

New York Daily News

Saving for health care costs

By MARGARET PRICE

DAILY NEWS WRITER

Monday, December 13th, 2004

Manhattan's Aquila Investment Management offers a health care financing plan that many New Yorkers might envy. It's a health savings account plan, with an evidently unusual twist: Aquila pays the full freight for its employees.

Health savings accounts, or HSAs, which debuted in January, pair a high deductible insurance policy with a tax-advantaged investment account.

At Aquila, the firm pays insurance premiums and funds the accounts for its 38 employees.

"That's different from most company [HSA] plans," said Diana Herrmann, CEO of the mutual fund management company.

Aquila began offering the plan in its earlier version as a medical savings account. Compared with standard insurance offerings, "We felt the medical savings accounts offered greater flexibility to employees. And money in the accounts can grow if it isn't used. We thought this would be a nice employee benefit," said Herrmann, who participates in her company's HSA.

And evidently, with re-enrollment for 2005 in full swing, the plans are now building a buzz.

For 2004, the new HSAs were slow to catch on. But a survey by Mercer Human Resources Consulting showed rising interest in these plans that can significantly trim costs of medical plans while providing a savings tool.

According to Mercer's data, in 2005 12% of all employers will likely offer a so-called "consumer directed health plan," most of which will be HSAs.

In many cases, larger companies with 500 or more employees may add a HSA to their menus of health insurance plans. Smaller companies often make it their sole health plan, said Barry Schilmeister, a Mercer consultant.

For its part, PerfectHealth Insurance sees a burst of interest now in New York.

As companies consider their 2005 options, "We've undertaken more presentations to employers on HSAs since the beginning of November than we did during all the rest of 2004," said Carmine Morano, president of Staten Island-based PerfectHealth, which provides HSAs. "We believe that HSAs are the wave of the future in health care financing."

Most are two-pronged plans — insurance, with a high annual deductible of at least \$1,000 for individual policyholders and \$2,000 for family coverage, coupled with a savings account to help participants pay for costs before the deductible is reached.

Employees and employers can make pre-tax contributions to the account, up to an annual maximum of \$2,600 for individuals and \$5,150 for families. Accounts grow tax-free. Withdrawals for health expenses are tax-free. Employees can take the accounts with them to new jobs.

HSA's differ from the "use it or lose it" flexible spending accounts and the 2-year-old health reimbursement accounts. There are several distinctions from an employee's view.

Though flex spending accounts typically haven't been used together with a high-deductible insurance plan, employees must exhaust funds they've put in the account by year's end or forfeit them.

Health reimbursement accounts — typically paired with high-deductible insurance — are entirely employer-funded. Employees can't take the money when they leave a company.

The most recent arrival, HSA's, are already drawing concerns and opposition.

Many feel they shift more health care costs to individuals from employers. And some fear they eventually could steer companies away from offering traditional health insurance benefits.

Moreover, HSA's may not suit every individual. Indeed, to some observers, they're best for people with higher incomes and generally good health.

Mercedes Cardona, 40, of Forest Hills, for instance, has had psoriatic arthritis for five years. She's currently in remission. But now, she's seeing a physical therapist for back problems, which costs her \$135 per session.

Through her employer, Cardona has a flex spending account and an insurance policy with a \$400-a-year deductible.

"I usually reach my deductible around mid-February," Cardona said. After that, the insurance kicks in. "This works well for me. But if I had a HSA with a high-deductible plan, I'd have to spend more of my own money on health care."

GREATER FLEXIBILITY FOR WORKERS

HEALTH SAVINGS ACCOUNTS

- Contributions and gains never forfeited.
- Limits: \$2,600 for individuals; \$2,000-5,000 for families.
- Used only for medical expenses, including premiums.
- May be rolled over or carried to new employer.

FLEXIBLE SPENDING ACCOUNTS

- Unused contributions forfeited at end of each year.
- Limits: set by employer; Often up to \$5,000.
- Used only for reimbursable medical expenses.
- No rolling over or portability.
- Contributions are made pre-tax