Control Rising Health Insurance Premiums

by LOUIS R. ADAMS, CFP

The July 2004 issue of *Agency Sales* magazine featured an article (page 48) that described the benefits of Health Savings Accounts (HSAs). What follows is a second article on that subject based on a presentation made by the author at one of MANA's local networking chapters.

As health plan costs escalate, small-business owners look for ways to reduce health insurance premiums. The cost of medical care continues to rise at a double-digit rate, and employees become accustomed to medical plans that provide office visits for $15, prescription drugs for $10 and MRIs or CAT scans for a relatively small co-pay.

The true cost of these services remains hidden by the first-dollar payment structure of the health plan.

Several years ago, the United States Congress recognized this problem and piloted a program called Archer Medical Savings Account (MSA) to help small businesses cope with increasing health insurance premiums. Used in conjunction with Qualified High Deductible Health Plans (HDHPs), these medical plans had to meet government guidelines for maximum deductibles on an individual and family basis, as well as limits on maximum annual out-of-pocket expenses.

The rationale for having such a plan was two-fold. First, by using a high-deductible plan, employers would pay less in premium. Insurance companies would no longer be responsible for the first dollar of health care costs.

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Second, employees now had to take responsibility for health plan utilization and pay for first-dollar costs such as office visits, lab fees and prescriptions, out of personal funds or funds in their MSA accounts. This would help dispel the entitlement aspect of employer-sponsored health insurance, and employees would quickly reach an understanding of the true cost of medical services.

Health Savings Accounts

The rules governing MSA accounts and HDHPs were quite complex and limiting. As part of the Medicare Reform Bill signed on December 8, 2003, Congress overhauled the previous legislation, and MSAs evolved into Health Savings Accounts, with much simpler rules, effective January 1, 2004.

Over several years, an individual can accumulate a substantial dollar amount based on how he or she manages health care utilization.

The employer and employee, or both, may fund HSA accounts. In all cases, the account funds can be 100 percent of the health plan deductible up to $2,600 for single coverage or $5,150 for family coverage. An employer can fund either a fixed-dollar amount or a percentage of the deductible for all eligible employees. So as not to adversely impact cash flow, an employer will usually fund HSA accounts on a monthly basis. If an employee has family coverage, he or she would receive either a fixed-dollar amount to help offset the family deductible or a percentage of the family deductible, based on the employer's funding choice. If there is family coverage, the deductible, usually twice the individual deductible, must be met by one or more family members before the insurance provides coverage.

Employer contributions to an HSA account are not considered income to the employee, just as the health insurance premium paid by the employer on behalf of the employee is not considered income to the employee. Both are deductions for the employer and not subject to employment tax such as FICA or FUTA. If the employee funds all or part of the HSA account, the employee receives a tax deduction and has until April 15 of the next year to fund this year's contribution.

If used for non-qualified health expenses, the dollars are subject to ordinary income taxes and penalties.

Dollars Accumulate

Eligible medical expenses must meet guidelines set forth in IRS Publication 502, Medical and Dental Expenses. HSA accounts are funded anew each year and dollars from the previous year remain in the employee's account for future use. Over several years, an individual can accumulate a substantial dollar amount based on how he or she manages health care utilization. At age 65, an employee may access the HSA account much like an IRA distribution.

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The bottom line is that businesses must gain control of runaway health insurance premiums if they are to continue to offer health insurance as an employee benefit. Qualified HDHPs, coupled with HSA accounts, are one possible solution well worth considering. These concepts can appear difficult to initially understand. Consult your insurance broker or agent for information on these concepts before deciding to implement such a plan.