Government Executive

Getting Something For (Next to) Nothing

By Tammy Flanagan

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I've asked the question before, and I'll ask it again: Have you considered switching to a high deductible health plan? This week, I want to update a column I wrote in 2010 and re-introduce you to HDHPs, which are available under the Federal Employees Health Benefits Program and can reduce your premiums to almost nothing and provide some incredible tax benefits.

HDHP plans are cousins to consumer-driven plans, but the big difference is the ability for most enrollees to contribute tax-free dollars to a health savings account. The funds in an HSA are owned by you and may be rolled over from year to year. HDHPs have been available through FEHBP since 2005, but very few people have chosen to use them.

Nationwide, about 15.5 million people are enrolled in HDHPs. They've grown at an annual rate of about 15 percent over the last several years, according to a study by America's Health Insurance Plans, an organization of American health insurance carriers. The gender split among those who use the plans is about even between men and women. Usage also is about equally divided between those over 40 and those under 40.

Are federal employees and retirees missing out on something? As you've no doubt learned from experience, anything that sounds too good to be true must have a catch. So I'll explain the pitfalls of HDHPs later on. But let's start with the basics.

Accounts and Reimbursements

First off, it's important to know how HDHPs relate to health savings accounts and health reimbursement arrangements. When you enroll in a high deductible health plan, the plan determines whether you are eligible for an HSA or an HRA, based on the information you provide.

An HSA is a tax-sheltered trust account you own for the purpose of paying medical expenses for yourself, your spouse and your dependents. You can't make contributions to an HSA if you have other health insurance besides your HDHP. If you're covered by Medicare, the military's TRICARE system, or a spouse's non-HDHP plan, then you only can have an HRA. It's an employer-funded, tax-sheltered account to reimburse allowable medical expenses.

When you are no longer eligible for an HSA, it will be converted to an HRA. If you are age 65 and still employed (and covered by FEHBP through current employment or if you are the spouse of an employee who has you covered under their current employment health plan), you may delay enrollment in Medicare so you can continue to contribute to an HSA. You will have a special enrollment period that lasts eight months following retirement to enroll in Medicare with no late enrollment penalty for Medicare Part B.

In addition to typical out-of-pocket medical expenses, such as deductibles and coinsurance, your HSA account can also be used for some additional expenses. Some long-term care insurance premiums, for example, can be paid with money saved in an HSA. (The amount considered a qualified medical expense depends on your age.)

When you enroll in Medicare you can use the account to purchase any health insurance other than a Medigap policy.

But you can't continue to make contributions to your HSA once you are enrolled in Medicare. In cases in which premiums for Medicare are deducted from Social Security benefit payments, an HSA distribution to reimburse the Medicare beneficiary equal to the Medicare premium deduction is a qualified medical expense.

Tax Advantages

If you are eligible for an HSA with your HDHP, you can contribute tax-free dollars to the account up to a certain limit after subtracting the amount the health plan has contributed for you. For 2014, the maximum annual contribution you can make is $3,300 for self-only and $6,550 for family coverage. These amounts are a little higher than the 2013 limits.

Most federal payroll offices allow a payroll allotment to fund your HSA. Retirees who are not enrolled in any other health plan are also permitted to contribute to an HSA. The law allows a one-time transfer of individual retirement account assets to fund an HSA. Transfers are not taxable as IRA distributions, though. Amounts transferred into an HSA from an IRA are not deductible. If you are 55 or older and not enrolled in Medicare, you can make catch-up contributions of up to an additional $1,000 per year.

Federal employees also can set up a limited expense health care flexible spending account (known as a LEX HCFSA) to cover out-of-pocket dental and vision expenses. They can contribute an additional $2,500 per individual enrollment to such an account.

The Catch

Now for the pitfalls I mentioned earlier:

HDHPs have a minimum deductible of $1,250 for self-only coverage and $2,500 for self and family in 2014. See your individual plan for 2014 amount.
If you haven't funded your HSA, or if the money in your HRA is not enough to cover medical expenses incurred, then you have to pay for them out of your own pocket.
Catastrophic out-of-pocket limits are higher for these types of plans than they are for traditional health insurance. The catastrophic limits may not exceed $6,450 for self only coverage or $12,700 for self and family. Even though these are higher than typical FEHBP catastrophic limits, they are more comprehensive in terms of the kinds of expenses that count toward the limit. Check your plan for specific limits and the expenses that are included.
As with any insurance, to get the best value out of the plan, you must use health care providers that are members of the plan network. Some plans will provide coverage if you go out of network, but you will pay a higher portion of the charges.
In a year when you need a lot of medical care, your total out-of-pocket expense might be comparable with what it would be under other FEHBP plans. But in years of good health, you will save money and be able to set aside a cash reserve of tax-free dollars for future health care expenses.

Is This for You?

Should you consider this type of plan? Here are some factors to bear in mind:

If you take advantage of funding an HSA (and you meet the eligibility test), then you will benefit from the tax shelter.
The money in your HSA does not have to be used each year. It can accumulate until later years when it might be needed.
These plans offer the convenience of using a debit card that withdraws money from your HSA without the need to request reimbursement.
Preventive care and routine screenings in these plans have no deductible, co-payment or co-insurance.
Out-of-pocket expenses can be covered by the tax-free money you’ve saved in your HSA.
Many of these plans include preventive dental and vision benefits.
For care received in-network, after meeting the deductible, some plans will reimburse as much as 95 percent of covered

services.
HSA accounts include interest that accumulates tax-free. Once your balance reaches a minimum limit, you may diversify your investment.
Once you reach age 65 your funds can be withdrawn at any time and are only subject to ordinary income tax. However, you may avoid any tax by continuing to use the funds for qualified medical expenses. For those over age 65 premiums for Medicare Part A or B, Medicare HMO and employee premiums for employer sponsored health insurance can be paid from an HSA.

Don't forget that open season is an annual event. If you try something new for 2014 and are not satisfied with the coverage, there is always next open season to go back to your prior plan. The money in your HSA account can be used even if you are no longer covered by the HDHP plan. You will not be able to make additional contributions, but the money still belongs to you. If your spouse becomes the owner of the account in the event you predecease her/him, your spouse can use it as if it were their own HSA. If you are not married, the account will no longer be treated as an HSA upon your death. The account will pass to your beneficiary or become part of your estate (and be subject to any applicable taxes). Remember, this year's open season will end on Dec. 9.

Webcast Monday: What to Know Before You Retire

If you're thinking about retiring from your federal job, now you can hear from me directly about what your options are and the important things you should be considering. I'll be appearing via webcast on Monday, Dec. 9, to talk with *Government Executive* Editor in Chief Tom Shoop and take your questions.

Click here for more information and to register

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