

Money Matters: Managing medical expenses

By Rick Gross

Major medical expenses can carry a heavy financial toll. And the fact is, all of us are susceptible to an unforeseen medical event. If you experience an accident or injury, cost may be the least of your concerns initially. Yet, unexpected medical care has the potential to impact your financial situation in a big way. Before it does, take the time to prepare your strategy for dealing with surprise medical expenses. Here are several strategies to help you get started.



Rick Gross

Plan ahead with health insurance

Under today's health insurance plans, you may face greater risk of sizable medical costs due to rising costs of health care, increasing deductibles and coverage changes year-to-year. These increasing costs can add up to thousands of dollars in out-of-pocket expenses. Review your insurance coverage to ensure you understand what services or prescriptions are covered, and what medical bills you may be responsible for. It's worth reviewing how these basic but important policy components may apply to you:

- **Deductible** – Your deductible is the amount you're expected to pay each year for medical services covered by your

health insurance plan. You are responsible for all expenses until you meet your deductible.

- Out-of-pocket maximum – Once your deductible is met, additional medical expenses will be applied to your out-of-pocket maximum. When you've incurred this amount, your insurance will pay all expenses covered by your plan for the rest of the year. Most insurance providers include your deductible in your out-of-pocket maximum. For example, say a person has a \$3,000 deductible, a \$5,000 limit on out-of-pocket expenses and incurs \$10,000 in medical bills. If he or she has a major accident, the person would only incur \$5,000, with insurance covering the other \$5,000.

- In-network – In general, medical expenses must be in-network, or part of your insurance company's system of providers, for the bill to be applied to your deductible or out-of-pocket maximum. If you require out-of-network services, check with your insurance provider to see how the bill will be handled.

- Co-pay and co-insurance – A co-pay is a set amount you pay each time you receive a service, such as a primary care physician visit or receiving a new prescription. Co-insurance is a set percentage of the expense you pay at the time of service. Co-pays and co-insurance may or may not apply to your deductible and out-of-pocket maximum.

Strategically use savings accounts

A key way to cope with unplanned medical costs is to have money already in the bank, prepared for such an event. Among the options to consider are:

- Health Savings Accounts (HSAs) – These are tax-advantaged savings plans associated with high deductible health insurance policies. In 2018, individuals can save up to \$3,450 (\$3,400 in 2017) in an HSA while families can set aside as much as \$6,900 (\$6,750 in 2017). These are funds that can

be used to pay out-of-pocket medical expenses this year or in future years.

- Flexible Spending Accounts (FSAs) – An FSA allows you to use pre-tax dollars to pay for certain medical expenses. Typically, you must spend these funds within the same calendar year.

- Savings accounts – If you don't participate in either type of plan or want to have a larger financial cushion, make sure you have a sufficient emergency fund. Set aside enough funds to cover your out-of-pocket maximum, or three-to-six months' worth of living expenses, whichever is greater.

Craft a bill-paying strategy

If you incur unexpected medical expenses, first work with your insurance company to understand how each bill is applied to your deductible or out-of-pocket maximum, noting co-pays and co-insurance where appropriate. Before paying each bill, make sure the amount matches the number calculated by your insurance company. In most cases, it's easier to work through any discrepancies before you pay the bill.

Next, consider using the money you have available in your HSA, FSA or savings accounts dedicated to health care expenses. If you still have a balance remaining on your medical expenses, try to fit the costs into your budget. A medical expense may require you to trim spending in other areas in order to pay for these costs, either immediately or over a period of time.

Consider a health care directive

Lastly, have a conversation with your spouse or another trusted family member about your health care wishes and consider documenting your desires in a health care directive. Directives allow you to designate one or more people to make health care decisions on your behalf if you're unable to make them yourself. Your health care providers and attorney can

help you get one started.

If you experience a major medical event, the least of your worries should be paying for it. Take time today to develop a strategy for how to cope with unexpected medical expenses.

Rick Gross is a financial advisor and private wealth advisor with Ameriprise Financial Services Inc. in South Lake Tahoe.