Insurance Companies Mull Over Health Savings Accounts

Though the potential for widespread use of the accounts is there, some companies are reliving their bad experiences with medical savings accounts.

By Laurie Kulikowski

January 14, 2004 - For some insurance companies, the creation of health savings accounts (HSA) in the recently passed Medicare Prescription Drug Improvement and Modernization Act of 2003 was quite a surprise. Firms had to make fast decisions on whether to offer them. So far companies like Aetna, Fortis Health, and several Blue Cross Blue Shield units immediately said yes. Others are taking a slower approach to the new accounts, especially after poor experiences with the highly restricted Medical Savings Accounts. This time companies want to do it right.

"HSAs are really a take-off of medical savings accounts," said Scott Krienke, vice president of individual medical for Fortis Health in Milwaukee, Wisc., which had a product offering available starting Jan. 1. "If you take away the uninsurable, I think they're going to be a fit for a majority of Americans."

With more broad appeal than the MSA, the accounts require individuals or small groups to have a qualifying high-deductible health plan--identified as one that has a minimum deductible of $1,000 for individual coverage and $2,000 for family coverage. (Maximum out-of-pocket expenses must be no more than $5,000 annually and $10,000 for family expenses.) Contributions then go into an account tax free, similar to an IRA, and come out of the account, for qualified medical expenses, tax free. Unlike a Flexible Spending Account, dollars can accumulate, rollover from year to year, and are portable. In addition, those who currently have a Medical Savings Account can rollover into an HSA. The maximum contribution that individuals can make is $2,600, or $5,150 for a family plan.

For small business owners, "this provides a tax-advantaged way for the owner to set aside money. The HSA is a very attractive option for them and they get to participate along with their employees. It also gives the owners an opportunity to set aside more money than they could today - particularly those maxed out in other defined contribution plans," said Jerry Ripperger, medical product director at Principal in Des Moines, Iowa.

If Fortis' short-term experience with the accounts is any proof, more companies might be jumping on the HSA bandwagon. Krienke said the firm has received more than 1,000 applications since the beginning of the year. "That sounds pretty encouraging to me," he said, adding that Congressional analysts predict 40 million accounts to be set up by 2013.

By February, Aetna should have the details sorted out for its HSA. The product will be incorporated with its consumer-driven product suite - Aetna HealthFund, said Betsy Sell, a spokeswoman for Aetna.

"HSAs are going to revolutionize the employee benefit marketplace and going to change forever how people look at purchasing healthcare," said Bill Lavis, a partner at insurance advisory firm, Sitzmann Morris & Lavis in Oakland, Calif. "We have a close to risk-free method to put tax-free dollars aside to pay for qualifying healthcare expenses."

As beneficial as the accounts may be, many companies are still "looking into" offering the HSAs. Krienke said that the wait-and-see mentality for HSAs comes from a bad Medical Savings Account experience. MSAs had limited use due to strict eligibility requirements and a set expiration period. Yet many firms still created a program for them. This time around companies are sitting on the sidelines to see just how popular the accounts are.

"MSAs had lots of limitations on them which impaired the ability to achieve the type of market penetration that they should have. The HSAs really have removed a lot of those negative features. I expect to see much more growth in HSA's than MSA's," Ripperger added.

However, Tony Novak, a Financial-Planning.com discussion board moderator and tax expert in Ocean City, N.J., said in a December article that small businesses may not be motivated to offer these plans because they don't share in any net savings in providing these plans. "HSAs may help accelerate the trend for small businesses to save money by increasing the deductibles on health insurance plans, but will not provide the employer with a motivation to fund the tax-free savings accounts on behalf of employees," Novak wrote.

And there are some bumps that most companies need to get past first. Besides gaining state approval, these types of accounts are prone to small investments at a time with lots of transaction processing needed -- especially since individuals need to have ready access to those funds. Ripperger said it's difficult for companies to make money on that. He also doesn't expect there to be widespread use of the product in the early years, "which means you have to craft the investment very carefully in order to make any return on those," he said. "It can be done. We're just going to have to figure out how we can do that."