



health plans

Health Savings Accounts: Employers Seek Cure for Rising Costs

By Michelle Porter

Year after year, skyrocketing health care costs have become bitter medicine for employers. Marking the fifth year in a row, U.S. companies are facing double-digit health care expenses for 2005. According to preliminary results of an annual Mercer Human Resource Consulting survey, more than 900 employers hope to slow rising costs to an average increase of only 9.6 percent next year—by shifting the burden to employees.

But convincing workers to shoulder health care expenses can be a daunting task. Health savings accounts (HSAs) may offer a solution.

“We have seen substantial and very enthusiastic interest in HSAs,” says Ryan Levin, chief actuarial officer with Destiny Health, one of the insurers currently providing consumer-driven health care plans. “In a survey we performed shortly after HSAs were announced, more than a third of Americans responded that they knew of HSAs and double that number expressed interest.”

HSAs give employers financial breathing room while employees gain more control of their health care dollars. HSAs can be the right answer for employers seeking to reduce high medical expenses, but “the devil’s in the details,” says Bill Sharon, senior vice president with Aon Consulting. “They can be a smart option if done right.”

The Nuts and Bolts of HSAs

On Jan. 1, 2004, HSAs became available under the Medicare Prescription Drug, Improvement and Modernization Act, which was signed into law in late 2003. HSAs help individuals and employees save tax-free money for qualified medical expenses.

Since the individual is in control of the HSA account, it can be established with or without the involvement of an employer. One is eligible for an HSA if he or she has a qualified, high-deductible health plan, is not covered by other health insurance, is not permitted Medicare benefits and cannot be claimed as a dependent on another person’s tax return.

Some HSA accounts are individual plans, while others are offered through a managed care plan. Insurers, banks and other financial institutions can offer HSAs, but the account must be linked to a high-deductible health plan.

“Managed care plans, such as Aetna or Cigna, offer HSAs,” says Sharon. “They have the advantage of being able to offer both the tax-free account and the high-deductible plan.” A large number of managed care organizations across the country are now offering HSA plans.

Employees under age 65 are eligible for an HSA if they have a qualified, high-deductible health plan. Individual employee coverage requires a minimum deductible of \$1,000; for fami-

lies, the minimum deductible is \$2,000. Contributions to the plan can be made by employees, employers or both. The maximum yearly contribution to an HSA plan is \$2,600 for a single person and \$5,150 for a family.

Any money in the plan members don't use, they keep—a fundamental difference from all other plans, Levin points out. At the end of the year, money left in the account rolls over automatically and is available to employees even if they decide to leave their employer or retire. The account is taxable only if the money is spent on purchases other than approved health care expenses.

Advantages for Business Owners, Workers

In an April 2004 survey of 991 employers conducted by Mercer Human Resource Consulting, 19 percent of respondents said it was very likely they would offer a high-deductible health plan with an HSA by 2006.

"We're looking at a major market change unlike anything we've seen before," says Linda Havlin, head of Mercer's health care and group benefits consulting for the Midwest.

What is the attraction for employers? Levin says HSAs "are designed to change consumer behavior in a direction that reduces health care costs by encouraging appropriate, rather than over-utilization, of health care."

Employees become more involved when they are given a financial incentive to care, says Sharon. "The consumer will be more thoughtful on how to spend that \$1,000."

Now that health benefits are just as important as salary to employees, HSAs can also make a difference in attracting and retaining workers, especially for larger employers. Potential employees may be impressed with a health plan that gives more choice and control in paying for their health care needs.

"In addition, some consumer-driven or HSA plans incorporate further incentives for wellness, offering employees the opportunity to benefit from exciting rewards simply by living healthy lifestyles," says Levin.

Employers may embrace HSAs, but what about the managed health care industry? "HSAs are being perceived as a boon by the managed care industry," Sharon says. "The managed care industry views HSAs as another type of plan—another flavor. It fits nicely in the consumer-driven focus."

Consumer-Driven Health Care Options

Health Savings Accounts:

- Can be funded by employers and/or employees
- Unused balances carry forward from one year to the next and always belong to the employee
- Can allow for cash withdrawals (subject to tax and sometimes a penalty)
- Include several plan-design restrictions relative to the high-deductible plan with which they MUST be coupled
- No ability for up-front access to the full year's contribution

Health Reimbursement Arrangements:

- Can only be funded by employers
- Unused balances can (but need not) carry forward from one year to the next and can remain available to employees after leaving employment
- Never allow for cash withdrawals
- Have no plan-design restrictions; can even be used without a health plan
- Can allow up-front access to the full year's contribution

Medical Savings Accounts:

- Very similar (the precursor) to HSAs, but a little more restrictive in terms of plan design and contributions
- No longer in existence (replaced with HSAs)

Flexible Spending Accounts:

- Use-it-or-lose-it—influences negative, rather than positive, behavioral change
- No plan-design restrictions; need not be coupled with a health plan
- Must allow up-front access to the full year's contribution

Source: Ryan Levin, chief actuarial officer with Destiny Health

Caveats to Consider

Although HSAs offer advantages for business owners and workers alike, employers should be aware of some serious questions before offering HSAs.

First, employers must decide whether to make a contribution to the HSA and consider the ramifications, says Sharon. The other option is for the employee only to contribute his or her own money in the plan.

"For example, if the employer decides to put in \$500 for every employee each year, that's 50 percent of the deductible covered as a cushion to the employee," says Sharon. "But the pitfall is once \$500 is in, it's the employee's money, so if the employee resigns, she takes the money with her."

Another problem is that once the money goes into the account, it can come out for non-health expenses. Although non-health expenses are taxable, they are allowed and at the discretion of the employee. "So an employee could take money out and spend it on a big-screen TV," says Sharon.

Legislation and the Future of HSAs

Although only a handful of insurers initially offered HSAs, the accounts have quickly become a well-recognized option. Presidential and Congressional support, *continued on page 16*

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especially from Republicans, has been staunchly behind HSAs. Despite the nation's future political leadership, consumer-driven health care will remain popular, Sharon predicts.

"The broader consumer-driven trend is a strong one," he says. "I do not see that materially changing, regardless of Republican or Democratic leadership."

As far as HSAs, however, Sharon says Democratic leadership could mean some changes. "Some Democrats would view HSAs as benefiting only the wealthy who can afford the \$1,000 deductible," he says.

States have been mostly supportive of the federal trend toward consumerism. Louisiana became one of the first states to endorse HSAs when the state's lawmakers voted in early April 2004 to allow state and local government entities to offer the individual plans. In June 2004, Gov. Jeb Bush of Florida signed legislation requiring a dozen insurers serving small businesses to offer HSAs as a choice.

There have been some stumbling blocks, however. Wisconsin state legislators passed a measure in May 2004 giving a state tax deduction for contributions to HSAs, but Gov. Jim Doyle vetoed the bill, saying the link between HSAs and high-deductible medical insurance could decrease employer-sponsored medical coverage.

In May 2004, Gov. Kathleen Sebelius signed legislation making HSAs available in Kansas. But the passage occurred only after Kansas repealed part of a law that set coverage requirements for the treatment of mental disorders and alcohol and drug abuse.

State-mandated benefit laws such as the one in Kansas prevented insurers from providing the high-deductible plans that go hand-in-hand with HSAs. For 2004 and 2005, the U.S. Treasury Department waived the high-deductible requirements for plans linked to HSAs where state benefit mandates are in conflict with the requirements. If HSAs continue to grow in popularity, more states may be pushed to make legislative changes.

A Better Model?

Only time will tell if HSAs become the dominant model of consumer-driven health care plans. It may come down to a choice between two models: HSAs and health reimbursement arrangements (HRAs), says Sharon.



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The key is giving consumers information and tools to figure out HSAs, he says. That includes a "robust website" with information on price and strong education programs, such as how to manage disease.

"With HSAs being so new, we're not sure if individuals will buy HSAs because of their consumer-driven features or their tax-saving features," Sharon says. "HSAs will only be successful controlling health care costs if they are promoted as a consumer-driven vehicle."

Whether funded through HSAs, HRAs or another vehicle, health plans that incorporate savings components can take a step back from intrusive managed care, Levin says. "This improves member-provider relationships and allows members, in consultation with their providers, to make more of their own decisions regarding their health care treatment." ■