

Introduction

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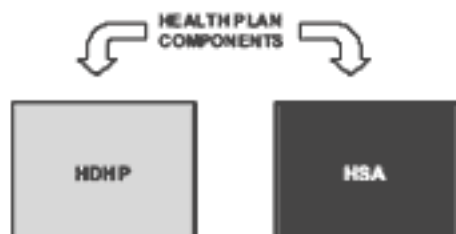
What issue tops off every list of national worries? Health care. Everyone—employers, employees and individuals—wrestles with how to get and pay for the necessities of medical care. Health care costs are a moving target as inflation, accessibility and complexity take their toll.

Consumer-driven health plans are the latest response to soaring costs. They teach and empower consumers to take financial control of their health care spending; Health Savings Accounts (HSAs) are the centerpiece of this new approach.

What is an HSA?

An HSA is a savings account that is combined with a qualified high-deductible health plan (HDHP). The HDHP protects the insured from the cost of a catastrophic illness, prolonged hospitalization or a particularly unhealthy year. The HSA can be used for meeting expenses before the HDHP deductible is met or for other health care expenses allowed under the Internal Revenue Code. These accounts can provide consumers flexibility and choice, along with incentives to become careful consumers.

The HSA account is administered by a bank, insurance company or approved third-party custodian or trustee. As long as the individual has a qualified HDHP, contributions to the HSA can be made tax-free. Employers can also make tax-free deposits to an employee's HSA account.



HSAs help individuals save for medical and retirement health expenses tax free. Essentially, the individual decides how to use the money, including whether to save it or spend it through the years. The HSA can be used to finance work/life transitions, such as COBRA payments (for health care coverage through your former employer) or premiums for long-term care. HSA funds can be used to offset retiree health expenses, such as Medicare Part B, or retiree health care coverage sponsored by your former employer. To help individuals make decisions, **HealthEquity-the HSA Company**, provides the tools to compare hospital, drug, or doctor costs and assist in making decisions on care and spending.

HSAs are like IRAs or 401(k) plans in that both individuals and employers can make tax-free deposits and investments that grow tax-free. HSA dollars can be spent on a wide variety of medical products and services. Money can be taken from the account for non-medical expenditures by paying taxes and a penalty. Taxes and penalties do not apply after the account owner has enrolled in Medicare.

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Is the HSA a Brand-New Concept?

Not exactly. For over a decade, employers have offered components of consumer-driven health plans through savings accounts such as Medical Savings Accounts (state MSAs or federal Archer MSAs), health reimbursement arrangements (HRAs) and flexible spending accounts (FSAs). These have been used to pay for medical copayments, dependent care, dental and vision plans and other costs, with tax-deductible or pre-tax dollars. However, all but the MSA plan present special restrictions—they can't be taken to new jobs and can't be carried over to the next year (the famous "use-it-or-lose-it" conundrum).

While MSAs (or Archer MSAs) have been in existence since the mid-1990s, this federal pilot program was limited to small employers and the self-employed, as an affordable alternative to high-priced, low-deductible health plans. MSAs required that the individual also have an HDHP in place, and savings in the MSA could be rolled over year to year. However, there were limitations on who could have an MSA and the number of MSAs that could be established, as well as an end-date to the pilot program.


For many years, certain retirement plans like section 401(k) plans and individual retirement accounts (IRAs) have used the concepts of investment accounts and year-to-year rollovers. Variations on that approach, including Roth IRAs, 529 education accounts and Coverdell accounts, all have sensitized and educated individuals on the many ways consumers can plan for and use individual savings accounts.

Congress created HSAs as part of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. This legislation replaced MSAs and made HSAs a permanent health care coverage vehicle, combining some of the features of many of the Individual savings accounts mentioned above. It also extended eligibility to those who are unemployed, self-employed or employed by an employer of any size.

2004 IRS HSA Information	Single	Family
Annual HDHP Deductibles		
Minimum	\$1,000†	\$2,000†
Maximum	\$5,000†	\$10,000†
Annual HSA Contributions		
Maximum	\$2,600*†	\$5,150*†

†All amounts will increase by consumer price index (CPI) each year
*Maximum HSA contribution is as listed, or the participant's HDHP annual deductible, whichever is less

For updated info, please visit: www.hsaguidebook.com



Is the High Deductible Health Plan a New Concept?

No. High deductible health plans (HDHPs) have been around for a long time, as protection against the economic consequences of injury and illness. Such expenses can be too high for most families to pay on their own.

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So What Is New About This Type of Health Care Coverage?

The HSA/HDHP is a permanent health plan option that ties together the ability to own and use a tax-favored savings account with a health plan that provides the security of major medical health insurance coverage. While some of the concepts behind the HSA aren't entirely new, these accounts are in many respects more attractive than older versions, allowing individuals to invest their money, carry it over from year to year and take it with them as they change jobs or retire.

With the HSA/HDHP, consumers have significant power and responsibility for their health care decisions. The consumer (or the employer, or both) sets aside a pool of money to spend on health care before HDHP coverage kicks in. Policymakers hope that, by having such a financial incentive, participants will become better and more prudent health care consumers.

Why Now?

Health care costs are escalating for many reasons, including new medical technologies that increase life expectancy, medications that increase quality of life, increasing numbers of patients with chronic illness, overutilization of health care and administrative waste. Everyone is challenged by health coverage rate increases, and is searching for reasonable ways to control costs. Changes in the practice of medicine, as well as consumer preferences, also affect the way health care dollars are assigned and spent.

Our health care system does not make a direct connection between receiving a service and paying for it. Instead, a third party—the insurance company or plan administrator—actually processes and pays the bill; the consumer never sees the actual price tag. The consumer is usually only aware of the amount of his or her co-payment, rather than the full price for office visits, lab tests, etc. The co-payment seems to be the price. But as services become more expensive, the consumer does pay for the increase indirectly, through higher deductions from wages for health care.

The result is that premium costs are pricing health care out of reach for employers and individuals. Dissatisfaction with the lack of choice in care and financing adds to the precarious state of health care coverage.

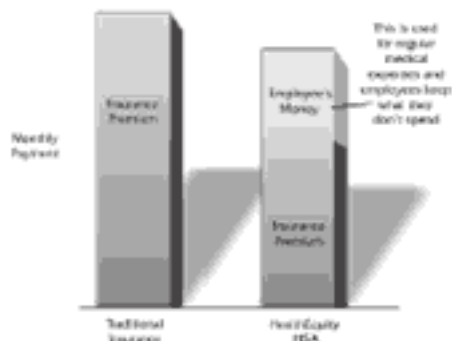
How Does the HSA Improve the Situation?

The HSA/HDHP can bring both consumer choice and flexibility back into health care. You can use the HSA for co-payments and deductibles and for services that are not offered by the health plan, with tax-free dollars. You may also decide to seek a physician out of your network, and you can pay for that care from your HSA. The HSA also gives you a chance to deal with the variability of health care expenses. For instance, one year you may have just a few doctors' appointments, while the next year you may meet the deductible mid-year and still need extra physical therapy appointments. With the HSA funds from the previous year, and the funds added during the current year, you might be able to meet all your needs tax-free. You can use the HSA to bridge life events, such as unemployment, job changes and periods of disability

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by paying for health insurance premiums, or health care directly.

Traditional Plan VS HSA Plan



What This Book Does

This book is your guide to getting the best from an HSA. It gives you the basics, as well as advantages and limitations of HSAs, and provides examples of real-life situations that you can relate to your own circumstances.

Each chapter has cross-references, definitions and charts that will assist you. With this book, you will be ready for the consumer health care revolution.