years ago. By meeting the HSA plan requirements, the government allows for contributions to a Health Savings Account.

What is a Health Savings Account?

A Health Savings Account is simply a checking account at a bank with a specific purpose. When a contribution is made to this account, then the government allows that individual to deduct that contribution on their tax return similar to an IRA deduction. Unlike an IRA, the funds can be used immediately to pay for qualified medical expenses.

In 2011, the maximum you can contribute is $3,050 for an individual and $6,150 for a family. If you are over the age of 55, then the government allows you to contribute and extra $1,000.

The funds in the HSA account grow tax deferred and the interest is spent tax-free if used for a qualified medical expense. The account can grow and roll-over from year to year. This account is unique in that it can help pay premiums for a long term care policy or a medicare supplement plan after 65. If the funds are withdrawn for a non-medical expense then taxes and a 20% penalty could apply.

While this is just a general overview of HSA plans, you should have enough information to start asking questions. If you don't see the Dr often and are looking for a way to save money on your health insurance, this plan could be right for you.

If your agent hasn't talked to you about this plan, then find someone else who understands how they work. Money in your pocket is a lot better than in the insurance companies unnecessarily!

Jill made the right call and feels a lot better about her financial situation. Plus, she can take the kids to Disneyland and have a little money left over!!