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## Health care at the crossroads

# Health Savings Accounts: Nightmare or nirvana?

By Daniel F. Rigby, RHU, President and CEO  
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Part 1 of 3

If we don't make some fundamental changes in the way we structure and administer health care plans fairly soon, none of us will be able to afford health care coverage in the future.



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This is the point at which I should say, "Stop me if you've heard this one before." But that's exactly the problem. Most of us have heard it before. It appears that we hope health care is going to somehow heal itself, so we don't have to leave the comfort zone of co-pays and 100 percent coverage for tests and procedures.

It's clear that the situation is not going to get better by itself. Today the average annual cost for individual healthcare coverage is \$4,101. Assuming increases continue at around 11 percent, the cost will be \$11,531 by 2015. And that's for individual coverage. Imagine what family coverage will cost!

The problem is that traditional health plans just plain cost too much money. We're not fully using the benefits we pay for, and the plans don't encourage fiscal responsibility. If I have a \$20 co-pay, and 100 percent or even 80 percent coverage for lab work or tests, I really don't have an interest in finding out what the real costs are. And I'm not very motivated to question whether I even need that MRI.

The time has come for all of us to move from denial to reality. It's time to get up close and personal with consumer-driven healthcare options. And that means getting to know Health Savings Accounts.

HSAs are a very important piece of the new consumer-driven health care plans that are beginning to make their move into corporate benefits programs. They also will begin to play an important role in sole proprietor coverage, and in coverage of the currently uninsured.

The big questions: Are HSAs right for you, and by the way, what exactly is an HSA?

Let's look at what they won't do. HSAs are not the panacea to our health care woes. They are not going to eliminate rate increases. But they will slow the increases. And, more important, HSAs can bring some sanity and sense of responsibility back into the way we choose and use health care.

The key concept behind the HSA is that the individual insured decides if it is in his or her best interest to use a particular medical service. If he uses that service, he pays the real price out of an individual health savings account, before the insurance pays.

It's just human nature that if something is free or dramatically under-priced, we're going to use it without thinking twice. That's the way it works with our current health care system. With an HSA, you are going to think twice before you use a particular service, because you are paying for it.

Here's how it works. You open and fund a Health Savings Account, which is used exclusively to reimburse medical expenses on a tax-free basis. As with any tax-favored benefit program, there are rules and restrictions.

Who is eligible for an HSA? Anyone who is covered by a High Deductible Health Plan (HDHP), not covered by other health insurance, not on Medicare and not a dependent on someone else's tax return. That translates to the majority of the adult population under age 65. In addition, there are no income limits, and you do not have to have earned income.

The main requirement is the high deductible health plan, which, for many of us, will be an unfamiliar product. HDHPs will allow first dollar coverage for preventive care, and can carry higher penalties for non-network use. And, they are indexed annually for inflation. In 2005,

minimum deductible for individual coverage is \$1,000, and for family coverage, it's \$2,000. The maximum out-of-pocket coverage is \$5,100 for an individual and \$10,200 for family coverage.

The good news is that all the money you put into your HSA is yours until it's utilized. Your account carries over from year to year, and it goes with you if you change employers. The bad news, or rather the change, is that the individual typically funds the HSA, although the employer may choose to contribute.

Quite a change from health care business as usual. More to think about, more to plan for.

Employers are going to have to invest more time and effort into employee education. One session at renewal time isn't going to cut it, at least in the introductory stages of this new health care plan approach. Employees are going to have to adopt a hands-on attitude toward their own health and not just sit back and let insurance pay for it.

But, there's a potentially greater payoff for all of us. Imagine a health care system that ultimately works more efficiently and effectively because we all have a stake in the success? Imagine a more educated health care consumer, focused on wellness and staying healthy?

### But wait... there's more: Healthcare at the Crossroads Parts Two and Three

- Part Two: What are the challenges HSAs pose and where are the HSA vendors?
- Part Three: The details: A comprehensive booklet of all the rules governing HSAs and HDHPs.

To receive your copy of either or both of these, e-mail Dan Rigby at [HSInfo@hrmsllc.com](mailto:HSInfo@hrmsllc.com).

## Quick Facts

### Human Resource Management Systems, LLC

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