

THE CHALLENGE

Sophia, a 25-year-old, is choosing between two health plans at her new job. Plan A has a \$250/month premium with a \$500 deductible. Plan B has a \$150/month premium with a \$2,000 deductible and is HSA-eligible. She's generally healthy and only has routine check-ups. Which plan will cost her less over a year?

How do you balance premium costs with out-of-pocket costs to find the most cost-effective insurance coverage?

Learning Objectives

- Understand the relationship between premiums, deductibles, and out-of-pocket costs.
- Learn strategies for selecting insurance that balances coverage with cost.
- Apply cost analysis to compare insurance options in different scenarios.

CORE CONCEPTS

| Term | Definition |
|------------------------------|--|
| Premium | The amount paid regularly to maintain coverage, regardless of whether you file claims. |
| Out-of-Pocket Maximum | The most you'll pay for covered services in a year; after this, insurance covers 100%. |
| HSA (Health Savings Account) | Tax-advantaged account paired with high-deductible plans for medical expenses. |
| In-Network Provider | Doctors/hospitals with contracted rates, resulting in lower costs for you. |
| Bundling | Combining multiple policies (auto + home) with one insurer for discounts. |

Background: Insurance costs involve a fundamental trade-off: **higher premiums** mean lower out-of-pocket costs when you file claims, while **lower premiums** mean higher costs if you need care. Strategies for managing costs include choosing appropriate deductibles based on your savings and health needs, using tax-advantaged accounts like HSAs, staying in-network, bundling policies, and taking advantage of discounts. The best plan depends on your personal situation—not just the lowest premium.

APPLY IT

PART A: HEALTH INSURANCE PLAN COMPARISON

Compare Sophia's two health plan options under different usage scenarios.

| Cost Component | Plan A (Low Deductible) | Plan B (High Deductible) |
|-------------------------------|-------------------------|--------------------------|
| Monthly Premium | \$250 | \$150 |
| Annual Deductible | \$500 | \$2,000 |
| Co-insurance After Deductible | 20% | 20% |
| Out-of-Pocket Maximum | \$3,000 | \$5,000 |
| Annual Premium Cost | | |

1. If Sophia stays healthy and only has routine preventive care (covered 100%), what is her total annual cost for each plan?

Plan A total: _____

Plan B total: _____

Better choice (healthy year): _____

2. If Sophia has \$8,000 in medical expenses, calculate her total cost for each plan:

Plan A: Premium + Deductible + Co-insurance

Plan B: Premium + Deductible + Co-insurance

Plan A total: \$_____ | Plan B total: \$_____

Hint: For Plan A with \$8,000 in expenses: \$500 deductible + 20% of remaining \$7,500 = \$500 + \$1,500 = \$2,000 in out-of-pocket costs. Add annual premium to get total.

PART B: AUTO INSURANCE DEDUCTIBLE DECISION

Carlos is deciding on a deductible for his auto insurance.

| Option | Deductible | Annual Premium |
|--------|------------|----------------|
| A | \$250 | \$1,200 |
| B | \$500 | \$1,050 |
| C | \$1,000 | \$900 |

3. Over 5 years with NO accidents, which option costs least? Show total cost for each.

4. If Carlos has ONE accident costing \$3,000 in year 3, what is his 5-year total cost for each option?

PART C: COST-SAVING STRATEGIES

5. List THREE strategies someone could use to reduce their insurance costs without sacrificing necessary coverage.

CHECK YOUR UNDERSTANDING

1. Which factor does NOT typically affect auto insurance premiums?

- ☐ A. Your driving record
- ☐ B. Your credit score
- ☐ C. The color of your car
- ☐ D. Your age

2. Explain the "triple tax advantage" of a Health Savings Account (HSA).

3. **Calculation:** Elena's health plan has an in-network co-insurance of 20% and out-of-network of 50%. For a \$5,000 procedure after meeting her deductible, how much does she save by using an in-network provider?

Show your work:

Savings: \$_____

4. Marcus bundles his auto (\$1,200/year) and renter's (\$300/year) insurance with one company and gets a 15% discount. What is his total annual savings?

5. Reflection: Based on Sophia's situation (25, healthy, just starting a career), which health plan would you recommend? What if she had a chronic condition requiring regular medication?
