

Office for Financial Success – Financial Tip of the Week  
A service of the Personal Financial Planning Department  
College of Human Environmental Sciences  
University of Missouri-Columbia  
(07/17/2009)

Sick

Trying to sort out health insurance coverage is a daunting task. It is, however, a required task. If you're lucky and have health insurance through your employer, s/he pays for 60-80% of the cost of insurance. If you're not so lucky and you do not have insurance through work, you need to buy it independently. The extremely high costs of a catastrophic illness can wipe out the best laid financial plans and, guess what; we're all exposed to the risk of a catastrophic illness.

First, accept the fact that if you want both choice and flexibility, as well as to pay less when you use medical services, you will pay more for your health insurance coverage. If you want to pay less for your insurance coverage, you'll pay more when you use the services. You pay the premium, the amount you're charged for insurance coverage, and you pay a portion of the expenses should you use medical services. The portions are the deductible, the first dollars you are responsible for paying before the insurance company pays anything, and the co-payment, the portion of expenses above the deductible that you are also required to pay. You pay both, until you reach the stop-loss; your total out-of-pocket charge for an episode of illness.

What are the key questions you should ask yourself?

- Do I have an emergency fund capable of covering a greater deductible and co-payment? (The importance of an emergency fund rises to the top, again!)
- Do you care what doctor you visit, when you need to see a doctor?
- Do you regularly make doctor visits or are you a once a year type of patient? (Commit to a health plan of regular physical exercise, if you're able.)
- Do you take several prescriptions? This makes prescription coverage more important to you.

Other Considerations:

Flexible Spending Accounts – Do you have access to a medical care flexible spending account that lets you use pre-tax money to pay for your out-of-pocket medical expenses. This reduces your cost for medical care but it comes with a caveat: If you don't use it in a calendar year, you lose it. You are required to estimate your costs for the next year, in the fall of the current year. While this is somewhat difficult, consider the obvious ones: eye glasses, contact lenses, over-the-counter pain relievers and allergy medicines, flu shots, your deductibles and copayments for office visits and annual physicals. Importantly, "biggies" like orthodontic work or an elective surgery create the opportunity to put the maximum amount in the account. Finally, if the end of the year approaches and you don't have enough expenses to use your full account, consider a new pair of eyeglasses, stock up on some over-the-counter medicines, or refill your prescriptions.

Health Savings Accounts – In 2009, if you've a high deductible and you're single you could contribute up to \$3,000 in pretax money into a health savings account. This can be used to pay for deductibles, co-payments, and other medical expenses. (If you're married, the maximum deposit is \$5,950. These

change each year, as well as with the size of your deductible, and are designed to encourage high-deductible, catastrophic insurance coverage.) One of the best things about the health savings account is that the account earns interest, it stays with you if you change jobs, and the balance can grow and become a part of your retirement resources, if you don't spend it on health coverage.

I realize that this is just a snippet of a *tip* on health insurance. As the U.S. Government is debating changes in our national health insurance policy, the debate is bound to get louder before it goes away. Remember that this debate is about your health, your insurance, and your country so try to be informed and let your opinions be known by those we've elected. Regardless of your age, you have a stake in your health - the most important ingredient in the recipe for *financial success*.

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