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If your medical costs are low, HSA hatches into a nest egg

By Steve Quinn

Steve Shirley wasn't instantly sold on the idea of a family health insurance policy that carried a \$3,000 deductible. But when the vice president of marketing for Guaranty Bank regarded the health plan as something else — another way to build a nest egg — he changed his mind.

Shirley took advantage of a health insurance plan offered by his employer that features a health savings account, a new creation of federal tax law whose popularity may one day rival a 401(k) or an individual retirement account.

Health savings accounts — also known as HSAs — pair a high-deductible, low-premium health insurance policy with an investment account. Instead of making co-payments for health care, you use account money to cover medical expenses up to the deductible or for other expenses that aren't covered.

Accounts are established with employees' pretax money and, often, the employer's matching contribution. The money grows as it's invested; it comes with no time limit on when it must be used, and it belongs to employees even if they leave the company.

"I'm looking two or three years down the road," Shirley said. "I should have two or three times my deductible by then."

HSAs, which remain relatively rare, were created by the Medicare Prescription Drug, Improvement and Modernization Act in December 2003.

By then, most employers had their benefits in place for 2004, so this is really the first year they have been used.

They will become more common as consumers learn about them from their friends or work colleagues, said Inez Seaney, senior consultant for Watson Wyatt's Dallas office.

"I don't know that the slow start is that surprising," she said. "Right now, very few employers and employees understand HSAs very well because they are new and untested in the marketplace."

Turner Investments Partners estimates only about 1 percent of consumers were enrolled in HSAs by the fourth quarter of 2004, and the number probably won't get past 3 percent within the next three

to five years. And consulting firm Hewitt Associates LLC said in February that only about 3 percent of those offered an HSA option will choose to enroll in it.

HSAs are offered along with a high-deductible health insurance policy. Workers contribute pretax money to the accounts and can pay the deductible out of the account, along with any other out-of-pocket health care expenses.

The HSA may supplant the flexible spending account, which also lets employees set aside pretax dollars for medical expenses. The main difference is, with flex accounts, the amount must be spent by year's end or it's lost.

"One of the best features is not having the use-it-or-lose-it," said certified financial planner Tom Dwyer with Financial Design Group. "It's going to gain popularity once people are comfortable with them because it's an attractive tool in the right situation."

However, for that to happen, some consultants say, employers must prime the pump by making matching contributions to the accounts, much like a 401(k).

Without the contribution, the benefit appears to be a conspicuously deficient offering, according to Turner Investment analyst Frank Susterisic.

"As a practical matter, unless employers are willing to make generous contributions to HSAs, employees who have become accustomed to the \$20 co-payment for health care under the current system will be as likely to open HSAs as to drink a pint of turpentine," Susterisic wrote in an October report.

Some health care researchers are confident that employers will embrace the HSA and offer the matching contribution because it will save them money on benefits.

It also might enable some employers to offer insurance who previously could not.

Guaranty Bank's Austin, Texas-based parent company, Temple-Inland Inc., liked the idea and spent most of last year educating its 14,000 employees eligible for the benefit.

An unusually high 40 percent selected the HSA, including 23-year-old Angela Gillespie of Guaranty Bank's marketing department, whose \$500 contribution is matched by her firm.

"I didn't go to the doctor at all

last year, so all the insurance money and the flexible spending account money went away," she said. "If I don't go for the next five years, the money is still there."

Other companies are considering HSAs when enrollment takes place this fall for 2006 benefits.

HSAs are "on our radar," said Brent Wolfe, a benefits and compensation director for Dallas-based Southwest Airlines Co.

"There are some fantastic features about those plan designs, but I believe we are still going through an evolution with this."

John Goodman, president of the National Center for Policy Analysis, a conservative Dallas think tank, is regarded as the father of HSAs. He said the plans encourage fiscal responsibility.

Consumers won't take needless trips to the doctor, because the first few thousand dollars spent are theirs. Conversely, they don't have to seek managed-care approval to see a doctor.

"At the end of the day, nobody cares more about you than you," he said. "Managed care takes the

individual choice out of health care. This puts the individuals' choice back into health care."

For some _ employers and employees _ HSAs may be of no benefit and provide no savings at all.

"Companies can really blow it if they don't do it right," said Steve Harris, vice president for Lockton Dunning Benefit Co.

"If a company has high turnover, their employees can walk out the door with that money, then it's money flowing out of the spigot."

For some, the savings will evaporate, and the plan will be moot, said Dr. J.B. Silvers, associate dean for academic affairs for Case Western Reserve University's Weatherford School of Management in Cleveland, Texas.

"The sicker people will probably lose, people with chronic care conditions," he says.

"You will never be able to build up money in your HSA. That is going to be the big stress factor, and you might have to fix it."