A HEALTH CARE REINVENTION

Explore the basics of health savings accounts

By David Hinnenkamp

Health care costs are rising dramatically and employers can't continue to foot the bill. Passing the costs on to employees is not the solution, either. But now, employers have new options for controlling health care insurance premiums. And just in time, because according to the Kaiser Family Foundation, private health insurance premiums increased by 13.9 percent in 2003. An average family health-insurance policy now costs $9,068 per year and employers pay 73 percent of the costs while employees pick up the remaining 27 percent.

When President Bush signed into law the Medicare Prescription Drug Improvement and Modernization Act of 2003, it contained provisions not only for the reform of Medicare, but encouraged the creation of Health Savings Accounts (HSAs). The new provisions are meant not only to help workers and non-retirement age people to pay for the rising costs of health care, but also to ease the cost burdens on employers.

WHAT ARE HSAs?

Employers contribute pre-tax dollars to individual employee accounts. Money from these accounts can then be withdrawn by employees anytime—tax-free—to cover out-of-pocket health care expenses such as co-pays, prescriptions and deductibles. Unused dollars are invested and left to accumulate to cover qualified health care expenses in subsequent years, even into retirement.

In other words, HSAs are like a health insurance IRA.

COST CONTROL

Initially, employers offering HSAs save costs by paying lower health insurance premiums. Under the Act, employers who wish to offer HSAs to employees must offer it in conjunction with a high-deductible health care insurance plan. To participate, employees must be responsible for a deductible of at least $1,000 for individuals and $2,000 for families. Additionally, employees cannot be eligible for Medicare or be claimed as a dependent on another person's tax return.

Under normal circumstances, offering employees a health plan with a high deductible might be problematic. And the plans are not necessarily right for everyone. However, because the high-deductible plan is tied to a pre-tax, interest-bearing account that can be used by employees to pay health care costs—even if they lose their jobs or retire—most employees are open to the idea.

SPENDING AWARENESS

While employers initially realize savings as the result of paying a lower premium for their health care plan, the greater savings comes as the result of a healthier, more productive work force. With an HSA, employees have an incentive to stay healthy. To avoid having to use funds from their account and lose out on the interest it would otherwise accrue, employees become highly sophisticated consumers of health care services. Employees who keep themselves healthy and make wise spending choices not only keep more money accruing interest in their HSA account, they tend to be sick less often and therefore more productive.

Additionally, as employees become wiser consumers and more responsible for their health, they use the health care system less, meaning their employer maintains a lower experience rating and keeps its premiums at the lowest possible level. For instance, an employee who is more aware of his or her health care choices and associated costs will think twice before using high-cost services when alternatives of equal quality are available at a more reasonable price. Quite simply, the best way for employers to get their employees to treat company money like it was their own, is to make it their own.

GOOD BUSINESS

At at time when providing a competitive—and affordable—health care insurance plan to employees seems near prohibitive, HSAs provide a solution that benefits employers and employees alike. Employers reap the rewards in improved productivity and lower health insurance premiums. Employees gain the security of pre-tax savings that can accrue to cover health care costs even into retirement. When employers and employees both gain it's just good for business. What greater benefit is there?

Employers who want to learn more about offering an HSA program as part of their health care package should consult a qualified financial advisor. As with almost any government policy, the details can quickly become complicated when applied to specific situations. Your financial advisor can walk you through the options and help you set up a program that will serve you and your employees best.

ABOUT THE AUTHOR

David Hinnenkamp is a partner and financial advisor with KDV in Minneapolis and St. Cloud. KDV is a CPA and business advisory firm specializing in CPA services, financial services, technology consulting, organization development and strategic planning consulting. Its client base is with privately held companies, nonprofits and government entities. Contact David at 763.537.3011 or dhinnenkamp@kdv.com.

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