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HSA *focus*

Know options, find the right fit

By Jim Hirsch

In the three years since Health Savings Accounts (HSA) were introduced, we have viewed them with both skepticism and optimism. On one hand, we remember Medical Savings Accounts (MSAs) – are they still around? On the other hand, the HSA can be a great investment vehicle even if you are not ready to embrace the whole Consumer Driven Health Plan (CDHP) concept. The CDHP model suggests more personal involvement in spending health care dollars leads to lower health care costs.

My experience is that the more questions I answered about HSAs, the more Health Reimbursement Accounts (HRA) and Flexible Spending Accounts (FSA) plans were implemented. After all, the alternatives give employees more control over the funding and eligible expenses. Many employers were not ready to let employees control these dollars. Interest in HSAs came primarily from highly compensated employees because of the investment benefits. Saving overall health care costs for the company, while a desirable outcome was more difficult to comprehend.

What happened over the past year that has increased the HSA acceptance in the marketplace may not be attributable as much to an employer epiphany as to the merits of CDHP's, but rather something easier to grasp. The insurance carriers embraced the high deductible health plans (HDHPs) in the form of premium savings, something they never did with MSAs. What insurance professional or employer can afford to ignore a HDHP in today's environment? However, it is not as simple as "take the money and run".

There are important considerations before implementing a HDHP with HSAs. Understand your objective. Remember, the increased popularity did not occur until the premium savings showed up. If your objective is to provide health care for your employees or customer at the lowest possible cost, contributing to an HSA, which is the equivalent of opening an IRA for your employees may not be the way to go. Perhaps an HRA, where the money is not funded until the claim is incurred would make more sense.

Do not confuse an HSA compatible health plan with an HSA. You can purchase the qualified HDHP without setting up the HSA, or establish an HRA or an employer-contributed FSA plan.

If your objective is to share some or all of the premium savings with your employees and you subscribe to the philosophy that employees should become increasingly involved in managing their health care dollars, then HSAs may be the way to go. An HSA can be better than contributing to employees' 401(k) because the money not only can accumulate tax free, it will never be taxed provided it is used for any eligible health care expense. Not a bad retirement health plan.

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Another consideration before making the HSA decision is whether an FSA plan is already in place, and if so, does the plan year match up with the health plan year. An employee cannot have a general FSA which reimburses all allowable medical expenses if they have an HSA.

The introduction of an HSA may be the ideal time to open an FSA. Some may argue that with an HSA, an FSA is no longer needed, but if your intent is to protect against the risk of meeting a high deductible, it may make sense to put money in your FSA for dental and vision expenses. And by the way, the drug benefit is subject to the medical deductible in your health plan. Consider paying any known drug expenses that qualify as preventive care out of your FSA account.

Many tools are at our disposal today for addressing employee health care needs. As benefit professionals and decision makers, we must understand these tools and how they can be used together to optimize the needs of the employer and their employees. Taking the time to understand health care objectives will make for better decisions. The answers are not the same for every employer or employee.