InvestmentNews™
The Leading News Source for Financial Advisers InvestmentNews.com

Paying more upfront

Is high-deductible insurance coupled with a health savings account a good deal? For whom?

By Richard F. Stolz (Excerpt)

Sept. 1, 2013

AS HIGH-DEDUCTIBLE health plans with associated health savings accounts grow in popularity, more financial advisers are fielding questions from clients about their benefits and drawbacks.

Advisers can play an important role in guiding clients on whether to choose a high-deductible health plan with an HSA option and how to invest those funds. …

CHOICE CONSIDERATIONS

…Clearly, an employee whose only health care option is a high-deductible plan would be foolish not to exploit an HSA. Advisers have more analysis to do for employees choosing among multiple health plans.

It is widely assumed that the HDHP/HSA package works best for young, healthy employees or such employees with similarly healthy and young families. The theory, of course, is that they are less likely to sustain heavy health expenses and can benefit from the lower cost of such plans — using the savings to fund their HSA. …

…Besides employee health, these additional variables should be taken into account:

Scope of benefits. While the Affordable Care Act prescribes "minimum essential benefits" for all plans, the fine print of what is covered under the different plans requires scrutiny. A PPO or HMO might provide more value, even for a low-risk employee.

Risk tolerance. "It's similar to how people buy homeowner's insurance," noted David Kudla, founder and chief executive of Mainstay Capital Management LLC, which advises employees of large corporations, including on management of their 401(k) assets. "Does the employee have a low deductible so that the homeowner's policy will pay every time a window gets broken?" Mr. Kudla asked.

Net worth. If the employee's goal is to carry over HSA contributions into retirement, the employee needs enough after-tax cash outside the HSA to cover significant health expenditures before reaching an HDHP plan's annual out-of-pocket maximum. Employees may get sticker shock when they switch to an HDHP plan and begin paying the full price of prescription drugs…

Discipline. Suppose an employee plans to allow HSA funds to accumulate, and not to tap them for routine health expenses. On that basis, an adviser recommends investing a large portion of HSA assets. Market volatility ensues and the account balance de-creases. At that time, the employee's circumstances change and he or she elects to liquidate most of the HSA to cover a large medical bill. While such clients might, in theory, benefit from a HDHP/HSA, advisers must have confidence in the client's ability to stay the course. "It's all part of the planning process," Mr. Kudla said. …