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**INSURANCE; Weighing the Risks in a Health Savings Account**  
**By FRED BROCK**

A LITTLE-NOTICED provision in the Medicare prescription drug law passed by Congress late last year is starting to shake up the group insurance market for small businesses.

The provision created health savings accounts that allow people to set aside pretax income to pay medical bills. When linked to high-deductible insurance policies, the accounts, known as H.S.A.'s, can drastically lower an employer's costs of providing employee health benefits. This may allow more small businesses to offer such benefits -- or provide savings for those that already do.

Some critics argue that these plans achieve savings by shifting more health expenses to consumers, who must use the money in their savings accounts to pay their deductible amounts. The accounts, however, are tax deductible and can build each year, like individual retirement accounts; when you turn 65 and are eligible for Medicare, any money in the account is yours. The advantage of the high deductibles, proponents say, is that they keep the policies cheap. As a result, companies that offer group plans may pay some or all of the premiums and finance a portion or all of the savings accounts.

Almost half of small businesses with 50 or fewer employees do not offer health insurance to their workers. Currently, the management consulting firm started last year by Rich Phillips, an entrepreneur in Austin, Tex., falls into that group. But Mr. Phillips said that he planned to add coverage next year for his five employees and their families, using health savings accounts.

Mr. Phillips has purchased an individual H.S.A.-eligible policy for his family, which costs \$380 a month and has an annual deductible of \$3,250; a traditional policy would have run \$900 to \$1,100 monthly. For a single person, an H.S.A.-eligible policy can cost as little as \$100 a month or less, compared with \$400 or \$500 for a traditional plan.

"I can't afford to pay \$1,000 a month per employee for coverage," Mr. Phillips said. "But I can afford the \$300 or \$400 that these H.S.A. plans cost."

And it's very attractive to employees for me to pay 100 percent of the premiums for them and their families. That's rare these days."

"The scary thing for a lot of people with these policies is the high deductible," Mr. Phillips said. "But I see it as a great way to make me vigilant about my health costs. Plus it gives me peace of mind to know that 100 percent of my family's medical expenses above our annual deductible -- \$3,250 a year -- are covered."

H.S.A.-eligible health insurance policies became available on Jan. 1. Because there had been a pilot program for individual policies, insurance companies offered them first. Insurers are now beginning to offer policies for the group business market that they expect will get going by early next year. "We expect to see the bulk of this business kicking out in January 2005," said Andy Slavitt, the chief executive for consumer solutions at United Healthcare.

Individual and group H.S.A.-eligible plans work much the same way, although group savings plans may be cheaper and cannot usually deny coverage to someone because of pre-existing conditions. The plans must have a deductible of at least \$1,000 to be eligible for a companion health savings account. Individuals, or the companies they work for, can make tax-free contributions to an account in any amount up to their insurance plan's deductible, but not more than \$2,600 a year; families can put in up to \$5,150 a year. Both of these limits are inflation-indexed and will increase. Typically, employers will pay some portion of the premium for the underlying group policy.

If your insurance policy has a higher deductible than the annual savings limit, the difference is your responsibility. The yearly out-of-pocket maximum, however, is \$5,000 for an individual and \$10,000 for a family, also inflation-indexed, regardless of your plan.

"Ideally, the deductible on your policy would match the maximum on your H.S.A., but there could be a gap if you picked a higher deductible policy," said Robert Hurley, the chief operating officer for health savings accounts at eHealthInsurance.com, an online health insurance broker that is pushing H.S.A.-eligible policies. "But since the account builds year to year, that gap will disappear. I recommend buying a policy with a deductible that matches

your H.S.A., then increase the deductible -- and lower your premiums -- as your savings build."

In Mr. Phillips's case, he puts about \$270 a month into his account, which in a year equals his policy's deductible of \$3,250. After a few years, his account will probably contain more than his annual deductible. That account can continue to build, like an I.R.A. If he withdraws any of that money for something other than health care, he must pay taxes on it, plus a 10 percent penalty. At 65, he can withdraw the money without penalty but must pay taxes on it, unless he spends it for health care.

Although the political fighting over whether to establish health savings accounts is over, the arguments provide a backdrop for the health care debate under way during this presidential election year. Republicans like the accounts as a free-market alternative to government-paid insurance, and President Bush's campaign Web site lists them as one of his major health care achievements.

Democrats and others have argued that the tax benefits of the plans are more beneficial to higher-income people, that individual policies do not address the problems of people with pre-existing conditions who cannot get coverage and that the high deductibles may lead people to neglect routine care if they have to spend their own money on it. Senator John Kerry of Massachusetts, the Democratic nominee, has proposed a variety of subsidies and other measures meant to make it easier for small businesses to provide traditional insurance.

For small businesses, the big attraction of these policies remains their price. They not only lower health care costs, but can also stabilize costs.

Deena Katz, a financial adviser and the president of Evensky, Brown & Katz in Coral Gables, Fla., is switching to an H.S.A.-eligible plan for her 18 employees because her company's insurance premiums have increased 35 percent for each of the last three years.

Ms. Katz's company covers insurance for employees only, not their families. The premiums for the coverage are currently \$500 a month for each employee. Beginning in January, the company will offer health savings account policies and give each employee \$300 a month. She estimates that will more than pay an individual's premium and leave some to contribute to

the savings account. This \$300 will, in effect, be the company's self-imposed cap on health spending. And it will save \$200 a month per employee, which comes to \$3,600 a month, or \$43,200 a year.

"That's a huge amount for a small business," she said. "We're not AT&T, so any dollars we can save are important."

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