



The New Expense Accounts

***Want to hedge against soaring medical costs?
Tax-free health savings accounts may be
the right prescription.***



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What if consumers had a better way to afford health care? What if they could take a more active role in the kind of care they receive? Turns out they can, and that, in a nutshell, is the thinking behind a Health Savings Account, or HSA.

Simply put, an HSA is a tax-advantaged way to pay for health care. It works like this: An individual buys a high-deductible insurance policy to cover major medical expenses, and then sets money aside each month in a savings account—that's the HSA part—to pay for everyday health-care costs. The account is owned by the individual, not the employer, which means money not used one year can be rolled over into the next. If there's a job change, the HSA moves, too. Money earned in an HSA accumulates tax-free, and whatever is withdrawn for medical expenses is also tax-free.

Tying It All Together

Proponents of HSA plans say they will create more-astute health-care consumers. When individuals pay for office visits and prescription drugs from accounts they themselves fund, they will be less likely to run to the doctor for every minor ailment and more likely to ask about cheaper generics. Says Dr. William West, a practicing gynecologist in Reading, Pa., and co-founder of First HSA, a national health savings account administration company: "There is such a disconnect between patients, doctors, and the cost of medicine. A patient has no idea if a drug costs \$20 or ten cents a tablet, and the way the system is set up today, doctors have no reason to explain the difference. An HSA ties everything together. I'm convinced they are going to replace traditional medical insurance in the years to come."

HSA plans were created to help reign in health-care costs that industry followers say have risen nearly 60% since 2000. They are part of the Medicare bill that was signed into law in

December 2003. According to JoAnn Laing, president of HSA.finder.com, an independent information provider, 144,000 HSA policies were written in all of 2004. In January of this year, 136,000 new policies were written; in February the number written jumped to approximately 160,000. Laing estimates that nearly 1.1 million new HSA policies will be in effect by the end of the year.

Aetna is helping make it all happen. Since last year, the company has been offering HSA-compatible products to small employers and individuals, as well as products for middle-market and large national employers that integrate both the HSA

and the high-deductible health plan. This May, Aetna will expand its integrated Aetna HealthFund HSA offering to employers with 50 or fewer employees and to individuals as well. Steve Wohlwend, general manager for Aetna Small Group in the Southeast region, says most small businesses are price-driven when it comes to health insurance coverage. According to health-care experts, nearly 47% of all small businesses do not offer health insurance as an employee benefit. "If a small company isn't offering its workers

health insurance, it's because they can't afford the premiums," says Aetna's Wohlwend. "A high-deductible health plan combined with an HSA gives a small company an opportunity to offer affordable health insurance benefits to their workers."

A health plan is considered to be HSA-compatible if it has an annual deductible of \$1,000 for individual coverage, or \$2,000 for family coverage. Premiums charged for these policies can be anywhere from 20% to 50% less than those for traditional, low-deductible plans, says HSAfinder.com's Laing. In other words, they are plans more small companies and individuals will be able to afford.

Amazing Results

Critics of HSAs say that only young, healthy individuals will opt for the plans, leaving more

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***Simply put,
an HSA is a
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way to pay for
health care.***

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traditional programs burdened with older, sicker workers who will drive up costs. Research suggests the opposite. "When people are given a chance to take control of their health care and make informed decisions, the results are pretty amazing," says Dr. West of First HSA. "They're not running to the doctor or the emergency room for every little ache and pain."

The biggest obstacle, say HSA supporters, is

lack of knowledge about the new plans. Aetna's Steve Wohlwend says his company has made a concerted effort to educate insurance brokers, and consumers themselves, about HSAs. The brokers are the people who then speak with the plan administrators at both large and small companies. "Getting in front of employees and walking them through why HSAs might be appropriate for them is the biggest challenge," says Wohlwend. To help members make informed health-care decisions, Aetna offers a suite of online tools via Aetna Navigator™, a member self-service website. The website enables Aetna members to instantly compare the estimated costs of brand name and generic drugs, as well as the costs of various procedures, such as MRIs and CT scans, at different hospitals, track the balance in their HSAs, research hospital quality based on criteria selected by the member, and access credible health information.

Dr. West is convinced HSAs are the new way of health insurance. "When I was in medical school, we were taught 'history, physical, then tests' when it came to evaluating a patient," he says. "Today, technology and the fear of getting sued have forced doctors to order tests before they even see a patient. When you sit down with a person and explain the options, the costs, and whether a test is really necessary, you're making the decisions together. That's the best way to make an informed decision about your health."

—Susan Caminiti

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