# COMPLIANCE OVERVIEW

## Health Plan Deductibles and OOPMs – Key Concepts for Employers

Deductibles and out-of-pocket maximums (OOPMs) are important cost-sharing parameters for health plans. A deductible is the amount an individual must pay in covered health care expenses each year before the health plan starts paying. An OOPM is the overall limit on an individual's annual out-of-pocket spending on covered health care expenses. Once an individual reaches their OOPM, their health plan pays 100% of covered expenses for the rest of the year. Generally, health plans with higher cost-sharing limits have lower monthly premiums than health plans with lower deductibles and OOPMs.

While employers have a considerable amount of flexibility when it comes to setting deductibles and OOPMs each year, there are some important restrictions. For example, high deductible health plans (HDHPs) that are compatible with health savings account (HSA) contributions must comply with IRS limits for minimum deductibles and OOPMs. Also, all health plans must comply with the Affordable Care Act's (ACA) OOPM on essential health benefits (EHBs). Because these limits are adjusted for inflation each year, employers should carefully review their plan design before the start of each plan year for compliance.

### LINKS AND RESOURCES

- IRS Revenue Procedures 2024-25 and 2025-19, providing the inflation-adjusted HSA/HDHP limits for 2025 and 2026, respectively
- Final rule requiring health plans to apply the ACA's OOPM for self-only coverage to every covered individual
- U.S. Department of Health and Human Services' (HHS) guidance on the ACA's OOPM for 2026 plan years

### Embedded Limits

- Health plans often embed (or include) an individual deductible and individual OOPM in family coverage.
- HDHPs cannot embed an individual deductible in family coverage that is lower than the minimum HDHP family deductible.
- Health plans must embed an individual OOPM in family coverage if the family OOPM is greater than the ACA's OOPM for self-only coverage.

### Dollar Limits for 2025

The following limits apply to plan years beginning in 2025:

- HDHP minimum deductibles: $1,650 for self-only coverage and $3,300 for family coverage;
- HDHP OOPM: $8,300 for self-only coverage and $16,600 for family coverage; and
- ACA OOPM on EHB: $9,200 for self-only coverage and $18,400 for family coverage.

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## Deductibles

### General Rules

A deductible is the **fixed amount an individual must pay for covered health care expenses each year before their health plan begins to pay benefits**. Deductibles can range from hundreds to thousands of dollars each year, depending on the health plan's design. When an individual reaches the deductible amount, their health plan will start paying a portion of their covered health care expenses for the rest of the year. For example, if an individual is subject to a $1,000 deductible, they would be responsible for paying for their covered health care expenses until their out-of-pocket costs reach $1,000. After that, the health plan would begin paying covered health care costs, although individuals may still be responsible for copays, coinsurance and balance billing charges from out-of-network providers.

A health plan's deductible resets at the beginning of each plan year and may change from year to year. An individual's out-of-pocket costs for noncovered expenses do not count toward the deductible.

Many health plans have a deductible for in-network benefits and a separate, higher deductible for out-of-network benefits. Typically, out-of-pocket costs for covered health care provided by in-network providers count toward the network deductible, while out-of-pocket costs for covered health care provided by out-of-network providers count toward the out-of-network deductible. However, three categories of out-of-network medical services—emergency services, nonemergency services provided by an out-of-network provider during a visit at an in-network health care facility, and air ambulance services—are subject to special restrictions on surprise medical billing and must be counted toward in-network cost-sharing limits.

A health plan's deductible may not apply to all covered health care expenses. For example, the ACA requires non-grandfathered health plans and health insurance issuers to **cover certain preventive care services without imposing any cost sharing (i.e., deductibles, copays and coinsurance) when the services are provided by in-network providers.** These preventive health services include, for example, many cancer screenings, blood pressure, diabetes and cholesterol tests, vaccinations against diseases, contraceptives, and counseling on topics such as quitting smoking and losing weight. Other types of covered health care expenses (e.g., prescription drugs) may be subject to a separate deductible, depending on the plan's design. However, to comply with mental health parity laws, a health plan cannot have a separate deductible for mental health or substance use disorder benefits.

Federal law does not impose an overall minimum or maximum limit for health plan deductibles. However, to qualify as an HDHP that is compatible with HSA contributions, a health plan must satisfy an annual minimum deductible requirement. Also, a health plan's overall cost-sharing limit (deductibles, copays and coinsurance) must comply with an OOPM under the ACA. A lower OOPM applies to HDHPs.

### HDHPs: Minimum Deductibles

To be eligible for HSA contributions, an individual must satisfy certain requirements each month, including a requirement that they be covered by an HDHP. To qualify as an HDHP, a health plan must provide significant benefits and **satisfy requirements for minimum deductibles and OOPMs.** The cost-sharing limits for HDHP coverage are adjusted for inflation each year.

An HDHP cannot pay benefits until the required minimum deductible has been satisfied—except for preventive care benefits. Also, only medical expenses actually incurred by the covered individual can count toward the HDHP minimum deductible.

The minimum annual deductible for HDHPs for plan years beginning on or after Jan. 1, 2025, is as follows:

| Type of Coverage | Minimum Annual Deductible |
|---|---|
| **Self-only** | **$1,650**<br>($1,700 for plan years beginning in 2026) |
| **Family** | **$3,300**<br>($3,400 for plan years beginning in 2026) |

## Embedded Deductibles

Depending on their design, health plans can have either an aggregate deductible or an embedded deductible for family coverage:

- A health plan with an **aggregate deductible** has one overall deductible for an employee and their covered family members. The health plan starts paying covered benefits once the aggregate deductible has been met for the year, regardless of which family members incur out-of-pocket expenses. For example, one family member may incur all the out-of-pocket costs applied to the deductible for the year, or the costs may be shared among family members; or
- A health plan with an **embedded deductible** tracks different deductible amounts—an individual deductible that applies to each family member and a family deductible that applies to all family members. An individual's out-of-pocket costs for covered expenses apply toward both deductibles. Once a family member reaches their individual deductible, the health plan starts paying covered benefits for that person. Once the family deductible is met, the health plan starts paying covered benefits for all family members.

Embedded deductibles can ease cost burdens for employees when family deductibles are high, although they may result in greater plan costs for employers. While either type of deductible is permitted by federal law, health plans with embedded deductibles should consider the cost-sharing limits for HDHPs and the ACA's OOPM when designing their deductibles.

*HDHPs*

An HDHP may include an embedded deductible for family coverage **as long as the embedded deductible is not lower than the required minimum annual deductible for family coverage** ($3,300 for plan years beginning in 2025). Consider the following examples:

- **Example:** Matt elects family coverage under a health plan for 2025. The plan year begins on Jan. 1 and includes a $1,650 individual deductible and a $3,300 family deductible. Matt incurs $2,000 in medical expenses on Jan. 15. Since the plan has an embedded deductible, Matt is required to pay $1,650, and the plan pays the remaining $350. Although the family deductible was not met, the plan will pay claims for Matt after he has met the individual deductible. Under the IRS rules, this plan does NOT qualify as an HDHP since claims were paid before the $3,300 HSA-required family deductible was met; and
- **Example:** Gwen elects family coverage under a health plan for 2025. The plan year begins on Jan. 1 and includes a $3,300 individual deductible and a $6,600 family deductible. Gwen incurs $3,500 in medical expenses on Jan. 15. Since the plan has an embedded deductible, Gwen is required to pay $3,300, and the plan pays the remaining

$200. Although the plan's family deductible was not met, the plan will pay claims for Gwen after she has met the individual deductible. In this example, the plan complies with the IRS rules and qualifies as an HDHP. The plan includes an embedded deductible, but it is equal to the minimum HSA-required family deductible.

*OOPM*

Health plans must be designed to ensure that the embedded individual deductibles do not cause the plan to exceed the applicable OOPM for family coverage. The ACA imposes an OOPM for a health plan's coverage of EHBs ($18,400 for 2025), while HDHPs are subject to a lower OOPM ($16,600 for 2025). A problem can occur when a health plan has embedded deductibles for each family member but not an overall family deductible, depending on the individual deductible amount and how many family members are covered under the plan. For example, a health plan could potentially violate the ACA's OOPM ($18,400 for 2025 plan years) if its family coverage includes a $3,500 individual deductible but no overall family deductible and more than five family members are covered by the plan. In this case, the health plan would need to apply an OOPM not greater than the ACA's OOPM (or the lower HDHP limit, if applicable), even if the deductible had not yet been satisfied for the year.

## OOPM

### General Rules

An OOPM is the **fixed cap or limit on the amount an individual is responsible to pay for covered health care expenses each year.** Once an individual reaches their OOPM, the health plan will typically pay 100% of covered health care expenses for the rest of the year. For example, if a health plan's self-only coverage has a $3,000 deductible and a $5,000 OOPM, an employee would be responsible for paying their covered health care expenses until their out-of-pocket costs reach $3,000. After that, the health plan would begin paying a portion of covered health care costs. Once the employee's out-of-pocket spending for covered expenses reaches $5,000, the plan would start paying 100% of covered health care costs.

A health plan's OOPM resets at the beginning of each plan year and may change from year to year. Typically, deductibles, copays and coinsurance count toward the individual's OOPM, but monthly premiums, balance billing charges from out-of-network providers and charges for other noncovered expenses do not.

Many health plans have an OOPM for in-network benefits and a separate, higher OOPM for out-of-network benefits. Typically, out-of-pocket costs for covered health care provided by in-network providers count toward the in-network limit, while out-of-pocket costs for covered health care provided by out-of-network providers count toward the out-of-network limit. However, three categories of out-of-network medical services—emergency services, nonemergency services provided by an out-of-network provider during a visit at an in-network health care facility, and air ambulance services—are subject to special restrictions on surprise medical billing and must be counted toward in-network cost-sharing limits.

### Dollar Limits

**The ACA requires all non-grandfathered health plans to include an OOPM on EHBs.** EHBs reflect the scope of benefits covered by a typical employer plan and must include items and services in 10 general categories, including emergency services, hospitalization, prescription drugs and maternity and newborn care. Once an individual reaches the ACA's OOPM, they cannot be responsible for additional cost sharing for EHBs for the remainder of the year. Because the ACA's cost-sharing limit applies only to EHBs, plans are not required to apply the annual OOPM to benefits that are not EHBs.

The **ACA's dollar cap** is adjusted for inflation each plan year, as follows:

| Plan Years Beginning In: | Self-only Coverage | Family Coverage |
|---|---|---|
| **2025** | $9,200 | $18,400 |
| **2026** | $10,150 | $20,300 |

Many health plans are designed with an OOPM that is much lower than the ACA's dollar cap for out-of-pocket spending on EHBs. Also, **HDHPs must comply with lower limits on OOPMs**. To qualify as an HDHP, a health plan's OOPM cannot exceed the following limits for plan years beginning in 2025:

| Type of Coverage | HDHP OOPM |
|---|---|
| **Self-only** | **$8,300** ($8,500 for plan years beginning in 2026) |
| **Family** | **$16,600** ($17,000 for plan years beginning in 2026) |

## Embedded OOPMs

Depending on their design, health plans can have either an aggregate OOPM or an embedded OOPM for family coverage. In general, aggregate and embedded OOPMs work the same as aggregate and embedded deductibles. However, the **ACA requires some health plans to embed an individual OOPM in family coverage**.

A final rule provides that the ACA's cost-sharing limit for self-only coverage applies to each individual, regardless of whether the individual is enrolled in self-only coverage or family coverage. This means that health plans are required to embed an individual OOPM in family coverage if the family OOPM is greater than the ACA's OOPM for self-only coverage ($9,200 for 2025 plan years). In other words, to comply with the ACA, health plans must:

- Have an aggregate OOPM for family coverage that is not greater than the ACA's OOPM for self-only coverage; or
- Incorporate an embedded individual OOPM for family coverage that is not greater than the self-only coverage limit.

This ACA requirement applies to all non-grandfathered group health plans, including self-funded plans, level funded plans and insured plans of all sizes.

Like other health plans, HDHPs must have an OOPM for individuals that is not higher than the ACA maximum ($9,200 for 2025). An HDHP's family coverage can satisfy this requirement by having an aggregate OOPM that is not greater than that amount or incorporating an embedded OOPM that complies with that limit. HHS issued an FAQ explaining how this rule affects HDHPs with family deductibles that are higher than the ACA's cost-sharing limit for self-only coverage. According to this guidance:

- An issuer can offer a family HDHP with a $10,000 family deductible, as long as it applies the ACA's OOPM for self-only coverage ($9,200 for 2025) to each individual in the plan, even if the family $10,000 deductible has not yet been satisfied; and
- An HDHP cannot provide benefits, except for preventive care, for any year until the minimum annual deductible for that year has been met. Because the ACA's self-only OOPM ($9,200 for 2025) exceeds the minimum annual deductible amount for family HDHP coverage ($3,300 for 2025), it will not cause the plan to fail to satisfy the requirements for an HDHP.