

# How High-Deductible Health Plans Work

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Do you want to save money on your monthly [health insurance premiums](#) and have the opportunity to open a [health savings account](#)? If so, you'll need to have a high-deductible health plan ([HDHP](#)). Let's discuss what these plans look like, their pros and cons and the times in your life when you might seek out or avoid an HDHP.

## High-Deductible Health Plans Defined

According to IRS rules, an HDHP is a health insurance plan with a [deductible](#) of at least \$1,350 if you have an individual plan (that rises to \$1,400 in 2020)—or a deductible of at least \$2,700 (\$2,800 in 2020) if you have a family plan. The deductible is the amount you'll pay out of pocket for medical expenses before your insurance pays anything. In addition, the plan's [out-of-pocket maximum](#) must be no higher than \$6,750 (\$6,900 in 2020) for an individual plan or \$13,300 (\$13,800 in 2020) for a family plan. The out-of-pocket maximum is the most you'll have to pay in a year for [medical expenses](#) covered by your insurance plan.

## Advantages of High-Deductible Health Plans

An HDHP will usually have lower premiums than an equivalent health insurance plan with a lower deductible. For folks who don't anticipate many medical expenses for the upcoming year, it makes sense to minimize your premiums and choose an HDHP. There's a good chance you'll save money—perhaps several hundred dollars or more over the year—this way.

Just be sure you can afford the out-of-pocket maximum in a worst-case scenario. If you can't, you could end up in medical debt, and the added interest will make it even harder to pay your bills. A health insurance plan with higher premiums but an affordable out-of-pocket maximum might be a safer choice if the HDHP's out-of-pocket maximum is more than you can cover.

## **Sample Annual Health Insurance Premiums and Deductibles, HDHP vs. Non-HDHP**

	HDHP	Non-HDHP
Premium	\$1,500	\$3,000
Deductible	\$3,000	\$1,500
Total cost before <a href="#">coinsurance</a>	\$4,500	\$4,500
<a href="#">HSA</a> eligible	Yes	No

The options above show a situation where it clearly makes sense to choose the HDHP. With either plan, you'll end up spending \$4,500 of your own money in premiums and deductibles if your medical expenses for the year are at least as much as your deductible. But with the HDHP, you're only guaranteed to spend \$1,500 in premiums, unless you know for a fact what your upcoming medical expenses will be.

Also, having the HDHP lets you contribute to a health savings account. If you're in the 24% federal tax bracket and you do incur \$3,000 in medical expenses, you could use your HSA to pay for them with pre-tax dollars. If you used post-tax dollars, that same \$3,000 in medical expenses could cost you \$4,000. If you chose the lower deductible plan (the non-HDHP), you could pay for \$2,550 of your \$3,000 in medical expenses with a [flexible spending account \(FSA\)](#) if your employer offers one. Then you'd have similar tax savings with the non-HDHP.

Even this simplified example isn't really that simple. Similarly, most real-life situations aren't clear cut as to whether you should select a high-deductible or low-deductible plan. You'll need to do the math for your own circumstances, taking into account your likely medical expenses for the year and the premiums, deductibles, and out-of-pocket maximums for the available plans.

## High-Deductible Health Plans and Preventive Care

If you do choose the high-deductible plan, you'll still have 100% coverage for preventive services from in-network providers before you meet your deductible because of the [Affordable Care Act](#) requirements. Quite a few services fall into this category, and you aren't responsible for any copayment or coinsurance for any of them. Here are a few examples taken from [Healthcare.gov](#):

### Adults

- Abdominal aortic aneurysm: one-time screening for men of specified ages who have ever smoked
- Aspirin use to prevent cardiovascular disease for men and women of certain ages
- Blood pressure screening
- Cholesterol screening for adults of certain ages or at higher risk
- Colorectal cancer screening for adults over 50
- Depression screening
- Diabetes (Type 2) screening for adults with high blood pressure
- Certain immunizations for adults, such as the flu shot

### Women

- Anemia screening on a routine basis for pregnant women or women who may become pregnant
- Breastfeeding comprehensive support and counseling from trained providers, and access to breastfeeding supplies, for pregnant and nursing women
- Contraception: Food and Drug Administration-approved contraceptive methods, sterilization procedures, and patient education and counseling, as prescribed by a healthcare provider for women with reproductive capacity (not including abortifacient drugs). This does not apply to health plans sponsored by certain exempt "religious employers."
- Breast cancer mammography screenings every 1 to 2 years for women over 40
- Cervical cancer screening for sexually active women
- Osteoporosis screening for women over age 60 depending on risk factors
- Well-woman visits to get recommended services for women under 65

### Children

- Autism screening for children at 18 and 24 months
- Behavioral assessments
- Blood pressure screening

- Depression screening for adolescents
- Developmental screening for children under age 3
- Hearing screening for all newborns
- Vaccines for illnesses such as whooping cough, influenza and chickenpox

### Disadvantages of High-Deductible Health Plans

The big drawback to choosing an HDHP is having potentially high out-of-pocket expenses for the year. As of January 1, 2020, *the Affordable Care Act* rules state that the most any person can pay in [out-of-pocket maximums](#) is \$8,150 for in-network benefits. The family maximum is \$16,300. Previously, insurance plans could require that one person in a family plan meet the [family maximum](#). This new rule limits your risk if you have a family health insurance plan. Once any family member has \$8,150 in medical expenses, their costs will be 100% [covered](#) for the rest of the year.

Another potential problem with enrolling in an HDHP is that you may find yourself wanting to skip doctor visits because you're not used to having such high out-of-pocket costs. Don't choose an HDHP if it will cause you to fall sick or hinder your recovery because you want to save money in the short term by avoiding doctors, procedures or prescriptions. It will cost you more in the long term, plus you'll be physically uncomfortable.

### High-Deductible Health Plans and You

Whether or not it makes sense to have an HDHP depends on your life stage and the associated medical expenses you're likely to incur. If you're young and healthy and rarely go to the doctor or take prescription medication, you'll probably save a lot of money by choosing an HDHP since the premiums are lower. If you're planning to have a baby in the near future, an HDHP might not be a good choice since the costs of hospital childbirth are high and your out-of-pocket expenses could easily exceed the plan's annual out-of-pocket maximum. On average, though it varies state to state, commercial insurers paid \$18,329 for vaginal delivery and \$27,866 for a cesarean in 2010, according to a [2013 study](#) from Truven Health Analytics.

An HDHP also might not make sense if you have young children since they tend to visit the doctor frequently. When your children are older and if they and you are healthy, an HDHP might make sense. On the other hand, if anyone covered by your plan has a chronic condition that needs ongoing treatment, you might benefit from a plan with a lower deductible. Finally, if you're older, you're statistically more likely to have higher medical expenses, so you may not want to take a chance on an HDHP. But if you're still in good health and have no reason to anticipate expensive healthcare costs, an HDHP might work for your circumstances despite your age.

Whether an HDHP will save you money always depends on the details of the specific plans available to you and your expected medical expenses for the year. An HDHP is not automatically a better or worse deal than an insurance policy with a lower deductible just because your circumstances fall into a certain category. You always have to do the math for your own situation.

#### The Bottom Line

An HDHP can save you money in the form of lower premiums and the [tax break](#) you can get on your medical expenses through an HSA. It's important to estimate your health expenses for the upcoming year and see how much you'll be responsible for out of pocket with an HDHP before you sign up. In some cases, a plan with a lower deductible will save you money, even though it will usually have higher premiums and won't let you have an HSA. In addition, if your employer offers it, you can use an FSA to get tax savings on your medical expenses with a lower-deductible plan.