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“Health Savings Accounts...A Potential Health Insurance Option for Small Employers”

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A top priority for the Whatcom Alliance for Healthcare Access (the Alliance) is to find ways for employers and individuals to purchase affordable health insurance. 13% of Whatcom County adults and 27% of low-income households (under \$20K) lack any kind of health care coverage. Many of those individuals are employed in businesses that do not provide health benefits and are not eligible for publicly funded programs.

Research recently conducted in Southwest Washington found that small employers who don't offer health benefits because of the cost would be willing to subsidize a plan if it was affordable and shared the costs with their employees or others.

One way of achieving this option is through Health Savings Accounts (HSA's) which became available in January 2004 with the passage of the Medicare Prescription Drug, Improvement and Modernization Act.

An HSA is a tax-free savings account that must be paired with a high-deductible health insurance policy. Annual tax-deductible contributions can be made by both employees and employers and the employer contributions receive the full employer health insurance deduction. HSA's are more attractive than Medical Spending Accounts now offered by some employers because the amount contributed rolls over from year to year and moves with the account holder (employee) from job to job and into retirement.

So how does an HSA work and how could it potentially provide access to health insurance for those who are uncovered now?

By pairing high-deductible health insurance policies (minimum of \$1,000 for individuals and \$2,000 for families) and HSA's, employers can purchase more affordable health plans for their employees. Employers and/or employees can then contribute on a pre-tax basis to a savings account that is used to pay for costs (including the deductibles) not covered by the health plan.

On the ground, the HSA can create a new health insurance option for small employers and individuals but the question is does it offer opportunities to make improvements at the health policy level?

The University of Washington Health Policy Analysis Program recently held a policy briefing on HSA's and identified opportunities as well as trade-offs.

According to the briefing paper, opportunities include controlling health care cost inflation and reducing the number of uninsured. Because consumers spend their own

money out of their HSA's it is assumed they will become more cost-conscious, using fewer services and shopping for the best price. The theory is that health care providers will then "contribute to a decline in over-utilization of services as they more carefully weigh the benefits of a clinical procedure against its potential effect on the patient's health."

The opportunity for increasing the number of people insured comes with the HSA's tax-free savings and withdrawals for medical expenditures, the annual roll-over and the job-to-job portability. The combination of the lower cost premiums associated with high deductible plans and the tax benefits of HSA's give small businesses and employers of low-wage workers the ability to provide a health care coverage option that was previously unaffordable.

But are there trade-offs? According to the UW Health Policy Analysis Program, HSA's are such a new phenomenon, the arguments about opportunities and trade-offs are largely theoretical.

Of concern from a health policy perspective is the potential that HSA's could draw away healthier and younger employees now covered by their employer's traditional low-deductible plans leaving behind a "sicker" pool in low-deductible plans which will eventually translate into higher costs for insurers and employers. Higher premiums to employers may mean a drop in coverage overall thereby negating the net gains in coverage that HSA's offer.

Another concern is that consumer market behavior promoted by HSA's may be overstated because the most costly health care needs are episodic, requiring timely care where providers, not patients, make decisions what services will be used.

Whatever the opportunities and risks associated with HSA's they may be a vehicle for assisting businesses and individuals looking for affordable health care coverage. The Alliance will be working with local business groups such as the Chamber of Commerce, Economic Development Council and the Small Business Center to explore ways for small business to use this potential resource to expand access to affordable health coverage for their employees who are not now covered.

For more information on HSA's contact your local health insurance broker or the Employee Benefits Institute of America. For a copy of the briefing paper "Health Savings Accounts: Opportunities and Trade-Offs" by the UW Health Policy Analysis Program contact the St. Luke's Foundation at (360)671-3349.

For more information about the work of the Whatcom Alliance for Healthcare Access check out our web site at www.whatcomhealthalliance.org.

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