

Helping You Make a “Good Guess” for Out-of-Pocket Health Costs

Paying for health care is a concern for many people. Americans are paying more out-of-pocket for health care now than they did in the past decade. Even with the best medical insurance, there are still some required costs. It is important to know how much you have to pay out of your pocket for services when you get care.

What Are Out-of-Pocket Health Costs?

Out-of-pocket costs are not reimbursed, or paid, by health insurance and include many expenses such as your health insurance premium, copayments, deductibles and coinsurance. The **premium** is the amount paid for your health insurance plan, by you or your employer, usually paid monthly, quarterly or yearly to maintain coverage. **Copayments** are fixed amounts (for instance, \$15) you pay for a covered health care service. The amount varies based on the type of service; for example, your copayment to a specialist may be more than your copayment to your primary care physician.

Your **deductible** is the amount you owe for health care services before your health insurance begins to pay. Although the deductible may not

apply to all services, if your deductible is \$1000, your plan may not pay anything until you have paid the \$1000 deductible for covered health care services.

Coinsurance represents your share of a covered health care service, calculated as a percentage (perhaps, 20%) of the allowed amount for the service. Let’s say, if the allowed amount for an office visit is \$100 and you have met your deductible, your coinsurance payment of 20% would be \$20. The health insurance plan will pay the rest of the allowed amount directly to the service provider.

To understand your specific health insurance plan costs, be sure to look at your insurance plan document called the Summary of Benefits and Coverage (SBC) to see what counts toward your out-of-pocket costs.

Why Do I Need To Know about Out-of-Pocket Costs?

Being prepared for medical expenses can protect your family’s financial future. You need a way to make a “good guess” of health care costs for next year as you create a budget for health insurance and other health care related expenses. This “good guess” will help you to compare health insurance plans and decide which plan is the smart choice for you and your family (i.e., best coverage for the lowest cost).

How Do I Make a “Good Guess”?

Fortunately, there is information you can get to show costs over time that can be used to make a “good guess”. Research shows that costs are going up each year by about 5%. This means that consumers can expect to pay 5% more each year. For instance, if the average U.S. consumer paid \$1,000 out-of-pocket this year, their “good guess” would be an additional \$50 ($\$1,000 \times 1.05$ or 5%) more for a likely out-of-pocket cost of \$1050 next year.

If you kept records of your out-of-pocket costs this year, you would multiply your costs times 105% (out-of-pocket costs $\times 1.05$) for your personal best guess.

It is important to plan for health care expenses; however, it may be challenging to have an accurate estimate when you experience changes in health conditions, medical care needs, and health insurance plans. Although this estimate is based on increasing costs rather than changes in your health care needs, this estimate may help you think about other expenses as well as compare plan differences based on out-of-pocket costs.

How Do I Keep Records Of My Costs?



1. Keep a list of all your out-of-pocket costs (copayments, coinsurance, etc.).
2. Keep all your medical receipts in one place (e.g., an envelope or file folder).
3. Be sure there is a date and description of the cost on each receipt.

4. Add up all the costs at the end of the year for your total out-of-pocket costs.
5. Multiply your total out-of-pocket costs by 1.05 (105%) to calculate your total out-of-pocket costs as a “good guess” for health care costs next year.

With this information, you are better prepared to budget your health care dollars. This information can help you determine your contributions to flexible spending accounts. For more information on flexible spending accounts, please review the *Saving for Health and Medical Expenses: Flexible Spending Accounts and Health Savings Accounts* (UME Fact Sheet, forthcoming). This information may be helpful when you compare health insurance plans and consider other health related costs.

Let’s practice by helping the Cameron Family make a “good guess” for out-of-pocket costs next year. To get an accurate picture of current health and medical spending, the family gathered the following items and created an organized filing system:

- List of all expenses sorted as premium, deductible, copayment, and coinsurance.
- Monthly explanation of benefits from health insurance company.
- Prescription records and statements from each pharmacy used.
- Check registers, credit card and bank statements. You can use online or paper statements.
- Their family calendar that shows medical appointments including visits to the dentist and eye doctor.

By keeping track of the out-of-pocket costs this year, the family calculated current costs of

\$2000. They can now calculate a “good guess” for out-of-pocket costs next year by multiplying the current year cost of \$2,000 x 1.05 or (105%) which equals \$2,100. The formula for this calculation is:

$$\begin{aligned} & \$2,000 \times 1.05 = \$2,100 \text{ (“Good Guess”)} \\ & \text{Out-of-pocket costs} \times 1.05 = \text{“Good Guess”} \\ & \text{amount} \end{aligned}$$

Use the chart below to calculate your “Good Guess”:

Expense Type	Yearly Cost
Premiums	
Expenses paid toward deductible	
Copayments	
Coinsurance	
Prescriptions	
Eyeglasses/optical expenses	
Dental expenses	
Other items	
TOTAL	

TOTAL () x 1.05 _____
“Good Guess”

Multiplying the total current year costs by 1.05 or (105%) shows you how much you can expect to pay for out-of-pocket costs for next year.

References: Health Care Cost Institute. (2013, September). 2012 *Health Care Cost and Utilization Report*.

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Bonnie Braun, Lynn Little, Mia B. Russell

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