By Joel Leininger, LS

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The HSA Advantage

There are few surveyors who are excited by the prospect of discussing insurance of any form, and health insurance in particular. I count myself among that group. Nevertheless, something has happened in the last few years of which you should be aware, but I have discovered that hardly any surveyors know of it.

By the 1960s, most employers provided fully or partially-paid health insurance as a fringe benefit. Although a nice gesture, there is a problem with the concept: removing the payer from the doctor/patient relationship tends also to remove any concern that costs are contained. It is similar to having your employer pay for your groceries. If someone else gets the bill, there is no advantage in being a smart shopper. And so, as a society, we abandoned effective procurement of medical services. The vicious cycle this started is beyond the scope of this essay, but one of the effects is that over time health insurance premiums skyrocketed.

In fact, premium costs have exploded so much in the last 15 years that they now comprise the third largest expense for the average survey firm, after direct payroll costs and rent. I don't know about you, but that annoys me.

Much Better

Health Savings Accounts were created by Congress in 2003 as a means to put the consumer back in the driver's seat concerning health services procurement. The idea has two parts: a "high deductible health plan" (HDHP) and a special checking account owned and controlled by the employee. Stay with me here, this gets good. (I see those eyes starting to glaze over!)

Here is how it works from the employee's standpoint: A checking account is created in the employee's name, which account is controlled solely by that employee. (IRS regulations govern the types of expenses eligible for payment out of that account, but they seem pretty broad to me. An online search of "HSA qualified expense" will quickly bring up links to the list.) The firm deposits money into the account during the year as it pays insurance costs, and the account grows. Other normal health plan provisions apply, such as in-network providers giving reduced rates, etc. The difference is that after the plan agrees on the final cost of the doctor visit, the employee pays the doctor directly out of the HSA. In the event of a poor health year, the employee pays the medical bills from the account, up to the yearly deductible, and the HDHP pays the rest. Any money not spent remains for future use by the employee. This reinforces the idea that "smart shopping" of medical care is in the employee's best interest.

Here is how it works from the firm's standpoint: The monthly premium for an HDHP should be considerably less than similar coverage in a traditional plan. The savings on that premium can be diverted into the HSA. Out-of-pocket costs are the same, only instead of throwing all the money away in premiums, a large chunk can go into your employee's pocket. (They tend to like that.)

Now comes the good part. Funds in the HSA not spent during the year stay in the account, to be joined by funds deposited the next year, and so on. The account remains in place even if you later decide to return to traditional insurance coverage or leave the firm. Employees can also make tax-deductible contributions to the account (up to the limit). Anything remaining in your account at age 65 is yours to spend however you wish, taxable as normal income, or on medical expenses, tax-free. In other words, the account acts like as specialized 401(k). All interest the account earns is tax-exempt. Since your out-of-pocket costs each year are capped by the HDHP deductible, only in poor health years should you merely break even. At all other times, you will be ahead. Married employees who maintain such an account for a decade or more could easily accrue $30,000 or $40,000 over that period, provided they remain relatively healthy. Moreover, the HSA can, like other retirement accounts, be split among several investment vehicles.

> **[Health Savings Accounts are an idea whose time has come.]**

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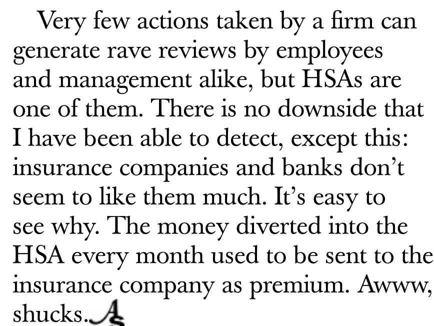
For Instance

I'll use our firm as an example. Our premiums for a middle-of-the-road health plan ran about $1,200 per month for a family. And our firm paid them in full. (I realize every firm does not do that, but the concept still holds for partial funding.) Our HDHP premiums are around $550 per month, leaving $650 available for the firm to deposit into the employee's HSA. The HDHP deductible is $5,800 for a family, so $5,800 is the limit that can be contributed to the HSA. You can see that by September, the account will have been fully funded, assuming a monthly contribution. In the last quarter of the year, then, only the HDHP premiums get paid, saving the firm cash. (The contributions do not have to be even, nor do they have to equal the deductible amount.) The HSA contributions are deductible by the firm, but do not appear on the employee's W-2 form at the end of the year. In essence, it is a pre-tax account with which to pay miscellaneous medical expenses, with no deadline. There are other knobs and buttons associated with HSAs (like catch-up contributions for people aged 55 to 65, for instance), but they are almost always things that make the idea *better*.

Engage

Therefore, I have a suggestion for you: get the financial manager at your firm to solicit HSA proposals from your health insurance carrier, or from competitive carriers. Be prepared for them to have an unenthusiastic response. (We had to ask several times, and, finally, insist that HSAs be proposed before we got those proposals. I've heard others relate similar stories.) Be persistent. Many insurance companies now offer to provide the banking component too, saving the complexity of dealing with two entities.



Very few actions taken by a firm can generate rave reviews by employees and management alike, but HSAs are one of them. There is no downside that I have been able to detect, except this: insurance companies and banks don't seem to like them much. It's easy to see why. The money diverted into the HSA every month used to be sent to the insurance company as premium. Awww, shucks.

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