

## The 'Big Picture' About Healthcare Spending Accounts or HSAs

### What You Really Ought To Know

HSAs have unarguably been the most talked about healthcare related topic since the implementation of the Medicare Modernization Act and their subsequent and frequent mentions in speeches by President Bush with regard to health care benefits.

With the spiraling cost of health care, many employers are looking for alternatives for financing health care. For some, Health Savings Accounts (HSAs) are a way to control costs, manage care, and save for future expenses.

Using an HSA combined with a low cost high-deductible health insurance plan may allow for some employers to save on premiums due to the lower cost of high-deductible health insurance plans, as well as allow individuals to pay for qualified health expenses and save for future qualified medical and retiree health care expenses on a tax-free basis.

While HSAs introduce some potentially great, new opportunities, like tax-free savings and opportunities for rollover, the concept itself is not new at all. An HSA is simply another form of a Consumer-Driven Health Plan (CDHP). Like other CDHPs, such as Flexible Spending Accounts (FSAs), Medical Savings Accounts (MSAs) or Health Reimbursement Accounts (HRAs), the motivation and philosophy behind HSAs – what is at the heart of their popularity -- is that they put decision-making and money back in the hands of the consumer. This decision-making power may promote employee accountability by promoting cost-conscious consumer choices, while simplifying benefit administration through defined contributions.

Are there any potential downsides to HSAs? Yes! Employers should be cautioned to take a hard look at the big picture before implementing an HSA option because it may end up costing them MORE money in the ag-

### HSA Specifics

- To qualify as a high-deductible health plan the plan must have an annual deductible of at least (1) \$1,000 for individual coverage, or (2) \$2,000 for family coverage. Annual out-of-pocket expenses cannot exceed \$5,100 for individual coverage or \$10,200 for family coverage.
- Who is eligible for an HSA? Individuals that are covered by a high-deductible health plan and not covered by other health insurance. Individuals that are not enrolled in Medicare or claimed as a dependent on someone else's tax return are also eligible.
- Annual contributions to an HSA are limited to the lesser of the amount of the high-deductible health plan's annual deductible, or \$2,650 for an individual, or \$5,250 for a family. For individuals age 55-64, there is a pre-tax catch-up contributions option.

gregate. HSAs make sense for individuals and employers that can minimize the potential for anti-selection; otherwise, it may severely affect their overall risk pool and generate unnecessarily high premium and aggregate cost increases. A similar phenomenon took place back in the '80s that so many of us in the health insurance industry affectionately refer to as the "PPO Death Spiral." Remember when HMOs were the hot new thing? Many employers began offering HMOs alongside their other plans (e.g., PPOs). The healthy enrollees flocked to the HMOs while the not-so-healthy enrollees stayed with their other plan. This completely altered the risk pool upon which those other plans were built and sent them into the aforementioned spiral.

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