**Learning Goals & Objectives:**

* Define and apply insurance terms.
* Apply understanding of private health insurance features to a specific individual case
* Evaluate tradeoffs of different types of insurance for an individual case

A case study: You are a **45-year-old** college graduate, who is married with **two young children,** and who has just started a new job. You are earning $110,000/year (about $6,415 take-home per month) and your job comes with benefits, including employer-sponsored health insurance (3 different plans, see on back) that is subsidized by the employer ($1395/month employer contribution toward premium for the family plan). Your oldest child has cystic fibrosis, which on average costs about $15,000/year in medical expenses. Your spouse is not employed outside the home.

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**Assessing plans and providing feedback**

**Plan Alternatives:**

**1. Open Access Plan:**

- Total Annual Premium Cost: $26,340

- Annual Premium Cost (% of pre-tax income with employer subsidy): 8.7%

- Estimated Out-of-Pocket Health Care Costs: $6,000

- Total Annual Out-of-Pocket Costs: $32,340

- Total Annual Out-of-Pocket Costs (% of pre-tax income): 29.4%

**2. Preferred Provider Plan:**

- Total Annual Premium Cost: $24,480

- Annual Premium Cost (% of pre-tax income with employer subsidy): 7.0%

- Estimated Out-of-Pocket Health Care Costs: $4,000

- Total Annual Out-of-Pocket Costs: $28,480

- Total Annual Out-of-Pocket Costs (% of pre-tax income): 25.9%

**3. High Deductible Plan + Health Savings Account:**

- Total Annual Premium Cost: $6,000

- Annual Premium Cost (% of pre-tax income with employer subsidy): 0%

- Estimated Out-of-Pocket Health Care Costs: $6,500 (or $5,500 if HSA is used in its entirety)

- Total Annual Out-of-Pocket Costs: $6,500 (or $5,500 if HSA is used in its entirety)

- Total Annual Out-of-Pocket Costs (% of pre-tax income): 5.9% (or 5% if HSA is used in its entirety)

**Assumptions about Health Care Needs:**

- Family includes the primary subscriber, a spouse, and two children.

- Family income: $110,000/year with the spouse not employed.

- One child has higher medical expenses than average, including higher care and medication costs with frequent specialist visits.

- Deductible for any plan selected will be met due to high medical costs of at least $15,000 per year.

- Other family members are relatively healthy but require preventive medical care.

- Primary subscriber's job is secure throughout the year.

- Child's cystic fibrosis specialist is in-network.

**Estimated Out-of-Pocket Costs for Health Care Services (Assuming the Child's Specialist is In-Network):**

- Open Access Plan: $6,000

- Preferred Provider Plan: $4,000

- High Deductible Plan + Health Savings Account: $6,500 (or $5,500 if HSA is used in its entirety)

**Total Annual Out-of-Pocket Costs Per Plan (Including Premiums and Health Care Costs):**

- Open Access Plan: $32,340

- Preferred Provider Plan: $28,480

- High Deductible Plan + Health Savings Account: $6,500 (or $5,500 if HSA is used in its entirety)

**Total Annual Out-of-Pocket Costs as a Percentage of Pre-Tax Income:**

- Open Access Plan: 29.4%

- Preferred Provider Plan: 25.9%

- High Deductible Plan + Health Savings Account: 5.9% (or 5% if HSA is used in its entirety)

These calculations provide an overview of the potential costs for each health insurance plan, taking into account premium costs, out-of-pocket health care costs, and their percentage of the family's pre-tax income, based on the given assumptions. The High Deductible Plan with an HSA appears to have the lowest overall cost as a percentage of income, but it also comes with a higher potential out-of-pocket expense if the HSA is not utilized fully. The choice of plan should consider both cost and risk tolerance.

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| --- | --- | --- | --- |
|  | Open Access Plan | Preferred Provider Plan | High Deductible Plan + Health Savings Account |
| Total Annual Premium  (with employer subsidy) | $9,600 | $7,740 | $0 |
| Annual premium as percentage of total pre-tax income | 8.7% | 7.0% | 0% |
| Estimated out-of-pocket cost | $6,000 | **IN:** $4,000  **OUT**: $6,000 | **IN:** $6,500  ($5,500 if HSA is used in its entirety)  **OUT:** $9,500  ($8,500 if HSA is used in its entirety) |
| Total annual out-of-pocket costs per plan | $15,600 | **IN:** $11,740  **OUT**: $13,740 | **IN**: $6,500  ($5,500 if HSA is used in its entirety)  **OUT:** $9,500  ($8,500 if HSA is used in its entirety) |
| Total annual out-of-pocket costs as a percentage of pre-tax income | 14.1% | **IN**: 10.6%  **OUT**: 12.5% | **IN**: 5.9% (5% if HSA is used in its entirety)  **OUT**: 8.6% (7.7% if HSA is used in its entirety) |

**Tradeoffs Between Plans:**

1. Premium Costs: The Open Access Plan has the highest premium costs, followed by the Preferred Provider Plan, while the High Deductible Plan has the lowest premiums.

2. Health Care Services Covered: All plans cover the same types of medical services, and given the assumption that the child with cystic fibrosis will accrue at least $15,000 in medical costs, all plans are likely to meet their deductibles and out-of-pocket maximums.

3. Overall Access to Health Care Services: All plans provide access to the same network of providers and services once the deductible or out-of-pocket maximum is met. Therefore, there is no significant difference in terms of access to care among the plans.

**Decision on the Best Plan:**

Based on the analysis, the **High Deductible Plan with a Health Savings Account (HSA)** seems to be the best choice for this person for several reasons:

1. Lower Total Cost: The High Deductible Plan has the lowest total annual out-of-pocket cost when accounting for both premiums and estimated health care expenses.

2. HSA Benefits: The HSA allows for pre-tax contributions, and since the family is likely to meet their deductible and out-of-pocket maximum, they can use the HSA to cover a significant portion of their expenses with tax advantages.

3. Flexibility: Even if the child's cystic fibrosis specialist is out of network, the High Deductible Plan remains the cheapest option. While there are limitations on HSA contributions, it can still help reduce overall costs.

**Additional Information Needed:**

To make a more informed decision, the following additional information would be helpful:

1. Specialist Visits: Knowing the exact number of specialist visits required for the child with cystic fibrosis would help refine cost estimates.

2. Level of Care: Understanding the criticality of the child's condition and the level of care needed during each visit can influence the choice of plan.

3. In-Network Specialist: Assessing the feasibility of finding an in-network specialist for cystic fibrosis is crucial, as it can affect costs and access to care.

4. Family Health History: Understanding the health needs and past medical history of each family member can help tailor the plan choice to the family's overall health profile.

Ultimately, the best plan choice should consider not only cost but also the specific healthcare needs and preferences of the family, including their risk tolerance and ability to manage potential out-of-pocket expenses through tools like an HSA.