



HSA Myth: High-deductible health plans are the more expensive option

The high-deductible misconception

When paired with a health savings account (HSA), high deductible health plans (HDHPs) are the most cost-effective health plan for most people. Yet many remain hesitant to consider electing one.

This hesitation often arises when people simply hear the term high-deductible. The expectation of more out-of-pocket costs can send people to a traditional (PPO) plan. The Health Savings Act introduced in Senate in Jan. 2019 proposed changing the name “high deductible health plan” to “HSA-qualified health plans.” The proposed legislation aimed to draw more attention to the benefits of such plans – primarily the triple tax advantage of HSAs that typically pair with HDHPs.

HDHPs + HSAs can lead to savings

HDHPs typically have a much lower monthly premium than traditional health plans. When employees save on those monthly premium costs, they can reallocate the saved dollars as contributions to an HSA and reap pre-tax benefits. Similarly, employers can elect to reallocate their monthly premium savings to seed employee accounts. When employers contribute to employee accounts, they not only see greater adoption of HSAs, but also see higher account balances. The more employees use pre-tax dollars to pay for their healthcare, the less money they’ll spend.

Saving money on taxes with an HDHP

The FICA tax (7.65% in 2021) is a combination of a 6.2% Social Security tax and a 1.45% Medicare tax the IRS imposes on employee earnings. However, employee’s HSA contributions are exempt from income taxation. In addition, if an employer chooses to seed employee accounts, it will save them their portion of the FICA tax as well.

HSAs also provide the opportunity to invest funds for tax-free growth. People can use these funds on future expected and unexpected medical costs – or build up savings for retirement.



An Alegeus report* found that American consumers could save a collective \$85 billion on eligible out-of-pocket medical expenses if they used pre-tax dollars.

HDHPs + HSAs can lead to savvier, healthier consumer behavior

While HDHPs paired with an HSA save money for most people, they also lead to better consumer behavior and outcomes. The *EBRI Research Institute 2018 Consumer Engagement Survey* found that those who elect HDHPs are more likely to investigate cost and coverage information than those in traditional health plans. Those with HDHPs are also more likely to check quality ratings on doctors, discuss treatment options, develop a healthcare budget and more. With a closer eye on their healthcare processes and expenses, it stands to reason that people will save money and make more informed care decisions.

**2018 Alegeus Consumer Health and Financial Fluency Report*

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