

Health Savings Accounts: *A Shift in Healthcare Responsibility*



by Cora M. Tellez

Those in the health-insurance business struggle with two major issues: affordability of health insurance and ways to engage consumers in becoming partners in financing their healthcare. The realities of our present-day affordability issue are reflected in the following:

Healthcare now accounts for 15% of our gross-domestic product. Despite this increasing share of our nation's spending going to healthcare, people are not any happier, healthier, or more satisfied.

Health-insurance premiums have grown faster than worker earnings and overall infla-

tion since 1996. Annual rate increases are back in the double digits, the level that prompted employers to adopt managed care in the mid-1980s.

Employer-provided health insurance is decreasing. According to the Bureau of Labor Statistics, the employer insurance base is now at 45%, down from 63% 10 years ago. Most companies that do offer insurance pay between 75% to 100% of premiums, companies with a higher share of low-wage workers pay only 62%, so the burden on low wage earners is actually much higher.

One solution to these problems is

through health-savings accounts (HSAs). The introduction of HSAs represents a fundamental shift in financing health insurance and moving the consumer into a central decision making role. Since consumers contribute to and keep the money in their HSA, they make better choices about their healthcare services. Because high deductible health insurance plans must be purchased in order to set up such an account, most people will find premiums for such plans to be less expensive than those with first-dollar coverage.

Of course there are also the savings, tax, and portability advantages, since HSAs

work like "medical" IRAs. They have similarities to 401(k)s as well, allowing account holders to grow tax-advantaged balances over time and keep the funds in their account no matter where they work. But, the biggest advantage can be summarized in the notion that HSAs afford flexibility, control, and choice to the person who best understands the value of medical care – the one seeking it.

Perhaps the reason that HSAs are expected to grow in popularity is how well the product fits into three fundamental shifts in addressing healthcare costs and delivery. The first shift is in cost. We are moving from the managed care era to the consumer era in which we are affecting the demand for healthcare services rather than the supply and we are influencing consumers rather than physicians.

The second shift is in benefit design. We are changing to a mode that is consumer directed with choices of benefit options and more cost sharing.

The third shift is in medical management. Again, consumers are at the center with changes from network contracting to tiered

networks, choices of physicians and hospitals, and a focus on consumer behavior, wants, and needs.

Except for critical medical care, in many instances, healthcare choices are similar to other goods and services that consumers choose to buy (or not buy) every day. Allowing them to spend their own money from an HSA for medical services puts them in control and frames the choice in a retail mentality of price and value.

HSAs also offer a substantial incentive to the middle-income uninsured. Nearly one in three Americans suffered periods of non-coverage between 2002 and 2003 according to Families USA. They have been forced out of the health insurance market due to rising premiums. Since premiums for HSA-qualified health insurance are less expensive and can be deducted during periods of unemployment, they are more likely to re-enter the market with qualified policies.

Much like 401(k)s changed the way consumers viewed their responsibility for managing their retirement savings; HSAs can change their view of managing their medical retirement savings. As consumers become

the center of a new era in healthcare and how to fund it, HSAs are an innovative solution for the future. In fact, more than 40 million HSAs are expected to be established over the next 10 years.

All of us in this industry will be part of major shift in healthcare financing. We can become a champion of change. The alternatives are not appealing. □

Cora M. Tellez is CEO of Sterling HSA. She is a 25-year veteran in healthcare finance and delivery. Previously, she was President of the health plans division of Health Net Inc. She has also served as President of Prudential's western healthcare operations, CEO of Blue Shield of California, Bay Region and Regional Manager for Kaiser Permanente of Hawaii. As an independent HSA administrator, Sterling HSA serves the needs of insurance carriers, employers and consumers. The company offers a comprehensive range of services, such as payment of medical bills, education, collection, customer service, and reporting to establish and manage HSAs. For more information, visit www.sterlinghsa.com or call (925) 930-3400.



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