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High-Deductible Health Plans Loom; Experts See Positives; Insurance plans tied to HSA accounts may aid fight to cut health costs

BY MURRAY COLEMAN

Coming soon to an employer near you: Health Savings Accounts and high-deductible health insurance coverage.

HSAs were introduced 1 1/2 years ago. Account holders contribute a portion of their income tax-free. This year the maximum is \$2,650.

Withdrawals are used for eligible medical expenses. Money in the accounts can be invested in stocks, bonds or mutual funds and grows tax-free.

The idea is HSAs would be used to pay for expenses up to the insurance policies' deductibles, which start at \$1,000. The policy kicks in paying health care bills after expenses exceed the yearly deductible.

Generally, high-deductible premiums are much cheaper than traditional PPOs and other types of low-deductible coverage.

But are they right for you?

They seem to be catching on.

Most of the 200,000 or so high-deductible policies written up

before HSAs came on the scene were for self-employed or unemployed workers. An estimated 1 million new people have signed up for such coverage in the last year.

That number is expected to rise fast. "Out of the starting gates, most of the demand has come from smaller employers," said Karen Ignagni, chief executive of industry trade group America's Health Insurance Plans. "But we expect to see more mainstream use of HSAs in the coming year."

Federal guidelines for HSAs weren't introduced until the second half of last year. That was too late for most major companies to introduce the accounts into existing benefit packages. "Major employers typically make changes to their benefit programs in the summer," said Ignagni. "So we really haven't seen many large businesses including HSAs yet. This coming year will be their first real opportunity."

Health care economists expect bigger firms to embrace the plans. Some are predicting at least a third of all businesses will offer them as an alternative

to workers within the next few years.

Lowering Costs

Why so much popularity so quickly? Many employers see HSAs and related high-deductible insurance coverage as a way to put the brakes on runaway health care costs.

"When you go from a low-deductible to a high-deductible plan, the premiums drop so dramatically that most people are going to come out ahead," said Leon Rousso, a financial planner in Ventura, Calif.

Take the case of Devon Herrick. He's a health economist at the National Center for Policy Analysis. His employer has switched from a traditional low-deductible plan to high deductibles with HSAs. The nonprofit cut its annual premiums in half going with the new plan. It placed those savings into each employee's HSA account.

That meant Herrick and his fellow employees automatically reached their maximum HSA contributions for the year.

"I can use it or roll it over to build up indefinitely," Herrick said. "I also have freedom to spend my money where I need it the most, from dental work to an internist."

Rouso recently compared rates for low-deductible vs. high-deductible plans for a client who owned a company with 15 employees.

A 44-year-old man in relatively good health would cost the employer \$342 under a \$500 deductible plan. With a \$2,000 deductible, that would drop to \$193 a year.

Studies have shown, says economist Herrick, that savings on health care translates into more employers being willing to pay higher wages.

"It's also a positive for job creation," he said. "In the end, whether you're directly paying the costs or not, health benefits are a part of your compensation package. An employer has to consider that when looking at

someone's contribution to a company's bottom line."

Although it's early in the life of HSAs with high-deductible insurance, signs of reduced spending on medical costs by plan participants are showing up.

Above The Minimum

One of those signals came with a recent survey of HSA-eligible plans in the U.S. by America's Health Insurance Plans. The industry trade group represents 1,300 carriers. It found that most -- 36.5% -- of the HSA participants chose insurance with deductibles that were between \$1,500 and \$2,999 a year.

That's significant since legally, employees can choose plans with as low as \$1,000 a year in deductible coverage.

For example, AHIP found that nearly 82% of current high-deductible insurance plans limit out-of-pocket expenses for

individuals to between \$1,500 and \$3,000 a year. Nearly half of those were held to less than \$2,000.

"People don't realize that you can have a high out-of-pocket maximum even with a low-deductible plan," said Paul Fronstin, a health economist at the Employee Benefit Research Institute.

By comparison, 58.9% of all PPO plans had out of pocket maximums set between \$3,000 and \$9,999.

Another 23% fell within \$2,000 to \$2,999. Among individual plans, 93.3% of all HMO plans set maximums in the \$3,000-\$3,900 range.

"Out-of-pocket maximums are generally higher with low-deductible plans," said Larry Akey, an AHIP spokesman.

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