

By William J. Lynott

Time for a Checkup?

How health savings accounts can ease your skyrocketing healthcare costs.

IF YOU'RE LIKE MOST SPA OWNERS, YOU'RE FIGHTING what looks like a losing battle against the oncoming tide of rising healthcare costs. To make matters worse, the bedlam now surrounding the issue of healthcare reform is likely only elevating your stress levels.

While it's doubtful this problem will disappear no matter how the current scenario in Washington plays out, the Health Savings Account (HSA) legislation signed into law a few years ago will continue to offer you the possibility of making a dramatic reduction in your expenses. In their first year on the market, HSAs attracted thousands of individuals and business owners eager to escape the runaway costs of health insurance. Now, more than six million people are enrolled in HSAs. William Boyles, publisher of an insurance industry newsletter, predicts that 20 million people will sign up within the next five years.

In this story, we'll discuss how HSAs work, as well as break them down for employers, massage therapists and estheticians alike. They're just one way

that healthcare can be more accessible for those who work to improve the well-being of others.

Checking the Chart

On December 8, 2003, former president George W. Bush established HSAs as part of the Medicare Prescription Drug, Improvement and Modernization Act. The law made HSAs permanent and available to everyone—individuals, business owners and employees. Data gathered by the healthcare providers' organization known as America's Health Insurance Plans (ahip.org) indicates that 6.1 million people use HSAs—4.6 million as part of an employer-backed plan, and 1.5 million as individuals.

Here's how they work:

First of all, HSAs come in two parts. The interested party—who must be younger than 65—purchases a low-cost, high-deductible health insurance policy. Most plans are available through a growing number of providers, including such giants as Aetna (aetna.com), UnitedHealth Group (unitedhealthgroup.com), BlueCross BlueShield (bcbs.com) and Golden Rule Insurance (goldenrule.com). Money is no longer taken out of her paycheck to pay for healthcare, freeing up those funds.

Instead, she must then open a dedicated savings account (otherwise known as a HSA) in conjunction with the insurance policy.

She then makes deposits in the HSA that aren't subject to income taxes. Each year, she may set aside up to \$3,000 if the account is only for her, or \$5,950 if it's meant to cover her family. She can then use that money to pay for medical care. Once any expenses reach the amount of the deductible—if they do—the insurance policy kicks in. Much like an IRA, she



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owns the HSA—not her employer—and she can face penalties if she withdraws money for nonmedical purposes before she turns 65.

Consider this example: Business owner Mark enrolls himself and his family in a plan with a \$5,250 deductible. He then deposits a *tax-free* \$400 per month in his HSA. His family's out-of-pocket medical expenses that year, paid from funds in his HSA, add up to \$3,200. Since his total deposits for those 12 months were \$4,800, the balance of \$1,600 rolls over in his account for the next year. The money compounds without attracting attention from the IRS—as long as it's used to pay for qualified medical expenses.

As the money in the account grows, it becomes a resource available to cover the cost of routine or future medical care. This is an important feature that makes HSAs more attractive than their predecessors, since previous types of flexible accounts reset once a year and wiped out existing funds.

In another example, Tom enrolls in a similar plan with the same deductible amount. He also deposits \$400 per month in his tax-favored HSA. However, one of Tom's children requires expensive surgery, raising the family's total medical expenses for the year to \$15,500. Once Tom's out-of-pocket costs reach the family deductible of \$5,250, the insurance pays the balance of \$10,250. In this case, the HSA protects his family against catastrophic medical expenses.

A Good Prognosis?

The tax advantages of HSAs make them appealing to small business owners and the self-employed, as well as to the uninsured.

In addition to those incentives, HSAs offer holders complete control over their choice of doctors and eliminate the unpopular referral requirements of some health plans.

"Nearly all of the policies I sell now are HSAs," says Tom Rogala of Rogala Benefits (rogalabenefits.com) in Northville, Michigan. "All of the

Frequently Asked Questions

Who is eligible to open a Health Savings Account (HSA)? Anyone under the age of 65 may apply for a HSA and companion high-deductible health insurance policy. However, individuals with serious pre-existing medical conditions may find it difficult to find a provider willing to accept them.

Where can I open an account? There are now scores of insurance companies and brokerage firms offering HSA coverage. They include such major providers as Aetna (aetna.com), UnitedHealth Group (unitedhealthgroup.com), BlueCross BlueShield (bcbs.com) and Golden Rule Insurance (goldenrule.com). In addition, HSAs can be obtained through thousands of independent health-insurance brokers.

Does a HSA pay for the same things that regular insurance covers? HSA funds can pay for any qualified medical expense, even if it's not covered by your health insurance. For example, most health insurance doesn't cover the cost of over-the-counter medicines, but HSAs do. If the funds from the HSA are used for qualified medical expenses, the money spent is tax-free.

Do unused funds in a HSA roll over year after year? Yes, the balance in a HSA automatically rolls over from year to year. You won't lose your money if you don't spend it within the year.

Where can I find more detailed information about HSAs? Check out the websites hsainsider.com and ustreas.gov/offices/public-affairs/hsa.

plans provide 100% coverage after the deductible. I can't imagine why any business owner or individual would want to go any other route."

Rogala, an independent health-insurance broker, says that many of his clients are small-business owners. They need coverage for themselves and would like to make it available to their employees at little to no cost, and HSAs make that possible. "A business owner can sign up for a HSA for herself and make one available to any employee on a voluntary basis," he says. "That way, the employee deals directly with the provider. The employer isn't involved and makes no contribution."

Employers can also sign up for group HSA plans in which the

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company pays a portion of the cost for each covered employee. The required employer contribution for group plans varies by state. In Michigan, for example, employers are required to contribute a minimum of 25% to the cost of the high-deductible insurance policy. "That's still a lot less than it would cost the employer for any other type of plan," Rogala says.

Rogala tells of one of his clients, a small-business owner who was previously paying \$900 per month for coverage for himself and his family. "With his HSA, his cost is \$250 per month for the

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high-deductible insurance policy,” Rogala says. “Plus, he deposits \$295 tax-deductible dollars in his HSA each month to pay for medical care as needed. If his costs for the year exceed the amount of his deposits, the insurance kicks in with 100% coverage. If his costs are less than his deposits during any given year, the balance will roll over—accumulating a nest egg to pay for future care.”

Business owner Steve Sclater from Saline, Michigan, signed up for HSAs for himself and his three employees. “I’d been paying about \$2,600 a month for health coverage for the four families,” he says. “The new HSAs will save me at least 25%, and we have better coverage than we used to have.”

Opposing Viewpoints

Of course, not everyone is enthusiastic about HSAs. Skeptics argue that the high deductibles required in participating policies will deter some



from buying an HSA plan, while others will be reluctant to dip into their HSA savings to pay for medical care with what amounts to their

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own money. At a congressional hearing in 2004, Rep. Pete Stark (D-California) said that he believed high-deductible plans simply shift costs to consumers

who pay more out of pocket.

“That’s ludicrous,” Rogala says. “My files are full of examples of individuals who are thrilled with the savings and the service they’re

getting through their HSAs.”

One disadvantage for some prospective enrollees is the reluctance or refusal of some insurance providers to issue policies to people with serious pre-existing medical conditions. (However, this issue may be addressed in any final healthcare legislation yet to emerge from Washington.) A report from the Government Accountability Office (gao.gov) in 2006 also indicated that most HSA participants were satisfied with their coverage, but they recommended further research if a potential customer has children or a chronic condition, or requires constant medication. Indeed, a major criticism of HSAs is that they’re most appropriate for the young and healthy.

Still, while some aren’t ready to jump on the HSA bandwagon, there’s no denying the rapidly growing popularity of its approach to health insurance. Employees like the way HSAs give them more choices and control over their healthcare. Small-business owners like HSAs because they help to control spiraling healthcare costs, saving more money for their bottom lines.

It’s often difficult in the spa industry to set up effective health benefits given the relative small size of many facilities. But with HSAs, you have a chance to offer your employees the opportunity to set up their own healthcare, whether you can afford to pitch in or not. Given the overall purpose of the spa environment, it’s the least you can do. ●

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