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Employers are looking at overhead expenses. At a number that routinely equates to 15 percent of payroll, medical and dental insurance make up a significant expense, with the cost going up dramatically and often without warning.

Now more than ever it is critical to make the effort to learn about the advantages offered by Health Savings Accounts.

For starters, an HSA plan is really a high-deductible health plan combined with a health savings account, with a deductible of \$1,500 to \$2,000 instead of the typical \$500. This deductible must be met before any expenses — with an important exception for preventive care — are covered.

Gone are office visit and prescription copays; they are both subject to the deductible. The key is the addition of the HSA — think of it like a “medical 401(k)” — and putting employer and employee dollars into an account that the employee can use to pay the bills that are subject to the deductible.

There are some advantages to an HSA plan:

Lower premiums — HSA premiums are anywhere from 25 percent to 40 percent below a typical low-deductible plan. As employee-only premiums routinely exceed \$300 per month, premiums can be reduced up to \$100 per month per employee. The employer can elect to put part or all of these savings into the employee’s HSA plan.

Flexibility — Employees have significant flexibility when it comes to choosing how to spend their HSA dollars. While one employee may choose to cover the cost of monthly medication, another may use the funds to purchase orthodontia, and a third might choose to leave the money in the account for the future.

Rollover — Any unused funds in the HSA roll over to the next year without any strings attached. This is a major difference from the “Use it or lose it” rule in a Flexible Spending Account (FSA).

Taxes — The money the employee has in an HSA is tax free to the employee over the course of a lifetime if spent on qualified medical expenses. The employee will be taxed on the money if it’s spent on nonmedical expenses.

Budgeting — The employer can truly budget health care costs into the future, with the funding of the HSA being the variable. Renewals will remain unpredictable but the employer can budget a set amount in the annual planning process. The employer can then adjust the HSA contribution as necessary to stay within the budget.

Consumerism — The final major advantage is intangible. HSAs encourage consumers to value their benefits dollars more. The simple concept of appearing to spend “your own” money makes a significant impact on behavior. HSAs encourage wellness through this simple concept as people who consume less health care can bank the money for future expenses. There is now clear evidence that HSA plans are slowing health care inflation and providing more predictable renewals.

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