

Understanding and Estimating Health Care Expenses

Health care costs have become a larger part of your monthly spending plan or budget. The **premium** you pay for your health insurance plan is included in your monthly spending plan. In addition to your premiums, which are fixed costs each month, there are other **out-of-pocket costs** that you need to be able to pay so you can use your health insurance effectively. To be prepared, it is important for you to set aside money each month (or each paycheck) to be sure you have enough to cover these flexible or variable costs as they arise throughout the year.



Out-of-pocket costs may include the **copayments** or **coinsurance** amounts and your health insurance plan's **deductible**. Another important amount to save for is the **out-of-pocket maximum**.

By having money saved, you will know that if health care needs occur, you'll have enough set aside, even if the worst happens. This will prevent you from having to borrow money or use credit cards to pay for needed health care services.

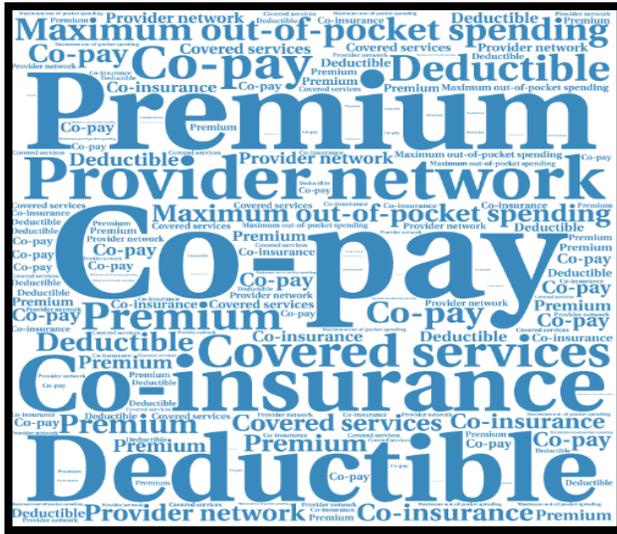
On the next few pages, you'll be asked to estimate your annual health care expenses. You will use this information to better understand the total costs of your health insurance plan, and determine how much you need to save in an emergency fund, flexible spending account or a health savings account so you will have the money when you need it. Lastly, you'll be able to see if the amount you have spent on health care is high enough to deduct at least part of the costs on your personal income taxes.

Most importantly you'll see how much you're spending on health care based on your current health insurance plan. Having this information can help you determine if you should choose this same plan next year or if you need to find a different plan that meets your health care needs and financial situation.



To get started you need to:

- Review **Health Insurance Important Words to Know** on page 2
- Gather the following information:
 - ✓ Your Health Insurance Plan Documents - to gather fixed cost information
 - Evidence of Coverage or the Summary of Benefits of Coverage
 - ✓ Health Care Services records - to gather flexible cost information regarding how you use health care services.
 - Receipts from doctor visits, medical tests, etc.
 - Last year's calendar to identify doctor visits, medical tests, lab work or mileage, etc.
 - Prescription records and receipts
 - Receipts for other health care expenses
 - Explanation of Benefits documents



Health Insurance Important Words to Know

Coinsurance - Your part of the costs of a covered service. This is a part of the allowed amount for the service. You pay this amount once you have met your deductible.

Copayment - A set amount (for example, \$20) you pay for a covered service. You pay this amount when you get the service. The amount you pay may change based on the type of service.

Deductible - The amount you owe for health care services your health insurance plan covers before your health insurance plan begins to pay. For example, if your deductible is \$1,000, your plan won't pay anything until you've met your \$1,000 deductible for covered health care services. The deductible may not apply to all services; especially preventive services.

Fixed Health Care Expense - A medical or health care cost that stays the same each month or year. An example is monthly premiums.

Flexible or Periodic Health Care Expense - A medical or health care cost that changes based on services you use. An example is copayment or coinsurance.

Out-of-Pocket Costs - Your costs for services that are not paid by insurance. This includes deductibles, coinsurance and copayments. It also includes costs for services that are not covered by your health insurance plan.

Out-of-Pocket Maximum/Limit - The most you pay for covered services in a plan year, before your health insurance plan pays 100% for covered services. This includes deductibles, copayments, coinsurance and any other cost that is a qualified expense. This doesn't include monthly premiums, balance billing, amounts for non-network providers and other out-of-network costs. It also doesn't include what you pay for services your plan doesn't cover.

Premium - The amount you pay for your health insurance plan. You and/or your employer may pay it monthly, quarterly or yearly.

Preventive Services - Routine health care that includes screenings, check-ups, and patient counseling to prevent illnesses, disease or other health problems. Most health plans must cover a set of preventive services — like shots and screening tests — at no cost to you.

Use this worksheet to estimate your costs and calculate amounts that will help you be a smart user of your health insurance. Review your health insurance documents for premium, copayment, deductible and out-of-pocket maximum amounts. Also, think about how you normally use health care services to fill in this worksheet. Use last year's calendar to help you estimate the number of doctor, lab or specialist visits. Your Explanation of Benefits documents, receipts for copayments and bills from the health care service providers will provide information for your flexible health care costs.

Estimating Fixed and Flexible Health Care Costs

Fixed Health Care Costs (use the amount you pay each month)

Health Insurance Premium	\$ _____
Vision Insurance Premium	\$ _____
Dental Insurance Premium	\$ _____
Prescription Insurance Premium	\$ _____
Medicare Premium	\$ _____
Medicare Supplemental Insurance Policy (Medigap) Premium	\$ _____

Now, add all the items under Total Fixed Health Care Costs to get

Total Monthly Fixed Health Care Costs \$ _____

Now, multiply Total Monthly Health Care Costs x 12 to get

Total Annual Fixed Health Care Costs \$ _____

Annual Deductible \$ _____

Out-of-Pocket Maximum \$ _____

Health Care Costs

Office visit copayments (___ number of visits X ___ copayment amount)	\$ _____
Specialist visit copayments (___ number of visits X ___ copayment amount)	\$ _____
Specialist visit copayments (___ number of visits X ___ copayment amount)	\$ _____
Medical supplies and equipment	\$ _____
Hospitalization expenses	\$ _____
Prescription drug copayments (___ number of prescriptions X ___ copayment amount)	\$ _____
(___ number of prescriptions X ___ copayment amount)	\$ _____
Medical related travel (mileage, lodging food - See IRS Pub 502.)	\$ _____
Other qualified medical expenses	\$ _____
Urgent Care / Emergency Room Copayment	\$ _____
Dental preventive visit copayments (___ number of visits X ___ copayment amount)	\$ _____
Dental services and products (braces, oral surgery, etc.)	\$ _____
Vision exam copayments (___ number of visits X ___ copayment amount)	\$ _____
Vision services and products (glasses, contacts, etc.)	\$ _____

Non-qualified (not covered) health care expenses (i.e. Vitamins) \$ _____

Total Annual Flexible Health Care Costs (Add all the items under Flexible Health Care Costs) \$ _____

What do you need to know? Let's start by copying the important information from the previous page. When you're finished add more information about your health care plan costs from your plan documents.

Total Monthly Fixed Health Care Costs	\$ _____
Total Annual Fixed Health Care Costs	\$ _____
Non-qualified Costs	\$ _____
Total Annual Flexible Health Care Costs	\$ _____
Annual Deductible (if you have a family plan, use the family amount)	\$ _____
Out-of-Pocket Maximum (if you have a family plan, use the family amount)	\$ _____

The cost of health care is rising and many experts say we need to save money each month to cover these costs. Not all insurance plans calculate your share of health care costs the same way. Some require you to pay the full deductible before the plan starts to pay while others pro-rate health care costs over the year and apply this toward the deductible. Some allow co-payments to count as part of the deductible while others do not. The only way to know for sure how your plan works is to contact the insurance company or read your Summary of Coverage and Benefits document for your plan. This document can be provided by your health insurance provider and is often posted online.

This makes planning and saving for your total out-of-pocket health care costs tricky. But it can be done! The following boxes provide you with some information about calculations that will help you determine how much your health care expenses may be, how much to save for these costs and determine if you have picked the right plan. At the very least you will need to save for your deductible and annual flexible health care costs.

Box 1 on page 5 will help you calculate this amount.

At the very most you will have to save for your health insurance plan's Out-of-Pocket Maximum amount.

Box 2 will help you calculate this amount.

By completing both boxes you can then decide how much you can afford to save for health care costs each month. By doing these calculations you will ensure your health and financial security for the future.

Note for individuals with seasonal income: In the boxes below, the calculation divides by 12 to get monthly amounts to save. If your income is seasonal, determine how many months you have steady income and divide by this number. In this way, you will know how much you need to set aside each month you have income to have enough to cover health care costs for the whole year. For example if you have income for 8 months of the year, divide by 8 in boxes 1 and 2 below instead of by 12.

Box 1 - How much do I need to set aside monthly over and above my premium payments to save for health care costs?

How much do I need to have monthly to cover my known Fixed and Flexible health care costs? Knowing this amount will help you determine a spending plan that builds in known health care costs and helps you to save for the deductible and other out-of-pocket costs.

For many health care plans you need to pay the deductible before the plan starts to pay a share of your health care expenses. You need to have money set aside for this amount. Most plans offer an individual and family deductible amount so if you have a family plan, you'll want to use the family figure. Use this figure in the calculation below.

By adding together the Deductible and the Total Annual Flexible Health Care Costs, you will be able to calculate the Annual Total Known Costs for the year. Use the figures from the **What Do You Need to Know** box on page 4 of this document. This total provides a minimum amount you need to save to cover the Known Costs.

Add together the:

$$\underline{\hspace{2cm}} + \underline{\hspace{2cm}} = \underline{\hspace{2cm}}$$

Annual Deductible + Total Annual Flexible Health Care Costs = Total Annual Known Costs

By dividing the Total Annual Known Costs by 12, you will determine how much needs to be set aside each month for upcoming costs.

To determine estimated monthly costs:

$$\underline{\hspace{2cm}} \div 12 = \$ \underline{\hspace{2cm}}$$

Total Annual Known Costs ÷ 12 = Monthly Amount to Set Aside Over and Above the Monthly Premium

Box 2 - What is the most I would have to save?

Some people like to save for the largest amount they need so there are no surprises. This will include the Out-of-Pocket Maximum amount which represents the amount after which your health insurance plan will pay all allowable costs. This figure is often larger than the deductible. If you want to save for the most you might have to pay monthly, simply add the out-of-pocket maximum amount to any non-qualified health care costs and then divide this amount by 12.

To determine estimated monthly costs:

$$\underline{\hspace{2cm}} + \underline{\hspace{2cm}} \div 12 = \$ \underline{\hspace{2cm}}$$

Total Out-of-Pocket Maximum + Non-qualified expenses ÷ 12 = Maximum Monthly Amount to Set Aside Over and Above the Monthly Premium

Box 3 - What are my Total Annual Health Care costs and can I afford this plan?

Estimating total out-of-pocket costs can help you decide if this is the right health insurance plan for you and your spending plan. You can add the Total Fixed Cost figure from page 4 and the Total Annual Known Costs calculation from **Box 1** (pg. 5). Once you know this number, you can decide if this plan is affordable for your spending plan. If not, you may need to consider a different plan that has a lower deductible, copayments and premium.

Add together the:

$$\underline{\hspace{10em}} + \underline{\hspace{10em}} = \underline{\hspace{10em}}$$

Total Annual Fixed Health Care Costs + Total Annual Known Costs = Total Annual Out-of-Pocket Costs

(From Box 1, pg. 5)

Can I afford this plan? Choosing a plan based on premium alone is not smart. Often the lower the premium you pay, the higher the deductible, copayments and coinsurance amounts will be. It's important to incorporate how you use health care services in your decision about plans. The more you use health care services, the higher your costs will be. Some people choose a higher premium plan with lower deductible so that the costs are more known and, therefore, predictable for their spending plan. Determining if you can afford a plan, means knowing how you spend your money and creating a spending plan that accurately reflects how you want and need to spend your money. The spending plan should build in health care premiums and savings for other out-of-pocket costs.

The Smart Choice - Smart Use Health Insurance™ team has developed a number of documents that can help you pick the right plan. All the documents can be found at the University of Maryland Extension Health Insurance website: <http://extension.umd.edu/insure>. If you click on the Consumer Resources tab, it will provide you with a list of publications that provide background information and tools for helping you choose and use your health insurance effectively. Here are a few that will be helpful to you as you examine the costs of health care.

The [My Smart Choice Workbook](#) provides information and workbook pages to help you determine what your health care needs are, provides pages to assist in comparing plans by what they offer and potential costs and helps you determine if you can afford the plans you have compared.

The [My Smart Choice and Smart Use Spending Plan](#) provides a two page spending plan or budget sheet that you can use to create a monthly spending plan that includes health care and all your household expenses. Use this tool to get organized about your money and determine how much you are spending and need to save to cover your health care expenses.

[Important Words to Know](#) provides health insurance words and their definitions.

There are special types of accounts available to put aside money tax free to cover health care costs. The advantage is that money you put into these accounts is pre-tax, so it's a great way to stretch your health care dollar. Flexible Spending Accounts may be offered through your employer. A Health Savings Account may be available to you if you choose a high deductible plan from your employer or if purchased independently. For more information about these types of accounts, go to the consumer resources tab at:

<http://extension.umd.edu/insure> and read [Saving for Health and Medical Expenses: Flexible Spending Accounts and Health Savings Accounts.](#)

Box 4 - How much should I set aside in a Flexible Spending Account (FSA)? This is for employer-based health insurance plans.

Flexible spending accounts are offered by employers as a way to save for qualified health care expenses using pre-tax dollars. You only want to put into a Flexible Spending Account an amount of money you know you will spend by the end of the year. Because of the tax rules regarding these accounts, what you don't use in your plan year you will lose. For this reason, the amount to set aside in this type of account would be the Total Flexible Health Care Costs figure from page 4 minus any non-qualified health care expenses. It should be an amount you know you will spend. If you are conservative, you may decide to put only 90% of the amount you calculate below in your FSA account.

The amount I should set aside in an FSA Account each month is:

$$\underline{\hspace{10em}} - \underline{\hspace{10em}} \div 12 = \underline{\hspace{10em}}$$

Total Annual Flexible Health Care Costs (from page 4) - **Non-qualified expenses** (from page 4) $\div 12 =$ **Monthly amount to set aside in an FSA account**

Box 5 - How much to set aside in a Health Savings Account (HSA)?

Health Savings Accounts are special savings accounts that are available through some employer-based plans and private insurance plans for health insurance plans that are designated "High Deductible Plans." Health Savings Accounts allow you to set aside money using pre-tax dollars and roll over any balance from year to year. This is helpful because you won't lose any money you put into this type of account. By choosing this type of health insurance plan, you are creating an opportunity to save money now for future health care expenses (even into retirement). There are annual limits on how much you can set aside, but at a minimum you can set aside as much as you can to cover the family Out-of-Pocket Maximum from page 4.

The amount I should set aside in an HSA each month is:

$$\underline{\hspace{10em}} \div 12 = \underline{\hspace{10em}}$$

Out-of-Pocket Maximum (or IRS limit, whichever is higher) (See IRS Publication 969 for limits) $\div 12 =$ **Monthly Amount to Save in My Health Savings Account**

Box 6 - Can I claim medical expenses on my personal income taxes?

If you have a lot of medical expenses, you may be able to deduct part of the costs for medical and dental care for yourself, your spouse, and your dependents on your taxes. You may deduct only the amount of your total actual expenses that exceed 10% of your adjusted gross income (AGI). Your AGI is the bottom line income from the bottom of your long 1040 form.

To claim the medical expense deduction, you must 1) itemize your deductions, 2) use IRS Form 1040, Schedule A to file your taxes and 3) have medical costs that are greater than 10% of your adjusted gross income. Itemizing requires that you not take the standard deduction. You should only claim the medical expenses deduction if all your itemized deductions (including medical, mortgage interest, taxes paid, gifts etc.) are greater than your standard deduction.

You can deduct many medical expenses but they have to be “qualifying” which means allowed by IRS to count as a medical expense. Examples of these expenses include preventive care, treatment, surgeries and dental and vision care. You can deduct visits to specialists, psychologists and psychiatrists. Prescription medications and appliances/equipment such as glasses, contacts, false teeth, wheel chairs and hearing aids are deductible. You can also deduct the expenses that you pay to travel for medical care such as mileage on your car, bus fare and parking fees. You can include premiums if you paid with after tax dollars. For more information about what can be deducted and how to deduct medical expenses go to: <https://www.irs.gov/taxtopics/tc502.html>.

In order to deduct your health care expenses, you need to identify and add up actual costs of all your qualifying health care expenses. You can use receipts, Explanation of Benefits documents and bills from the health care providers.

Step 1: Determine 10% of your adjusted gross income. The result is the amount of medical expenses you are not allowed to deduct.

$$\underline{\hspace{2cm}} \times .10 = \underline{\hspace{2cm}}$$

Adjusted Gross Income $\times .10 =$ **Amount of Medical Expenses you Are Not Allowed to Deduct**

Step 2: Determine if there are enough medical expenses to be used as part of your itemized deductions.

$$\underline{\hspace{2cm}} - \underline{\hspace{2cm}} = \underline{\hspace{2cm}}$$

Actual Health Care Costs $-$ **Amount of Medical Expenses you Are Not Allowed to Deduct** $=$ **Amount of Health Care Costs You Can Deduct**

Step 3: Add the Amount of Health Care Costs You Can Deduct to other expenses you can deduct to see if you have more than the standardized deduction. You will want to use the greater of the two amounts (total itemized or standard deduction) on your taxes to get the greatest reduction of income and, therefore, pay the least amount of taxes. Consult a certified tax accountant for more assistance.