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Adam H. Putnam, Chairman

Health Savings Accounts

The Consumer Driven Health Plan of the Future

Health Savings Accounts (HSA) are an innovative initiative, combing consumer driven ideals with individual responsibility, as a means to fund health benefits. Since enacted, HSAs have been very successful, but there is still confusion and misconceptions regarding the way they operate. This paper details how HSAs work, who is eligible to enroll, and how they are funded, as well as, provide statistics on their success.

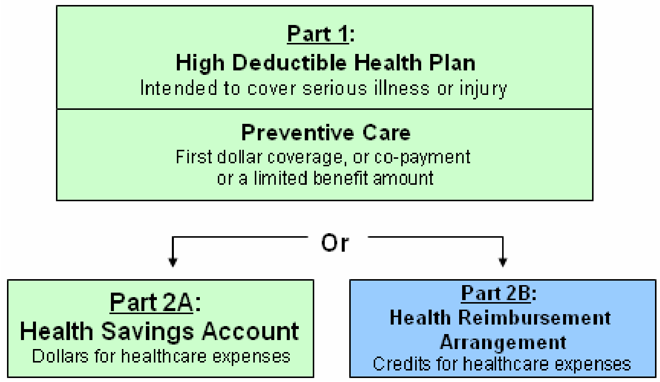
What is a Health Savings Account?

A type of consumer driven health plan, a Health Savings Account (HSA) is a special account owned by an individual where contributions to the account are intended to pay for current and future medical expenses. HSAs are owned by the individual, not the employer, therefore if the individual changes jobs, they retain their same health account. The individual has complete control over their account, and makes all of their health care decisions, such as how much to contribute or which medical expenses should be paid for from the HSA. Further, HSAs are different from its predecessor, the Flexible Spending Account (FSA), because there is no "use it or lose it" rule, and all funds remain in the account until they are spent.

Modeled after Medical Savings Accounts (MSAs), HSAs were created in Medicare legislation and signed into law by President Bush in 2003.

Who Qualifies for a Health Savings Account?

In order to be eligible for an HSA, a few criteria must be fulfilled. First, the consumer must be a participant in a High Deductible Health Plan (HDHP). As defined by the Office of Personnel Management, HDHPs "feature higher annual deductibles (a minimum of $1,100 for Self and $2,200 for Self and Family coverage) than other traditional health plans." High Deductible Health Plans can be offered with a Preferred Provider Organization (PPO), Health Management Organization (HMO), or a Point of Service (POS). Some HDHPs will provide the option of using in-network or out-of-network providers; however, the individual saves money by using in-network providers. HDHPs are intended to provide health insurance in situations of serious illness and catastrophic injury. With HDHPs the consumer must meet the plan's deductible before the plan begins paying benefits. The only exception is for preventive care, where the individuals pays a small co-payment until a maximum dollar amount is met, at which point the individual no longer pays to receive preventive care.



**Source: The Office of Personnel Management. "Understanding High Deductible Health Plans and the Role of: Health Savings Accounts Health Reimbursement Arrangements." http://www.opm.gov/hsa/hdhppresentation.asp#0*

By combining HDHPs and HSAs, the consumer has more discretion and flexibility over their health insurance, and enables the individual to save funds for future medical expenses. Another requirement to enroll in a Health Savings Account is the individual must not be enrolled in any other health insurance (with the exception of the HDHP), including Medicare. Finally, to qualify for an HSA the individual cannot be claimed by someone else as a dependent.

How is a Health Savings Account Funded?

Either the employer or the individual may contribute a Health Savings Account. When the employer contributes, it is not subject to taxation. The maximum amount that can be contributed to an HSA is deductible of the HDHP, however, there are special exceptions made for those who are between the ages of 55 and 65.

Are Health Savings Accounts Successful?

Since enacted by President Bush, Health Saving Accounts have not only increased dramatically in overall enrollment, but those who are participating HSAs were previously difficult population to insure. In a fact sheet published by the United States Department of the Treasury, enrollment in HSAs has increased from 480,000 in November 2004 to a whopping 3.2 million in December of 2005. In addition, presently Americans have invested 1 billion dollars in Health Savings Accounts. Further, the Department of the Treasury dispels the myth that only the young and wealthy are enrolling in HSAs. In fact, out of the 3.2 million who are participating in HSAs, 31% were previously uninsured, 33% are small business who did not previously offer health insurance, 42% have household incomes under $50,000, and 50% are over the age of 40.

Conclusion

Health Savings Accounts are an innovative way to bring control of health care into the hand hands of the individual, enabling them to make decisions about their care and costs. HSAs are proving to be successful, and enabling many to be covered who did not previously have health insurance. Further, according to estimates of the Department of the Treasury, under President Bush's initiative, by 2010 21 million individuals will be enrolled in Health Savings Accounts.