Health Savings Accounts Put More Power in Customers' Hands*

By James Crosset, CLM

A Health Savings Accounts (HSA) provides advantages compared to traditional medical insurance. These advantages are lower costs, more flexibility and control, potential savings for the future, portability, and income tax savings. However, with an HSA, it can only be used with coverage through a "high-deductible" medical insurance plan. HSAs have been around since December 2003, and are the fastest growing new form of medical insurance. It is projected that in 2009, the number of HSA accounts in the US will grow by as much as 80 percent.

Shopping for Health Care

The employee, the benefit recipient, under the HSA/high deductible plan, has control over what the money in the account is to be used for. It is important to allow the insurance carriers to provide employees with education about an HSA/high deductible plan, so employees can truly "shop" for health care. There are no co-pays or drug cards. The employee pays for all medical costs until the deductible is met, and then the insurance carrier pays 100 percent of everything after that. All the money contributed by the employer to the HSA becomes the asset of the employee – as well as the employee's contributions. Thus, for example, until the deductible limit is exceeded, if the employee chooses to buy a generic drug, these costs savings belong to the employee. Also, if the employee chooses to wait for a doctor visit for the common cold, rather than going to the emergency room, these savings belong to the employee.

Under a traditional plan, the employee has much less incentive to buy a generic or not to go to the emergency room for something that is not a real emergency. It is a "save it and keep it" benefit compared to the traditional "use it or lose it" benefit.

Education Important

At first, the HSA/high deductible plan can be confusing for employees, but it usually does not take long, especially with education, before participants like this plan better. It may only take the typical employee a couple of years to have savings well above the annual high deductible. All savings in an HSA account roll over every year. Excess HSA savings can be spent, at the employee's discretion, for health care expenses that are not covered by the medical insurance plan. For example, HSA dollars can be used for dental visits, eyeglasses, over-the-counter drugs, and any of the expenses allowable under the IRS guidelines.

The HSA follows the employee when they change jobs, change marital status, become unemployed, etc. HSA money can be used to pay for medical insurance, if you are unemployed. Also, the HSA follows the employee into retirement. Money in health savings accounts can be used to pay for long-term care and medical expenses not covered by Medicare.

Tax Incentives

Tax-wise, the HSA provides several advantages. Employer contributions are deductible business expenses. Employee contributions are made with pre-tax dollars via payroll deduction. The assets can generate interest and dividend income which is tax-free. The earnings on these savings in the HSA grow tax-free, and if the assets are large enough, they can be invested in mutual funds and money markets. And all the withdrawals from an HSA, paying for qualified medical expenses, are tax-free. One downside to the HSA is that every participant must keep good records of what the money was spent on. Good documentation is important in case of an IRS audit. This is documentation the employees must do for themselves. This will keep all the withdrawals with the tax-free status.

The HSA/high deductible plan gives the employer options, in subsequent years, to deal with future premium increases. For example, increasing the deductible from $2,500 to $3,000 can offset a high annual premium increase. While it puts a greater burden on the employee's HSA account balance, the accumulation of dollars – after several years for the average employee – can handle this extra cost. Another option is to consider using an embedded vs. a non-embedded deductible. The embedded deductible caps each family member at $2,500, while the non-embedded deductible caps all family members at $5,000. The non-embedded deductible also puts more of the burden on the employee's HSA account balance, but it is an option that keeps premiums lower.

Be sure to work with a reputable company as your HSA administrator and be sure this company has a good working relationship with several banks. Keep in mind there is a fee paid to the HSA administrator to create HSAs for your employees. It will be a great convenience for employees to have On-line access to their HSA accounts. Visit websites like **www.Flexbank.net** to get all the details about eligibility, contribution levels, reimbursable expenses etc. For example, individuals over 55 can make "catch-up" contributions of $1,000 a year.

Overall, the HSA/high deductible plan participants usually use wellness programs and hotlines more often and also look at cost information before they call the doctor for an appointment. This keeps health care costs down and also has a downward impact on the annual increase in premiums.

Crosset is the director of administration at Wood, Herron & Evans, LLP. The opinions he expresses in this article are his own, and not that of any related person or employer.

**Reprinted with permission from Cincinnati Bar Association. Originally published in the Cincinnati Bar Association Report, December 2009.*

<CALLOUT>

Health Savings Account Comparison

Assumed: Employer pays 100% of single employee's insurance premium

Traditional Insurance

Employer: $4,800 in premiums

Employee: $500 plus co-pays

High-deductible/HSA

Employer: $3,000 in premiums PLUS $1,300 to employee's HSA
(savings of $500)

Employee: $500 toward deductible (would max at $1,200)

The average American uses $800 a year medical care benefits, so on average, the typical employee could have as much as $1,000 in the HSA at the end of the year – which is carried over into the new year.