Health Savings Accounts – A Shift in Health Care Responsibility

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I1n the course of my 25 year career in the health insurance business, I have struggled with how to deal with two issues: affordability of health insurance and engaging consumers to be proactive partners in financing their health care.

The realities of our present-day affordability issue are reflected in the following:

- Health care now accounts for 15% of our Gross Domestic Product. Despite this increasing share of our nation's spending, people are not any happier, healthier or more satisfied.
- Compared to worker earnings and overall inflation, health insurance premiums have grown faster since 1996. As you know, annual rate increases are back in the double digits, the level that prompted employers to adopt managed care in the mid-80's.
- Employer-provided health insurance is decreasing. According to the Bureau of Labor Statistics, the employer insurance base is now at 45%, down from 63% ten years ago.
- And while most companies that do offer insurance pay 75 – 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.

Today, as CEO of Sterling HSA, I believe that one solution to these problems is through a new category of tax-advantaged health care benefits called health savings accounts, or HSAs. The introduction of HSAs represents a fundamental shift in financing health insurance and in moving the consumer into a central decision making role. Because consumers contribute to and keep the money in their HSA, we expect them to make better choices about their health care services because they are paying the bills out of their own HSA account.

HSAs work much like "medical" IRAs. They are tax-free accounts that individuals with high-deductible insurance policies can fund and use to pay for medical expenses. Because they are tax-advantaged and balances can accumulate over time, HSAs can also be used to accumulate savings. In addition, HSAs are owned by the individual account holder and therefore portable when they change jobs. In this respect, HSAs also work like 401-K accounts.

HSAs were established recently as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. Eligible individuals can establish HSAs for taxable years beginning after December 31, 2003. They are growing in popularity among employers and consumers. Key facts from several recent studies indicate strong interest:

- Of employers surveyed, 73% said they were very or somewhat likely to offer HSAs by 2006. — *Mercer Human Resource Consulting*
- Among these employers, 21% said employees are inquiring about HSAs. Among larger employers, 42% of employees expressed interest. — *Mercer Human Resource Consulting*
- Among small business owners, 73% found the concept of HSAs appealing. — *National Small Business Association*
- HSAs appeal to all income groups. A study by e-Health Insurance shows nearly 50% of HSA purchasers make less than $50,000. — *e-Health Insurance*

Now let me describe some of the key features and benefits of HSAs. To be eligible for an HSA, the subscriber must be covered only by an HSA compatible, high deductible health plan, be less than 65 years of age, and must not be a dependent on another person's tax return.

In this instance, high deductible health plan is defined as a health insurance plan that has an annual deductible of at least $1,000 for individual coverage or $2,000, for family coverage. The annual out-of-pocket expenses required to be paid under the health plan cannot exceed $5,000 for individual coverage or $10,000 for family coverage.

An eligible individual can establish an HSA with a qualified HSA trustee or custodian, in much the same way that individuals establish IRAs with qualified IRA trustees or custodians.

Contributions to HSAs can be made by an eligible individual, the individual's employer, or both. And both receive significant tax savings. Contributions made by the individual are deductible from their adjusted gross income. Contributions made by the individual's employer are excluded from the individual's income and are not taxable to the individual. Employee contributions also reduce workers' compensation and social security tax based on gross payroll.

The maximum contribution to an HSA for any year is the lesser of the amount of the high-deductible health plan's annual deductible or $2,600 for an individual or $5,150 for a family. (These dollar limits will be adjusted for inflation each year.) These annual contribution limits apply regardless of whether the contributions are made by an individual, the individual's employer, or both.

Because we believe so strongly that HSAs help solve the problems of rising health care costs and offer greater access to coverage for all consumers, my partners and I founded Sterling HSA for one primary purpose – to put consumers in control of health care spending by offering a tax-advantaged alternative to better finance and plan for health care.

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. We also offer a money back guarantee if clients are unhappy with our service. Sterling HSA delivers a simple, reliable and personal approach to paying for health care while saving for the future.

If you would like more information about HSAs or Sterling HSA, please visit our website at *www.sterlinghsa.com* or call us at 925-930-3400. ◆