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## A New Option for Uninsured Alaskans

Health Savings Accounts provide numerous financial and tax benefits.

By Vanessa Orr

With health care costs rising every day, both individuals and businesses are scrambling to find affordable health insurance options. While politicians often talk about the issue of universal health care, the fact is, seeing a plan come to fruition is probably years away if it happens at all.

According to current estimates, U.S. health care spending is approximately 15 percent of the GDP – the highest in the world. Despite this, only 84 percent of the population has health insurance, whether provided through an employer, bought individually, or as part of a government program. Between 2005 and 2006, the number of uninsured citizens nationwide increased from 44.8 million to 47 million.

Health insurance costs are hurting employers too. On average, employers spend between 4.6 percent and 8.7 percent of their payroll in health insurance premiums. According to a study by the Kaiser Family Foundation, the cost of health insurance is rising faster than inflation or employee wages, increasing 78 percent since 2001. During that time, inflation rose by 17 percent and wages rose by 19 percent. Because the United States is the only wealthy, industrialized nation that does not have a universal health care system, it is up to individuals and employers to find their own insurance options.

### Health Savings Accounts

One alternative, the Health Savings Account (HSA), is steadily gaining in popularity across the country. Signed into law as part of the Medicare Prescription and Modernization Act of 2003, HSAs became available to everyone who does not have another insurance plan, or who is not on Medicare, as of Jan. 1, 2004. Although similar Medical Savings Accounts (MSAs) preceded HSAs by a number of years, they were only available to those who were self-employed.

“One of the reasons that HSAs are gaining in popularity is because of their affordability,” explained Ellen Laden, director of public relations for Golden Rule Insurance Co. “People also like them because they offer tax savings, and they give the consumer control over their own health care spending.”

“Health Savings Account participants are positioned to take on more control and responsibility toward how their health care dollars are spent,” said Matt Schnug, ODS Alaska & Delta Dental regional marketing manager. “This, combined with higher deductibles, tax-advantaged contributions and the ability to carry over savings not withdrawn from year to year, equates to lower monthly premiums for the participant.”

To date, more than five million Americans have HSAs, and the U.S. Treasury Department estimates that by 2010-2012 that number will grow to more than 25 million Americans. While some higher-income individuals choose them for the tax savings, families living on more moderate incomes appreciate that HSAs have lower premiums, and also allow everyone in the family to contribute toward one higher deductible. This is unlike traditional health plans that require each person to meet his or her own deductible.

"One of the largest purchasers of HSAs are women, who are self-employed, divorced or responsible for their own health care or that of their families," said Laden. "They are also quite popular with seasonal workers and freelancers."

"The way HSAs are set up, they also appeal to higher-income individuals who may be looking for a tax shelter," added Financial Representative Timmothy Andrew Stephan of Northwestern Mutual Financial Network. "If used properly, a fixed HSA account can provide better returns than a bank savings account, often between 3 percent and 5 percent."

One of the better HSA plans available, according to Stephan, is through Assurant Health, the leading insurer of HSAs in Alaska. "Assurant Health is the only company I've found that offers a 24-month or 36-month rate guarantee, which is extremely popular with my clients," he said. "They also offer a 'healthy client discount' of 10 percent on the annual premium increase, which encourages people to take good care of themselves." Since HSAs were rolled out in 2004, approximately 37 percent of Assurant Health's new individual medical sales have been HSAs, with 43 percent of those applying indicating that they did not previously have health insurance.

### How They Work

While different companies may have slightly different designs, HSAs as a rule pair a high-deductible health insurance plan with a tax-advantaged savings account. Premiums typically cost less than those associated with traditional health insurance plans, and money saved on these premiums can be put into the savings account and used to pay the higher deductible, in addition to other health costs not covered by the plan, such as dental, vision, and long-term care premiums.

"High-deductible plan premiums can cost up to 50 percent less than traditional co-pay plans," explained Laden. "Then some or all of this money can be put into the health savings account. A family paying \$600 a month in premiums might only need to pay \$300 a month with an HSA, yet they still receive the same quality health care."

Unspent dollars in a health savings account accumulate year over year, and even earn interest like an IRA. "Basically, the government is giving people a tax break for taking responsibility for their health," said Stephan. "Not only is the money not taxed when it is put into the health savings account, but it also isn't taxed when it is taken out and used for medical needs.

"It acts as a really nice tax shelter," he added. "If a person lives a long time and remains fairly healthy, they've got a pot of money sitting and growing over time. This is especially useful when they get to an age where they may need to supplement their health care with more preventative services. It's a good long-term approach."

## A Quick Guide to Health Savings Accounts (HSAs)

- HSAs pair a high-deductible health insurance plan with a tax-advantaged savings account. Anyone not covered by another health insurance plan or enrolled in Medicare is eligible to open an HSA.
- HSA plan premiums typically cost significantly less (45 to 55 percent) than traditional insurance plans, making them a more affordable alternative for many individuals and families as well as employers.
- Money saved on premiums can be put into a tax-favored savings account and withdrawn to pay the insurance deductible and other medical expenses not covered by the insurance, such as vision and dental care and qualified long-term care premiums.
- Unspent dollars in a health savings account accumulate year over year, and even earn interest like an IRA.
- You own your HSA. It goes where you go, whether you move or change jobs. You make the decisions how and when to spend the money.

**Source:** Golden Rule Insurance Co., a UnitedHealthcare company.

Though the deductible is high, a HSA can also be useful for families who may have numerous medical needs. "Everyone in the family contributes toward meeting the deductible; that includes well-child visits, sick child visits and any injuries that may occur," said Laden. "If you're in a family of four with a deductible of \$2,200, it doesn't take long to meet that amount."

An HSA also provides its owners with more control over their health care spending. "The HSA owner decides when to put money in, and when to take money out," said Laden. "The whole time it is earning interest and rolling over year after year. And once you meet the deductible, the HSA pays 100 percent of covered medical expenses.

"This way you can plan for how much you need to spend on medical care each year," she continued. "There's no figuring out coinsurance, like 80/20 coverage, for example."

In addition to regular medical expenses listed under Section 213 of the IRS code, HSAs can be used to cover LASIK surgery, chiropractic and acupuncture visits, COBRA insurance and long-term medical care, among other services. Once a person reaches age 65 and goes on Medicare, he or she is allowed to take money out of the HSA for anything – as long as they pay income tax.

The government does limit how much tax-deductible money can be put into an HSA each year, however. While HSA owners can contribute as much as they want, single individuals are limited to a tax deduction on \$2,850, and families are limited to a tax deduction of \$5,650. Those 55 and older are allowed to contribute an additional \$900 tax-deductible dollars each year.

As for the insurance plan, individuals must pay a minimum \$1,100 deductible annually, with families paying a minimum deductible of \$2,200.

### Taking Ownership of Our Own Health

One of the advantages of an HSA is that it is owned by an individual instead of an insurance company, so how the money is spent is up to that person. Any money accumulated in the HSA is portable and can be used for medical expenses as each person sees fit.

"HSAs encourage people to take care of themselves and to be more responsible for their own health

care," said Stephan. "It enables them to have the most comprehensive health care while paying smaller premiums and enjoying a tax break. With a traditional insurance plan, you pay higher premiums but you don't get the money back if you stay healthy; with an HSA, you actually keep more money in your pocket."

Because people are paying higher deductibles with HSAs, it also saves money for insurance companies by keeping the service requirements lower, according to Stephan. "Insurance companies aren't spending time paying \$500 claims when you have a \$1,100 deductible," he explained. "While it may seem counterintuitive for insurance salespeople to offer these plans because the premiums are lower and they make lower commissions, HSAs actually work out well for insurance companies."

According to Laden, 50 percent of Golden Rule's Alaska customers have chosen to participate in HSAs, and studies have shown that most of these customers tend to stay in HSAs longer than other insurance plans. "What I find most interesting is that although HSAs have been around for a few years and are gaining in popularity, a recent survey shows that only 11 percent of the population understands them," said Laden. "In the next few years, I expect that there will be more tools in the marketplace to help customers make good decisions about HSAs."

Considering that 18 percent of Alaska's population is uninsured, it's important that this information be made available as quickly as possible. One place that consumers can go for information is the U.S. Treasury Department's Web site: [www.ustreas.gov](http://www.ustreas.gov). Golden Rule also provides an information Web site at [www.hsacenter.com](http://www.hsacenter.com), and a new Web site, [www.HSAinsights.com](http://www.HSAinsights.com) provides detailed information as well as interactive calculators so that visitors can determine the potential future value of their HSAs based on expected contributions and expenses.

"If you're interested in an HSA, your insurance professional is a good place to start," said Stephan. "Tell them about your long-term plans so that they can determine if an HSA is relevant for your financial situation."

"It's no longer just about health insurance," he added. "It's about protecting your assets and seeing how a health plan fits into your complete financial picture."