Changes in the insurance industry and how they can affect you and your family.

In order to slow the rise in rates to remain competitive insurance companies have used a number of methods to reduce share the costs of healthcare more with consumers. The most important method for you to consider is to increase either or both of the following three factors in consumer payment of medical expenses. The first is to increase the deductible for individuals and for the whole family. The second is to increase the maximum out of pocket expenses for individuals and the whole family. The third and less common method is to increase the percentage of payments by the consumer after the deductible is met. These changes merely shift the increased cost of health care from premiums to these other costs.

The following paragraphs explain these three methods and their effect on the amount that you will need to pay for insured services,

Deductible: In most insurances today, this is the amount that you must pay out of pocket for medical expenses that have not been declared exempt by the insurer. (Typical exemptions are wellness related services) This amount must be completed before the insurer will pay towards medical expenses.

Once the deductible is completely met for the individual their expenses move to being covered under the percentages stated in your policy. Other family members must meet their own individual deductibles until the maximum family deductible is met. From that point on most medical expenses will be covered, unless exempted by the policy, at the percentages stated in the policy until the maximum out of pocket expenses are met.

These deductibles for individuals and families have seen significant increases in recent years.

Percentage covered: After the deductible is met the individual is required to still pay a percentage of the costs until the maximum out of pocket expense has been met. These percentages have fluctuated over time as well.

Maximum out of pocket expenses: This is exactly what it says. When you have first met your deducible, and then paid your contracted percentage of other costs and those payments reach the out of pocket maximum, then typically the insurer covers all allowed expenses going forward. This is divided into individual and family maximums. Once an individual reaches their maximum, there is complete coverage. For multiple family members each individual must meet the own maximum until the total expenses reach the family maximum.

The Maximums have also increased significantly in recent years.

What does this mean for me and my family?

Functionally you will be finding that you are paying far more medical bills than you might have in the past and will need to plan appropriately to address these changes. The best ways to do this are though participation in an FSA or HSA plan. They are explained below.

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Q. What is the difference between a Medical FSA and an HSA?

A. Both FSAs and HSAs are tax-advantaged accounts that allow people to save money to pay for qualified medical expenses, but they have several key differences. The ACA implemented some new restrictions on FSAs and HSAs.

Flexible Spending Accounts (FSAs)

- Established by an employer.
- Usually funded by pre-tax payroll deduction, but employers can also contribute.
- Can be used in conjunction with any type of health insurance, although health insurance coverage is not required.
- FSA funds can be used to cover deductibles, copays and coinsurance, as well as qualified medical expenses that are not covered by health insurance, such as LASIK eye surgery. Prior to 2011, FSA funds could be used to purchase over-the-counter medications, but now they can only be used for OTC medications if a doctor has prescribed them "Use it or lose it" – money not used by the end of the year (or by March 15th of the following year if the employer offers a grace period) is forfeited, although employers can allow enrollees to carry over up to $500 to the next year instead of allowing FSA funds to be used as late as March 15 of the following year.
- In the past, employers could set their own FSA contribution limits for their employees. But the ACA limits contributions to no more than $2,750 in 2019
- Contributions are deducted from each paycheck throughout the year. However, the full annual contribution amount is available for use immediately (or after the first contribution is made). If the employee uses the full amount and then quits or is terminated prior to the end of the year, FSA funds do not have to be paid back to the employer.

Health Savings Accounts (HSAs)

- Can be established by an employer or by an individual, but only in conjunction with an HSA-qualified high deductible health plan (HDHP).
- Contributions can only be made while the account holder remains covered by an HDHP. However, the money can be used — without being taxed — for qualified medical expenses at any time in the future, even if the person is no longer covered by an HDHP.
- Can be funded (pre-tax) by employee payroll deductions or employer contributions, or by an individual.
- In 2019, maximum HSA contribution is $3,500 for a person with individual HDHP coverage, and $7000 for those with family HDHP coverage.
- If an HSA is established by an employer and the employee quits or is terminated, the HSA goes with the employee, regardless of whether contributions were made by the employee or the employer.
- Money in the HSA that is not used for medical expenses remains in the account.
- HSA funds can be used for the same qualified medical expenses as FSA funds. And just like FSAs, prior to 2011, HSA funds could be used to purchase over-the-counter medications, but now a doctor's prescription is required in order to use HSA money to buy OTC medications.
- If money is withdrawn for qualified medical expenses, it is never taxed.
- If money is withdrawn for other purposes prior to age 65, it is taxed and there is an additional 20 percent penalty applied. Prior to 2011, the penalty was 10 percent.
- After age 65, money can be withdrawn without a penalty, but if it is not used for qualified medical expenses, income taxes will be owed.

How do they help?

These are both plans that allow you set money aside for medical expenses either in advance or over time. This allows you to keep more current with the expenses. They are both plans that are pretax, this means that you will not be paying taxes on the money set aside through these plans.

Other things to consider…

It may be tempting to reduce expenses but not seeking services or reducing the use of services or medical interventions (medications, rehab services, etc.). The effects of not having needed services typically are worse than the costs of having the services, also most individuals with health care needs will meet their deductibles during the course of the plan year, so delaying when that occurs does not reduce your out of pocket expenses.