



Health Policy Group

2007

A dark, semi-transparent background image featuring three people. On the left is an older woman with short, light-colored hair. In the center is a man with dark hair, looking directly at the camera. On the right is a woman with dark hair, her hands clasped in front of her chin. The overall tone is professional and serious.

Health savings accounts at a glance

What is an HSA?

Since the establishment of health savings accounts (HSAs) in January 2004, HSA enrollment has risen to more than 4.5 million people. HSAs have captured attention from the media, policymakers, employers, and the general public as a possible means of managing costs and achieving greater value for health care spending. If you are considering an HSA, or are a physician with patients enrolled in HSAs—or if you just want to know what all the “buzz” is about—read on.

An HSA is a form of health insurance coverage that includes two parts:

- **The health plan**—a health plan with a high deductible (e.g., \$1,100 for an individual or \$2,200 for a family)
- **The savings account**—a tax-exempt personal savings account to be used for qualified medical expenses

Savings account funds are used to cover medical expenses before the plan deductible has been met. Unspent account balances accumulate and accrue interest from year to year. Once the health plan's annual deductible has been met, coverage resembles conventional insurance, typically in the form of a preferred provider organization (PPO) with little to no cost sharing for in-network services, and limits on total out-of-pocket costs.

Qualified medical expense

You can pay for a broad range of medical services out of an HSA account. Visit www.irs.gov/pub/irs-pdf/p502.pdf where these services are outlined by the Internal Revenue Service.

How does the health plan work?

Qualified high-deductible health plans (HDHPs) are available for individuals or families (two or more people), and provide coverage only after a plan's high deductible requirement has been met. You use HSA funds, or pay out-of-pocket, for any health care expenses up to the amount of the plan's deductible.

Exception: Plans are permitted to pay for preventive services before you meet your deductible. These exceptions include annual exams, immunizations, screening tests, routine prenatal and well-child care, tobacco cessation programs and obesity weight-loss programs.

How does the savings account work?

An HSA is much like an individual retirement account (IRA), except that deposits and qualified withdrawals are tax-exempt. Individuals and their employers may deposit money into an HSA up to an annual dollar limit, with extra catch-up contributions for those age 55 to 65. As of 2007, account holders can make a one-time, tax-free transfer of IRA funds to an HSA account, with the transfer counting toward the annual HSA contribution limit.

Account balances can be used to pay for a wide range of medical expenses—including some ordinarily not covered by insurance—as well as some insurance premiums. HSA funds also can be used to pay medical expenses of family members not covered by the HDHP. After reaching age 65, you may use HSA funds to augment regular income by paying ordinary income tax on withdrawals for any non-medical expenses. Like IRAs, HSA funds can be invested in stocks, bonds and mutual funds. Since you own the account, it is fully portable regardless of any job changes.

Who can have an HSA?

To be eligible to have an HSA, you must be covered by a qualified HDHP, not be enrolled in Medicare, and not be claimed as a dependent on someone else's tax return. You may not be covered by another health plan that is not a qualified HDHP, with some exceptions such as dental coverage, vision coverage, accident and disability coverage, and employee assistance programs.

Tax deductibility

HSA account deposits are deductible from taxable income even if you do not itemize deductions on your tax return. Self-employed individuals may also deduct their health insurance premiums, including premiums for HDHPs.

What if I have a chronic condition?

As with all types of health insurance, individuals applying for coverage may be subject to underwriting, benefit exclusions and pre-existing condition limitations, depending on state law. Similarly, covered benefits vary from plan to plan, including features such as personalized disease management assistance. If you have a chronic or expensive medical condition, HSA coverage could be more affordable than conventional coverage because of savings on premiums, limits on out-of-pocket spending and tax advantages. In addition, many patients with HSAs experience more control over health care decisions than under conventional health plans.

Are HSAs right for everyone?

One size does not fit all, especially when it comes to health care, which is why expanding the range of affordable coverage options is so vital. In comparing health insurance choices, take into account your anticipated health care expenses, your comfort with financial risk in the event of unexpected expenses, how much control you want over your health care choices and spending, and your current and future finances. Depending on your alternatives, you may decide that an HSA is right for you.

What dollar limits are placed on HDHPs and HSAs?

The annual allowable limits on HDHP deductibles and out-of-pocket spending, and on HSA contributions are listed below:

Minimum HDHP deductible	
Individual \$1,100	Family \$2,200
Maximum HDHP deductible / out-of-pocket spending	
Individual \$5,500	Family \$11,000
Maximum annual HSA deposit	
Individual \$2,900	Family \$5,800

Notes: Dollar limits are indexed annually; amounts shown are for 2008. For PPO plans, the deductible and out-of-pocket limits apply to in-network services. Due to a recent legislative change, the maximum annual account deposit is no longer limited by the plan deductible.

HSAs' first cousins: HRAs

Some employers offer HSA-style coverage legally defined as "health reimbursement arrangements" (HRAs). As with HSAs, HRAs combine a high-deductible health plan with a tax-advantaged individual account earmarked for medical expenses. In contrast to HSAs, HRAs allow greater flexibility in plan benefits (e.g., coverage of prescription drugs before the deductible has been met); only employers can contribute to HRA accounts; and HRA account balances are generally not portable when an employee leaves the company.



Patient involvement

HSAs and HRAs are part of a broad trend toward health care consumerism, involving wide-ranging efforts to help patients understand their health, medical conditions and treatment choices. More and more health plans of all types now offer comparative clinical and price information on drugs, treatments and providers, as well as features such as online health assessments, personalized health coaching, wellness programs and incentives for making healthy lifestyle choices. Changing expectations, stimulated by higher patient out-of-pocket costs, have created pressure for greater price and quality “transparency” so that patients, together with their physicians, can make more educated choices.

Once I have an HSA, how do I pay for health care services?

As with any health plan, the following applies to HSAs:

- You are entitled to plan-negotiated prices for covered services provided by in-network physicians and hospitals, even if you have not met the deductible.
- Expect to pay for services at the time you receive them (although you might be billed later if the provider can't determine what you owe without submitting an insurance claim).
- The amount you owe depends on your specific health plan benefits, the contract (if any) between your physician and your plan, and whether you have met your plan's deductible.
- Knowing your health plan benefits (including any special coverage of preventive services), whether your physician is in your plan's network, and the amount you have spent toward your deductible will help smooth your visit.
- You may receive a special credit or debit card linked to your account, with which to pay for services.

Addressing rising health care costs

An underlying premise of health care consumerism is that the more knowledgeable patients and physicians are about their options, and the clinical and financial implications they represent, the better their joint decision-making.

A corollary of this premise is that patients and physicians should help decide how to achieve better value for health care spending, rather than simply delegating cost-control to insurers or government agencies.

Why consider an HSA?

- **Protection**—you're covered against high or unexpected medical bills.
- **Affordability**—high deductibles mean lower premiums.
- **Savings**—tax advantages, account accumulations and interest earnings provide an opportunity to save for the future.
- **Flexibility**—make any number of account contributions, at any time during the year, up to April 15 of the following year.
- **Portability**—you own the account, so it goes with you regardless of any job changes.
- **Choice**—you decide which physicians or other health care professionals to see, and which treatments may be right for you.
- **Control**—most of all, an HSA puts you in greater control of your health care decisions and spending.



How can I get an HSA?

HSAs are more available than ever. If your employer does not offer an HSA, you can get an HSA on your own. However, be sure to check with a knowledgeable insurance broker about any other employee benefits you or your spouse receive that might conflict with HSA eligibility, such as a flexible spending account (FSA).

The U.S. Treasury Department offers a Web site (www.treas.gov/offices/public-affairs/hsa) that provides detailed information about HSAs and resources for locating HSA and HDHP vendors in each state.

Especially for physicians

As an early leader in developing the HSA concept and promoting such options in the health insurance marketplace, the American Medical Association (AMA) is committed to identifying the key opportunities and challenges that HSAs pose for patients and physicians. In particular, we seek to promote trends that shift health care decision-making from insurers to patients and physicians. The following guidelines are intended to help you address challenges and opportunities that may arise in your practice due to the growth of HSAs.

Helping patients understand and use HSAs:

- Be prepared to answer basic questions about HSAs and to share copies of this brochure with your patients and office staff. Additional copies are available online at www.ama-assn.org/go/hsaglance.
- Develop a sense of both the relative costs and effectiveness of procedures and treatment alternatives available to your patients, and be prepared to discuss both the financial and clinical aspects of care.
- Be on the lookout for low-to-moderate income patients who might skip their chronic care medications. If their health plan waives the deductible for preventive services, the plan might classify their medication as preventive.



Especially for physicians

HSA's are available to physicians, their families and employees through AMA Insurance Agency, Inc. Visit www.drhsa.com or call (877) 393-0518 for more information.

Modifying day-to-day office procedures to avoid increased collection burdens:

- Expect to revise office procedures and retrain staff regarding pricing, claims processing, collection of payment and billing so that patient payment can be collected when services are provided.
- Help educate patients about their payment responsibilities and new expectations for payment at point of service.
- Seek information from insurers about "real-time claims adjudication," which allows you to electronically file a claim and immediately learn what the health plan and patient each will pay.
- Establish a fee list for your most common services and procedures so that office staff can tell patients what they might owe in advance.
- AMA members can visit www.ama-assn.org/go/psa to obtain complimentary materials to help physicians and their office staff with the claims management process.

