

October 2021

Open Enrollment

October begins the open enrollment period for many employers and allows employees to review current benefits and consider possible changes to their elected benefits. I have highlighted below the key factors to consider.

Health Insurance:

Choosing the right health insurance plan is essential but can be more complex today with Health Savings Accounts (HSA), HMOs, and PPOs to consider. You can compare the policy choices by reviewing these key amounts: Deductible, Premium (usually per pay), Maximum out-of-pocket (which includes all costs except for the premium).

You can calculate the maximum cost by adding the Premium plus the Maximum out-of-pocket less any employer contribution to the HSA. HMOs are typically less expensive if you receive in-network care. PPO plans are more costly, but allow you more flexibility in providers. When making this decision, you will want to consider known future events such as surgery or birth of a child.

The following are examples of accounts that can be funded pre-tax and provide substantial tax savings if used for qualified expenses.

Health Spending Accounts:

The Health Spending Account (HSA) allows both the employee and the employer to contribute pre-tax to the account. The HSA must be used for qualified expenses to avoid taxes and penalty. The IRS Contribution limits for 2022 for age 54 and under are Individual/Family \$3,650/\$7,300, and age 55 and over an additional \$1,000 catch-up contribution is allowed. If you are in the 22% federal tax bracket and subject to Michigan Income tax of 4.25%, you could save 26.25% on medical expenses paid through Health Savings Accounts.

Flex Spending Accounts:

The Flex Spending Accounts (FSA) differ from HSAs in that you must spend the money in the calendar year or lose it, with some exceptions granted in the Covid Relief Bill. This type of account makes sense in years you know you will have large health costs, such as orthodontics, since dental insurance usually does not cover this expense. You can have both an HSA and an FSA in the same year. The IRS Contribution limits for 2022 for age 54 and under are Individual/Family \$2,750/\$5,000, and age 55 and over an additional \$1,000 catch-up contribution is allowed. Contributions to FSA accounts provide an additional 7.65% tax savings because they are not subject to payroll tax.

Dependent Care FSA:

Dependent care expenses are costly, so offsetting this cost with pre-tax money and tax-free distributions makes sense. Typically, licensed care facilities, daycares, and preschools are eligible for reimbursement. The IRS Contribution limit for 2022 is \$5,000. In this scenario, and being in the 22% federal tax bracket, your tax savings would be \$1,695. ($\$5,000 * 33.9\%$ (22% fed + 4.25% state + 7.65% FICA)).

Life Insurance:

Life insurance is essential to protect your family against income loss. Since group life insurance is not portable, it is typically better to purchase a stand-alone life insurance policy that is not connected to your employer. Some employers provide a base amount of life insurance, typically one year's salary or a portion of it. As part of the service I provide to you, I work with several life insurance agencies to provide you with the best coverage for your circumstances regardless of where you work.

Disability:

Unlike life insurance, long-term disability is less expensive through an employer than buying a stand-alone policy. I highly encourage you to elect Long-term Disability coverage. Some employers offer Long-term disability without a premium as an added benefit. It is crucial to verify if you have a policy and, if not, choose one during open enrollment.

Please take the time to review the benefits available to you and your family to ensure that you take full advantage of medical cost and tax savings while making sure your family is protected.

Kind regards,
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