

High Deductible Health Plans (HDHP)  
and  
Health Savings Accounts (HSAs)  
What they are, Who's buying and  
Why

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# OVERVIEW

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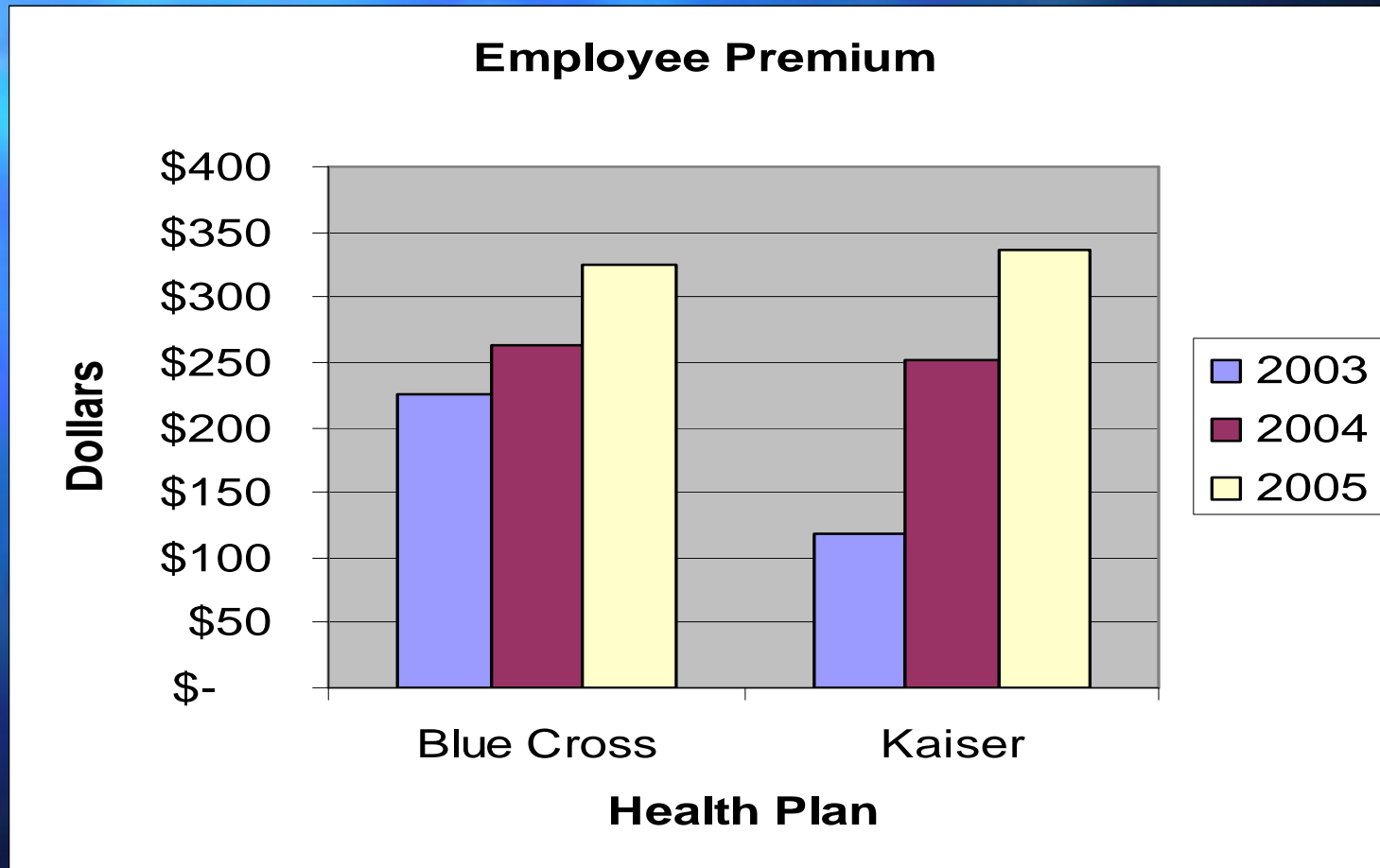
- The push to Consumer Directed Health Care (CDHP)
- Key elements of an HDHP
- How an HSA works with HDHP
- Who is currently buying and why

# Consumer Driven Health Plans - The Issues

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- Significant increase in premiums
- Rising costs of medical care
- Limit to employer's ability to assume costs
- Health care cost trends- 2005
- Marketed as decreasing cost/utilization with employee paying
- Employers are shifting the burden and sharing the cost with employees

# One Client's 3 yr Rate Experience



# HDHP & HSA's

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- HSA IRS regulations finalized at end of 2004 - slowed implementation
- Health Plans developing HDHP programs for market segments:
  - Currently most offerings are to individual and small group
  - Large group (51+) still developing

# High Deductible Health Plan (HDHP)

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- Deductible is over \$1,000 for individual/  
\$2000 for family
- Maximum out of pocket - how liability is  
limited for enrollees
- Health plan discounts apply to the fees
- Preventative care is a component in some

# Individual HDHP Examples

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- Blue Cross - \$2,400 ded / \$5,000 OOP max 80/20
- Aetna - \$2,100 ded / \$5,000 OOP max 90/10
- Blue Shield - \$2,400 ded / \$3,000 OOP max 80/20

# Health Savings Account (HSA)

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An HSA is a tax-exempt trust or custodial account established exclusively for the purpose of paying qualified medical expenses of the account beneficiary who, for the months for which contributions are made to an HSA, is covered under a high deductible health plan (HDHP).

\*Medicare Prescription, Drug and Modernization Act of 2003, Sec. 223



# Tax Advantages of HSA's

- Contributions are tax deductible from gross earnings for federal taxes
- Contributions made by employer are not included in employee taxable income
- Contributions are tax free when used for qualified medical expenses
- Balance not spent rolls tax-free, earning interest—similar to an IRA. Interest earned is tax-free/tax deferred
- Fund is owned by employee-goes with employee if they leave funding employer

# How to Qualify for an HSA

- Need a qualified HDHP
- **Limits for 2005**

		Out of	Maximum
	Deductible	Pocket	Contribution
Individual	\$ 1,000	\$ 5,100	\$ 2,650
Family	\$ 2,000	\$ 10,200	\$ 5,250

# Use of HSA Funds

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- Dental
- Acupuncture
- Vision
- LTC Insurance
- Cobra
- Premiums for Medicare Part A & B, and Medicare Advantage Premiums

# Ease of Use

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- Debit cards
- Checks
- Multiple banks –low fees
  - Internet banks
  - Health Plan partners
    - Kaiser/Wells Fargo
    - Blue Shield/Wells Fargo
    - Blue Cross/Chase Manhattan

# Who is Currently Setting up HSA's

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- Not a lot of people or companies
- Individuals seeking tax shelter
- Small companies
  - Owners/Principals
- Large companies- carriers are still in product development
- President Bush (but not Mr. Garamendi)

# Issues

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- Lack of broad appeal
  - Purchasing correlated to education/understanding of tax advantages
- Cost shifting to employees
- Does not stem the tide of double digit increases
- Long term play out questionable

# Issues for Hospitals

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- Billing Process
  - Bill Health Plan
  - Health Plan determines allowed payable
  - Patient is billed up to deductible and co-pay
  - Health Plan responsible once deductible is met

# Bad Debt Issues

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- Currently those buying are not low income
- Hospitals should use standard processes of pre-admit financial benefit screening and insurance verification to ensure proper amount of pre-pay dollars requested.



## Long Term Outlook

- Will gain in popularity as premiums continue to increase
- Other financing mechanisms may gain in popularity
  - Flexible Spending Accounts (FSA's) may play a larger role if allowed to roll any remaining dollars forward
  - Health Reimbursement Accounts (HRA's) should gain in popularity as they are linked to HDHP — employers NOT employees retain unused funds.
- Many that Bush is targeting with the HDHP will never be able to afford to set aside \$'s in an HSA

# Remember

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- A High Deductible Health Plan is just that
  - Take all normal precautions
- Those with a High Deductible Health Plan do not have to have an HSA
- There is no assurance that a HDHP has money set aside to cover the deductible