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Employer Open Enrollment: Make Benefit Choices That Work for You

One of your insurance options could be a better fit for your family and might even help reduce your overall health-care costs.

Open enrollment is the window of time when employers introduce changes to their benefit offerings for the upcoming plan year. If you're employed, this is your once-a-year chance to make important decisions that will affect your health-care choices and your finances.

Even if you are satisfied with your current health plan, it may no longer be the most cost-effective option. Before you make any benefit elections, take plenty of time to review the information provided by your employer. You should also consider how your life has changed over the last year and any plans or potential developments for 2022.

Decipher Your Health Plan Options

The details matter when it comes to selecting a suitable health plan. One of your options could be a better fit for you (or your family) and might even help reduce your overall health-care costs. But you will have to look beyond the monthly premiums. Policies with lower premiums tend to have more restrictions or higher out-of-pocket costs (such as copays, coinsurance, and deductibles) when you do seek care for a health issue.

To help you weigh the tradeoffs, here is a comparison of the five main types of health plans. It should also help demystify some of the terminology and acronyms used so often across the health insurance landscape.

Health maintenance organization (HMO). Coverage is limited to care from physicians, other medical providers, and facilities within the HMO network (except in an emergency). You choose a primary-care physician (PCP) who will decide whether to approve or deny any request for a referral to a specialist.

Point of service (POS) plan. Out-of-network care is available, but you will pay more than you would for in-network services. As with an HMO, you must have a referral from a PCP to see a specialist. POS premiums tend to be a little bit higher than HMO premiums.

Exclusive provider organization (EPO). Services are covered only if you use medical providers and facilities in the plan's network, but you do not need a referral to see a specialist. Premiums are typically higher than an HMO, but lower than a PPO.

Preferred provider organization (PPO). You have the freedom to see any health providers you choose without a referral, but there are financial incentives to seek care from PPO physicians and hospitals (a larger percentage of the cost will be covered by the plan). A PPO usually has a higher premium than an HMO, EPO, or POS plan and often has a deductible.

A deductible is the amount you must pay before insurance payments kick in. Preventive care (such as annual visits and recommended screenings) is typically covered free of charge, regardless of whether the deductible has been met.

High-deductible health plan (HDHP). In return for significantly lower premiums, you'll pay more out-of-pocket for medical services until you reach the annual deductible. HDHP deductibles start at $1,400 for an individual and $2,800 for family coverage in 2022, and can be much higher. Care will be less expensive if you use providers in the plan's network, and your upfront cost could be reduced through the insurer's negotiated rate.

An HDHP is designed to be paired with a health savings account (HSA), to which your employer may

contribute funds toward the deductible. You can also elect to contribute to your HSA through pre-tax payroll deductions or make tax-deductible contributions directly to the HSA provider, up to the annual limit ($3,650 for an individual or $7,300 for family coverage in 2022, plus $1,000 for those 55+).

HSA funds, including any earnings if the account has an investment option, can be withdrawn free of federal income tax and penalties if the money is spent on qualified health-care expenses. (Some states do not follow federal tax rules on HSAs.) Unspent balances can be retained in the account indefinitely and used to pay future medical expenses, whether you are enrolled in an HDHP or not. If you change employers or retire, the funds can be rolled over to a new HSA.

Three Steps to a Sound Decision

Start by adding up your total expenses (premiums, copays, coinsurance, deductibles) under each plan offered by your employer, based on last year's usage. Your employer's benefit materials may include an online calculator to help you compare plans by taking factors such as your chronic health conditions and regular medications into account.

If you are married, you may need to coordinate two sets of workplace benefits. Many companies apply a surcharge to encourage a worker's spouse to use other available coverage, so look at the costs and benefits of having both of you on the same plan versus individual coverage from each employer. If you have children, compare what it would cost to cover them under each spouse's plan.

Before enrolling in a plan, check to see if your preferred health-care providers are included in the network.

Tame Taxes with a Flexible Spending Account

If you elect to open an employer-provided health and/or dependent-care flexible spending account (FSA), the money you contribute via payroll deduction is not subject to federal income and Social Security taxes (nor generally to state and local income taxes). Using these tax-free dollars to pay for health-care costs not covered by insurance or for dependent-care expenses could save you about 30% or more, depending on your tax bracket.

The federal limit for contributions to a health FSA was $2,750 in 2021 and should be similar for 2022. Some employers set lower limits. (The official limit has not been announced by the IRS). You can use the funds for a broad range of qualified medical, dental, and vision expenses.

With a dependent-care FSA, you can set aside up to $5,000 a year (per household) to cover eligible child-care costs for qualifying children age 12 or younger. The tax savings could help offset some of the costs paid for a nanny, babysitter, day care, preschool, or day camp, but only if the services are used so you (or a spouse) can work.

One drawback of health and dependent-care FSAs is that they are typically subject to the use-it-or-lose-it rule, which requires you to spend everything in your account by the end of the calendar year or risk losing the money. Some employers allow certain amounts (up to $550) to be carried over to the following plan year or offer a grace period up to 2½ months. Still, you must estimate your expenses in advance, and your predictions could turn out to be way off base.

Legislation passed during the pandemic allows workers to carry over any unused FSA funds from 2021 into 2022, as long as the employer opts in to this temporary change. If you have leftover money in an FSA, you should consider your account balance and your employer's carryover policies when deciding on your contribution election for 2022.

Take Advantage of Valuable Perks

A change in the tax code enacted at the end of 2020 made it possible for employers to offer student debt assistance as a tax-free employee benefit through 2025, spurring more companies to add it to their menu of benefit options. A 2021 survey found that 17% of employers now offer student debt assistance, and 31% are planning to do so in the future. Many employers target a student debt assistance benefit of $100 per month, which doesn't sound like much, but it adds up.[1] For example, an employee with $31,000 in student loans who is paying them off over 10 years at a 6% interest rate would save about $3,000 in interest and get out of debt 2½ years faster.

Many employers provide access to voluntary benefits such as dental coverage, vision coverage, disability insurance, life insurance, and long-term care insurance. Even if your employer doesn't contribute toward the premium cost, you may be able to pay premiums conveniently through payroll deduction. Your employer may also offer discounts on health-related products and services, such as fitness equipment or gym memberships, and other wellness incentives, like a monetary reward for completing a health assessment.

1) CNBC, September 28, 2021

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