

# THE VALUE OF HEALTH SAVINGS ACCOUNT PROGRAMS

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## Introduction to Health Savings Account (HSA) Programs

**According to America's Health Insurance Plans (AHIP), 4.5 million people were covered by a HSA-qualified high-deductible health plan (HDHP) in January 2007. In the individual health market, enrollment rose from 855,000 in January 2006 to 1.1 million in January 2007—over 28%.**

Introduced in 2004 as the newest innovation in consumer-driven health care, HSA Programs continue to gain momentum in the marketplace and represent a growing opportunity for insurance agents. Combining a HSA-qualified high-deductible health plan and a Health Savings Account, they offer consumers major medical coverage along with more control over their health care expenses.

Let's take a closer look at how they work.

**HDHP** - HSA programs start with a qualified high-deductible health plan. Generally, a HDHP is a health plan that satisfies certain requirements with respect to deductibles and out-of-pocket expenses. Specifically (for tax year 2007\*), a HDHP is defined as a plan having an:

- annual deductible of at least \$1,100 for self-only coverage and at least \$2,200 for family coverage (coverage for two or more individuals); and
- annual out-of-pocket expenses (deductibles, co-payments and other amounts, but not premiums) not exceeding \$5,500 for self-only coverage, and \$11,000 for family coverage.

In the case of family coverage, an aggregate family deductible requires only one deductible be met per family.

HDHPs may offer PPO or indemnity coverage and once the deductible is met covers doctor office visit fees, outpatient x-ray and labs, outpatient prescription drugs and inpatient hospital and surgical fees. Plans can pay for preventive care services on a first-dollar basis. Additionally, they offer lower insurance premiums than traditional copay plans and the savings can be used to fund the second part of an HSA Program: the HSA.

**HSA** - This IRA-style savings account allows consumers to reduce their taxable income by building savings. Until 2007, the annual HSA contribution was tied to the number of full months a person was covered by their HDHP. For 2007 and forward, account holders can make the full statutory contribution (\$2,850 for self-only coverage or \$5,650 for family coverage) as long as they have HDHP

coverage on December 1 and remain covered through the following year. Eligible individuals 55 and older can make additional "catch-up" contributions each year until they enroll in Medicare—that amount is \$800 for 2007.

The term "Medical IRA" helps describe how funds remain in the account from year to year, earning interest and providing multiple tax advantages such as:

- Tax-deductible contributions
- Tax-free earning through investments
- Tax-free withdrawals for qualified medical expenses

But, unlike funds in an IRA, HSA funds can be withdrawn to cover qualified medical expenses at any time without penalty. These include most medical care and services, dental and vision care, and over-the-counter drugs such as aspirin. HSA funds can also pay for covered medical expenses until the deductible is met and expenses of a spouse and dependent children even if they are not covered by the HDHP.

### Examples of qualified medical expenses:

- Rx drugs
- Chiropractic care
- Reading glasses
- Maternity
- Allergy medicine
- Oxygen equipment
- Band-aids
- Doctor's fees
- Dental services

There is no exhaustive list of qualified medical expenses. To be an expense that can be paid out of the savings account it has to be primarily for the prevention or alleviation of a physical or mental illness. The bottom line is that the consumer is responsible for the decision, and therefore should familiarize himself or herself with qualified medical expenses. There is a partial definition in IRS Publication 502; or, a visit to the Q&A Section of <http://www.treas.gov/offices/publicaffairs/hsa/> can provide additional basic details on how health savings accounts work.

\*For 2008, the minimum required annual deductibles for HDHPs will remain unchanged. The maximum out-of-pocket limit for self-only coverage will be \$5,600 (\$11,200 for family coverage) and maximum annual contribution limits for self-only coverage will be \$2,900 (\$5,800 for family coverage). Annual catch-up contribution will be \$900.

**Sources:** www.ahip.org, www.treas.gov/offices/public-affairs/hsa/

## QuikFacts

Who's purchasing HSAs? Recent data offer some insight into the HSA market and helps to reveal the variety of purchasers of HSA programs who find value in having this type of consumer-driven health plan.

### The Previously Uninsured

HSAs are proving to help insure those without previous coverage. In the individual market, 27% of new enrollees were previously uninsured. The remaining 73% replaced prior coverage. (AHIP January 2007 census) Half of the 29 year-old and younger HSA-eligible plan purchasers were previously uninsured. (Ehealthinsurance.com)

### Age

In the individual health market, 46% of those covered under an HSA-eligible HDHP plan were aged 40 and above, and 54% were below the age of 40:

- 27% of HSA enrollees were younger than 20;
- 12% were between ages 20 and 29;
- 15% were between ages 30 and 39;
- 22% were between 40 and 49; and
- 24% were ages 50 and over.

(AHIP January 2007 census)

### Income

Research suggests that HSAs are proving to be an economical solution for buyers at all income levels. According to an Ehealthinsurance.com report published in May 2006, the income distribution among people with HSA-qualified plans includes large numbers of moderate-income people.

- 45% had incomes of less than \$50,000
  - 25% had incomes of \$35,000 or less
  - 20% had incomes between \$35,001 and \$50,000
- 21% had incomes between \$50,001 and \$75,000
- 14% had incomes between \$75,001 and \$99,999
- 20% had incomes of \$100,000 or more

### Self-only vs. Family Plans

The sale of individual plans continues to increase. In 2005, 63% of HSA-eligible plans were purchased by individuals, up from 51% in 2004. (Ehealthinsurance.com)

## Savings Example

Plan Example for an Individual	Traditional Plan (\$1,000 Ded. 100% Coins.)	Typical HSA Plan (\$2,600 Ded. 100% Coins.)
Monthly Premium Paid	\$200	\$100
Tax-deductible monthly HSA deposit (optional)	Not allowed	\$100
Total Monthly Cost	\$200	\$200
Annual cost in premium for Health Plan	\$2,400	\$1,200
Annual cost for HSA		\$1,200
Annual cost (premium for Health Plan + HSA)	\$2,400	\$2,400
Tax Savings (33% of HSA deposit)	None	\$400
Total cost of Health Plan and HSA	\$2,400	\$2,000
HSA balance after one year (with no medical claims)	None	\$1,200*
If \$1,000 of medical claims are incurred – out-of-pocket expenses from the claim	\$1,000	None (claim is covered by \$1,000 in the HSA)
Annual out-of-pocket expenses	\$3,400	\$2,000
<b>Annual Savings with the HSA Plan</b>		<b>\$1,600**</b>
* Does not include interest earned in account.		
**Annual savings is calculated by subtracting the annual out-of-pocket expenses with the traditional plan (\$3,400) from the annual out-of-pocket expenses of the HSA plan (\$2,000) plus adding the remaining \$200 in the HSA, which can roll over into the next year if unused by claims. Please note if you are self-employed you can deduct your health insurance premium.		

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