

THE WALL STREET JOURNAL

October 11, 2004; Page R5

Decisions, Decisions

Health savings accounts give consumers more incentive to manage their health care and costs. But will they have the knowledge?

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As the first person in the country to buy into a new health savings account earlier this year, Pam Wimbish appeared at a publicity event with House Speaker Dennis Hastert. The company that set up the plan put out a news release about the sale. She even went to Washington to meet with President Bush on her birthday.

But it wasn't until the publicity waned and she actually had to put the plan to use that Ms. Wimbish, a furniture-sales representative from Aurora, Ill., truly became a poster child for HSAs, as these government-created plans are called.

At age 54, Ms. Wimbish was accustomed to visiting the doctor just once a year for a physical. So when she had to buy health insurance on her own after a job change, she decided on a plan with a high deductible but a lower monthly premium. She also signed up for an HSA being offered by New York-based Assurant Inc. The accounts, created under the Medicare law passed by Congress last year, allow people to sock away tax-free the deductible amount they

have to meet each year on a high-deductible health-insurance plan. They can withdraw the money tax-free to pay for out-of-pocket medical expenses or allow the money to accumulate year after year. Ms. Wimbish qualified with an annual deductible of \$2,550.

Then a month after signing up, she faced her most expensive health problem in years. Her foot began hurting when she walked. The pain woke her in the middle of the night, and one morning she found that she could hardly walk. An X-ray revealed that a screw in her foot from a previous surgery had backed out of the bone, and she was told that she needed surgery to fix it. That meant it was time for Ms. Wimbish to put her new coverage to use. And she did exactly what the proponents of HSAs intended: She took charge of her situation and thought twice before buying suggested treatment and medication.

With the cost of health insurance on the rise for both employers and individuals, proponents say HSAs give individuals like Ms. Wimbish more incentive to

manage their health care and its costs -- especially when the first few thousand dollars are out-of-pocket. The idea is that once individuals with high deductibles put their money into an HSA, they will think about whether certain treatment or medication is necessary, and they will look to negotiate on price much as they would when shopping for a car. What's more, HSAs are touted as another way to save tax-free because unused money rolls over year after year.

"HSAs give people the opportunity -- and it should be viewed as an opportunity -- to make good decisions and reap the benefits of those decisions," says John Goodman, an early promoter of HSAs at the National Center for Policy Analysis, a conservative think tank in Dallas.

But others aren't sold on the benefits, Critics say high-deductible insurance and HSAs discourage people who don't have expendable income from getting needed care because they'll want to hold on to money for as long as possible. And they charge that the average

consumer isn't equipped to decide whether certain treatments and medications are essential.

Ms. Wimbish definitely has gotten more involved in -- and choosy about -- her care. Before the surgery on her foot, she asked how much it would cost. She offered to pay upfront on the day of the procedure and got a 50% discount in return, reducing the surgery center's fee to \$630 from \$1,260. When she found out an anesthesiologist was going to be brought in to numb her foot, Ms. Wimbish said she wanted the doctor performing the operation to do it instead. The doctor's total bill was negotiated down to \$275 from \$400. She decided to fill a prescription the doctor gave her for antibiotics, but not one for a painkiller.

"In the past, my attitude would have been, 'Just have all the prescriptions filled because insurance was paying for it, whether I need them or not,'" Ms. Wimbish says. She eventually opted not to tap the tax-free money she had deposited into her HSA; she says she is saving that money for retirement and future medical expenses. Instead, she paid her bills with other savings.

Growing Interest?

So far, it's people like Ms. Wimbish -- self-employed individuals who have to pay for both monthly insurance premiums and deductibles on their own -- who are showing the

biggest interest in high-deductible policies and HSAs. The attraction: Policies with a high deductible -- defined by the Medicare law as at least \$1,000 for individuals and \$2,000 for families -- have the lower monthly premiums. And the tax-free status of the HSAs helps offset the expense of the deductibles.

But insurance companies and benefits consultants say that employers are starting to show more interest in offering high-deductible policies to their employees. Companies see such plans as a way to shift more of the ever-growing costs of health care to their employees. And they believe employees will be more receptive to these plans if they can use the tax benefits of an HSA. Employers can contribute to an HSA if they want, and the account follows individuals even if they switch jobs.

The maximum individuals can contribute each year to an HSA is \$2,600, or the value of their health-plan deductible, whichever is less. For families, the maximum is \$5,150. The amounts are indexed to inflation. People age 55 to 65 can make additional catch-up contributions of up to \$500 each year; that limit will increase to \$1,000 by 2009. Once they reach age 65 and become eligible for Medicare, they can no longer make contributions to the HSA.

Withdrawals are tax-free if they are used to pay for retiree health insurance, even if it's not a high-

deductible policy, or for other health expenses, such as Medicare costs, medications and long-term care services. If a policyholder dies, the HSA transfers to the spouse tax-free. If the money is used for nonmedical expenses before age 65, the policyholder pays taxes on the withdrawal, plus a 10% penalty. After 65, nonmedical withdrawals are taxable, but there's no additional penalty.

Many people, however, aren't in a position to meet the costs of a high deductible -- whether or not the money can be used tax-free. And that is a concern for critics of HSAs. They say high-deductible insurance policies will cause people, particularly those with low incomes, to put off necessary medical care, like a visit to the doctor when symptoms first appear.

"It's discouraging the services that are most cost-effective," says Edwin Park of the Center for Budget and Policy Priorities, which focuses on issues affecting low-income people and has raised concerns about HSAs.

Critics also say many people aren't equipped to decide what care is essential and what isn't. In some cases, there's not enough information. And, they contend, HSAs won't make much of a dent in health-care spending overall because a tiny 10% of people, often with multiple, chronic problems, account for 69% of health costs. Those patients will continue to have high costs, no matter what

incentives are in place to make them spend wisely.

Exploring Alternatives

Devon Herrick, a senior fellow at the pro-HSA National Center for Policy Analysis, says it isn't that hard for consumers to do a better job of managing their own health care. Mr. Herrick says that several years ago he signed up for a medical savings account, an earlier version of the HSAs, through his employer. When he finished a one-month supply of Claritin his doctor had given him for his allergies, he decided to experiment with over-the-counter remedies to save money. Mr. Herrick settled on a half dose of Actifed and a half dose of Sudafed in the morning and afternoon, which he says worked just as well as Claritin. He estimates that he saved about \$1,000 during the year.

"For any given ailment there are a variety of treatments," he says. "The trouble is no one ever bothers to ask. It wasn't a life-threatening condition, and

I consider myself a savvy consumer."

A challenge for the high-deductible policies is that many consumers seem uncomfortable with the prospect of being exposed to more of their health costs. In a survey commissioned by America's Health Insurance Plans, an insurance-industry trade group, respondents were mostly positive about HSAs, especially the ability to accumulate money tax-free and keep it from one year to the next. But 38% responded unfavorably when told about the deductibles they would have to pay. Almost two-thirds of those surveyed said they would be unlikely to switch from their current coverage.

One factor that could make HSAs more attractive for consumers is the Treasury Department's broad interpretation of what qualifying insurance policies can cover before a policy owner spends the annual deductible. The law allows policies to pay "first-dollar," as such coverage is known, for preventive medical care.

That broad interpretation was used to include such services as annual physicals, mammograms and diabetes screening. And while most prescription drugs would have to count toward the deductible -- and therefore come out of a patient's pocket -- certain preventive medicines, including those that lower cholesterol or help people stop smoking, could be covered right away by the insurance. Many plans aren't offering such broad preventive coverage yet, however, because the government's interpretation was released just this summer.

Ms. Wimbish hopes the rules for the accounts will become even more flexible so she can increase her savings even more. "I really think that it would work for everyone," she says. "But it's a re-education for people about what their real medical costs are."

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