

Health Savings Accounts

These new vehicles can lower the cost of healthcare.

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If you're like most practitioners, you're fighting what sometimes looks like a losing battle against the paperwork and onrushing tide of rising healthcare costs.

While this problem isn't likely to disappear entirely, the Health Savings Account (HSA) legislation signed into law by President Bush a little over a year ago offers you and your patients the possibility of making a dramatic reduction in your costs for staying healthy.

In their first year on the market, HSA's attracted thousands of individuals and business owners eager to escape the runaway costs of health insurance. Now, about 1.5 million people are enrolled in HSA's. William Boyles, publisher of an industry newsletter, predicts that 20 million people will be enrolled within five years.

The new law makes Health Savings Accounts (HSA's) permanent and available to everyone. Here's how they work:

HSA's come in two parts. First you purchase a low-cost, high-deductible health insurance policy available through a growing number of providers, including such giants as Aetna, UnitedHealth Group, Blue Cross, and Golden Rule Insurance.

In conjunction with the insurance policy, you open a dedicated savings account in which you make tax-deductible deposits to pay for your medical care. Each year, you may deposit up to the amount of the deductible on your insurance policy. You then use the money in the account to pay for your medical care. Once your expense reaches the amount of your deductible - if it does - the insurance policy kicks in.

Illustrative Example

Consider this example: Mark enrolls himself and his family in a plan with a \$5,250 deductible policy. He then deposits 400 tax-deductible dollars per month in his HSA savings account. That year, his family's out-of-pocket medical expense, paid from funds in his HSA account, comes to \$3,200. Since his total deposits for

the year were \$4,800, the balance of \$1,600 rolls over in the account. It compounds tax-free (as long as it is used to pay for qualified medical expenses).

As the money in the account grows, it becomes a resource available to cover the cost of routine or future medical care. This is an important feature that makes HSA's far more attractive than their predecessors.

In another example, Tom enrolls in a similar plan with the same deductible. He also deposits \$400 per month in his tax-favored HSA account. However, one of Tom's children had expensive surgery raising the family's total medical expense for the year to \$15,500. Once Tom's out-of-pocket reached the family deductible of \$5,250, the insurance paid the balance of \$10,250. In this case, the HSA protected the family against a catastrophic medical expense.

In addition to their tax incentives, HSAs offer control over choice of doctors and eliminate the often annoying referral requirements of some health plans.

Current law requires a health insurance policy with a deductible of at least \$1000 for individuals and \$2000 for families to open a HSA. The law also limits the maximum out-of-pocket expenses to \$5,100 for an individual and \$10,200 for a family. Therefore, if there is a health insurance plan with no co-insurance, the deductible can be as much as \$5,100 or \$10,200 for individuals and families respectively. Of course, the higher the deductible, the lower the premium.

Golden Rule Insurance Co. was one of the first providers of HSA's. Today, one out of every three plans purchased from them is a Health Savings Account. "Our customers have accumulated more than \$116 million in their tax-advantaged savings accounts," says Golden Rule spokesperson Ellen Laden. "As to who's buying, professionals, self-employed men and women and families with children are leading the way," says Laden. "We feel the reasons are clear: premiums typically 45% to 55% lower than traditional plans, discounted healthcare costs through preferred networks, one annual deductible per family and the four percent annual interest that Golden Rule pays on health savings."

Golden Rule's current deductibles for HSA policies are \$1000, \$1750, and \$2650 for singles and \$2000, \$3550, and \$5250 for families. "Our Golden Rule HSA 100 pays 100% of covered medical expenses once the deductible is met and there is no co-insurance," says Laden. The policies of other providers offer similar, but not necessarily the same, provisions.

Tax Advantages

The tax advantages of Health Savings Accounts, along with control over choice of doctors, makes them appealing to employees

and the self-employed as well as the currently uninsured. "Nearly all of the policies I sell now are HSA's," says Tom Rogala, Custom Benefit Solutions, Northville, MI. "All of my plans provide 100% coverage after the deductible. I can't imagine why anyone would want to go any other route."

Rogala, an independent health insurance broker, says that many of his clients are previously uninsured individuals who need coverage for themselves and their families.

As the benefits of HSA's become more widely known, many employers are signing up for a group plan in which the company pays a portion of the cost for each covered employee." The required employer contribution for group plans varies by state. In Michigan, employers are required to contribute a minimum of 25% of the cost of the high deductible insurance policy. "That's still a lot less than it would cost the employer for any other type of plan," says Rogala.

As might be expected, not everyone is enthusiastic about Health Savings Accounts. Skeptics argue that the high deductible policies will confuse some people and deter them from buying an HSA plan. Others, they say, will be reluctant to dip into their HSA savings to pay for medical care with what amounts to their own money. At a congressional hearing in the spring of 2004, Rep. Pete Stark (D., CA) said that he believed that high-deductible plans are not consumer-driven. "They simply shift costs to so-called consumers who pay more out of pocket."

"That's ludicrous," says Tom Rogala. "My files are full of examples of individuals who are thrilled with the savings and the service they're getting through their HSA's. Knowing what I know after 15 years in this business, I just can't imagine that there is a better deal available to consumers today."

One disadvantage for some prospective enrollees is the reluctance or refusal of some insurance providers to issue policies to people with serious pre-existing medical conditions.

Still, despite the reluctance of some to jump on the HSA bandwagon, there is no denying the rapidly growing popularity of this new approach to healthcare insurance. Employees like the way HSA's give them more choices and more control over their healthcare. Self-employed individuals say they like HSA's because they help to control spiraling healthcare costs, putting more money on their bottom lines.

As a medical practitioner, you may be asked about Health Savings Accounts by some of your patients. The chart on page xx answers some of the most frequently-asked questions.

Frequently Asked Questions About Health Savings Accounts

Who is eligible to open an HSA?

Anyone may apply for an HSA and its companion high-deductible health insurance policy, though individuals with serious pre-existing medical conditions may find it difficult to find a provider willing to accept them.

Where can I open an account?

There are now scores of insurance companies and brokerage firms offering HSA coverage, including such major providers as Aetna, UnitedHealth Group, Blue Cross, and Golden Rule Insurance Co. In addition, HSA's can be obtained through thousands of independent health insurance brokers

Does an HSA pay for the same things that regular insurance pays for?

HSA funds can be used to pay for any qualified medical expense, even if they are not covered by your health insurance. For example, most health insurance does not cover the cost of over-the-counter medicines, but HSA's can. If the money from the HSA is used for qualified medical expenses, the money spent is tax-free.

Do unused funds in a Health Savings Account roll over year after year?

Yes, the unused balance in a Health Savings Account automatically rolls over year after year. You won't lose your money if you don't spend it within the year.

Where can I get more detailed information about HSA's?

Websites:

www.hsainsider.com

www.ustreas.gov/offices/public-affairs/hsa/

www.ehealthlink.com/HSA.asp

<http://sbinformation.about.com/od/insurance/a/ucHSA.htm>

www.goldenrule.com or 1-800-974-4472