

HSAs Poised to Undermine HMOs

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You may not have noticed the latest effort by the United States Congress to make consumers more aware of the money they spend on their health care. It comes as an alternative to the usual choices in health insurance and managed care plans. It's called a health savings account or HSA.

An HSA is a tax-free way to set aside money to pay for your health care. It is generally discretionary in nature, giving consumers control over how and where they spend their initial health care dollars.

The concept of an HSA is reasonably simple:

The consumer opens the tax-free HSA account to cover the initial costs of their health care. In order to qualify for the HSA account, the consumer must purchase a high-deductible health insurance plan at the same time. Because it doesn't start paying for health care expenses until after the consumer has met the deductible (anywhere from \$1,000-\$4,000 for an individual), the premiums for the high-deductible plan are much lower. The consumer takes the money they save on the premiums for the high-deductible plan and invests it in their health savings account. The consumer can now exercise more control over how they spend money on maintaining their health, while being protected in case of a health emergency. Best of all, any money the consumer doesn't spend on their health care stays in their HSA and grows year by year, until they can have a substantial sum from which to fund care in their retirement years.

The economic advantages are not hard to figure out. In order to make money, a managed care organization is not able to take a dollar from the consumer and spend 100 percent of that dollar on their health care. After overhead and profit, only about 85 cents of that managed care dollar gets spent on health care.¹ By utilizing HSA accounts in conjunction with high-deductible health insurance, the consumer spends the entire dollar on their health care, effectively cutting out the HMO, its overhead costs and profit.

There are two reasons why HSAs will be very popular: choice and control.

- Employers are just beginning to take advantage of HSAs. They like them because their employees are no longer upset about what their health plan will and won't let them do. There's nothing worse for an employer than paying hundreds of thousands of dollars for an employee benefit, only to have the employees upset with the managed care plans the company offers.
- Your patients will like HSAs because they can choose which providers they see and how they manage their own health care. It's their money and their choice. The power to make choices returns to the patient, where it belongs.
- You will like HSAs because they let your patients pay for your services right out of their HSA account - no paperwork, no restrictions. Some banks even offer a debit card with their HSA account, so patients can pay for care right out of the account.

Needless to say, HSAs are not for everyone, particularly those who continue to have large health care expenditures year after year. Depending on what a patient's choices are, an HSA may not be as attractive as the HMO plans currently being offered. As HMO plans become more restrictive, HSAs will become more attractive.

But a significant portion of the population, particularly those who resent the lack of choices and control, will take advantage of HSAs. They will be attracted to an account that builds up and effectively rewards them when they spend their health care dollars wisely. HSAs are new this year and most health insurance companies are just beginning to offer them. Expect a lot more people to be interested in health savings accounts as they renew their health insurance in 2005.

To learn more about HSAs and to educate your patients about their many potential advantages, visit the following sites:

www.treas.gov/offices/public-affairs/hsa/

www.nahu.org/consumer/HSAGuide.htm

www.opm.gov/hsa/

www.usatoday.com/money/perfi/taxes/2003-12-04-mym_x.htm

HSAs are worth spending your time on and discussing with your patients - particularly patients currently on restrictive plans. If they have a choice, make sure they understand the benefits.

Reference

1. *2001 HMO Profiles: A Consumer Comparison of the Largest Illinois Health Maintenance Organizations*. A Citizen Action/Illinois Report, October 2002.

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NOVEMBER 2004