The world of health insurance may seem like a foreign land to many. As health insurance options have broadened, plan designs have evolved. The problem is that many do not understand the difference between what we consider a "traditional" plan and the fairly new and rapidly growing "high deductible" plan. Hopefully, the information below will shed some light on the differences and provide you an opportunity to compare a Traditional and High Deductible plan from your District to see which plan best fits your personal circumstance.

Traditional Health Plan:

In a Traditional Health Plan, office visits require a copay by the plan participant.

In addition, as a plan participant, you will be responsible for certain out-of-pocket expenses including provider fees up to the amount of your deductible, copayments, fees for services not covered by your policy, and fees above what the insurer deems "reasonable and customary" for your treatment. Reasonable and customary fees are determined by the insurer based on the average for treatment in your area. For example, if the average cost for a yearly physical is $250, and your provider charges $450, the insurer will only pay up to $250 and you will be responsible for the difference.

Basically, you will be responsible for a copay plus medical expenses until the deductible has been fully paid. Routine Preventive Care is covered 100%, not subject to the deductible. Once the deductible has been met, the insurer pays a percentage of the total bill (generally 50 to 80 percent).

Traditional plans put a cap on what you must pay in any given year ("out-of-pocket maximum"). Once your payments for covered healthcare reach the cap, the insurer will pay 100% of allowable costs.

High Deductible Health Plan (HDHP):

The office visit copay is eliminated in this plan. All charges related to diagnostic office visits and hospital services are paid out of pocket. These expenses will apply to your deductible. Routine Preventive Care is covered 100%, not subject to the deductible. The plan provides 100% coverage in-network after the deductible is met, so all remaining charges are paid in full.

Your deductible is offset by the pre-tax contributions you and, in some cases, your employer, make to your Health Savings Account. These funds roll over year to year, and can eventually provide full reimbursement of all out-of-pocket costs.

Let's say the High Deductible Health Plan has a $2,600 individual/$5,200 family deductible for In-Network Services. Every service, including prescription drugs, will go toward the deductible. Once you have satisfied the Deductible amount, all medical services will be paid at 100% for the remainder of the plan year.

The HDHP is accompanied by a Health Savings Account (HSA). If you participate in the HDHP, you can set aside money in a HSA, before taxes are deducted, to pay for eligible medical, dental and vision expenses. A Health Savings Account is similar to a Flexible Spending Account in that you are eligible to pay for health care expenses with pre-tax dollars. There are several advantages of a HSA. For instance, money in a HSA can be invested much like 401(k) funds are invested. However, unlike the Flexible Spending Account, unused money in a HSA is NOT forfeited at the end of the year and is carried forward. Also, your HSA is yours to keep which means that you can take it with you if you change jobs or retire.

Who is eligible to participate in a HSA?

You are eligible to participate in a HSA only if you are covered by a qualified HDHP. Employees, dependent spouses and/or children who are covered by any non-qualified plan, including Medicare, are not eligible for the HSA.

Rules for Married People

The rules for married people apply only if both spouses are eligible individuals. If either spouse has family HDHP coverage, the family contribution limit applies; both spouses are treated as having family HDHP coverage.

If both spouses are 55 or older and not enrolled in Medicare:

- Each spouse is entitled to increase his or her contribution limit with an additional contribution.
- Their maximum total contributions under family HDHP coverage would include a catch-up contribution for each spouse.
- The contribution limit is divided between the spouses by agreement. If there is no agreement, the contribution limit is split equally between the spouses.
- Any additional contribution for age 55 or over must be made by each spouse to his or her own HSA.

example:

This year, Mr. Auburn and his wife are both eligible individuals. They each have family coverage under separate HDHPs. Mr. Auburn is 58 years old and Mrs. Auburn is 53. Mr. and Mrs. Auburn can split the family contribution limit equally, or they can agree on a different division. If they split it equally, each can contribute one-half the maximum contribution for family coverage. Mr. Auburn can contribute an additional $1,000 because he is age 55 or older.

You are ineligible if you and/or your spouse are contributing to a Section 125 Medical Flexible Spending Account plan. You may have a Dependent Day Care Expense Account as this will not disqualify you.

How much can I contribute to my HSA?

The maximum amount that you can contribute to a HSA for the 2016 calendar year is $3,350 for individual coverage and $6,750 for family coverage. Additionally, if you are age 55 or older, you may make an additional “catch-up” contribution of $1,000. This maximum is a combined total of the employer and employee contributions.

What are some of the advantages of a Health Savings Account?

You may use the HSA funds for the same type of things covered by a Section 125 Flexible Spending Account (e.g. dental, vision, and prescription drug out-of-pocket costs), and some things which the Section 125 plan does not allow: COBRA premium, retiree health insurance premium other than Medicare supplement policies, Long Term Care insurance premiums, and health insurance premiums if you are receiving unemployment.

With the HSA, you have a triple tax advantage:

1. contributions are tax-deductible (no Federal, State, or Employment taxes are deducted),
2. earnings on your balance and investments are not taxed,
3. and funds withdrawn for qualified medical expenses are not taxed.

The money in the HSA is always yours to use – even if you change back to a traditional medical plan at open enrollment, retire or leave the District. If you own an HSA account and later enroll in a non-qualified plan (traditional medical plan), you will no longer be able to contribute to the HSA, but your account will continue to accumulate interest. You may also withdraw from the account for qualified medical expenses for you and your dependents.

If you are currently enrolled in a Flexible Spending Account (FSA) and intend to enroll in the HDHP, you *MUST* zero out your FSA before you establish your HSA. Due to IRS regulations, you cannot have a FSA and contribute to a HSA at the same time.

If you are currently enrolled in a traditional plan (Base or Buy-Up) and you intend to enroll in the HDHP, you cannot use your HSA funds for expenses incurred prior to enrolling in the HDHP.

Please remember – you are not eligible to set up a HSA if you OR your spouse has a Medical FSA account or secondary insurance coverage such as another employer's group medical plan, individual medical coverage, Medicare, or Tricare.

A HSA works much like an IRA. The money is *yours*, and rolls over year to year, accumulating as you age, as you move from employer to employer, and from one QHDHP to another. Depending on the HSA vendor, you may be able to direct how those funds are invested.

Contributions and investment earnings are tax-free, as are disbursements from the account to pay for qualified expenses. Funds withdrawn for non-qualified expenses will be assessed a 20% penalty in addition to normal taxation. The penalty is waived in the event of death, disability, or attainment of Medicare eligible age.

Dare to Compare:

There are several ways to compare your plans. A quick, easy way to compare a traditional plan against a high deductible plan with a health savings account is to use a financial calculator. Click HERE and compare your plans today.