



Voices From The Heartland

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Health Savings Accounts—who would benefit?

In an effort to help people cope with higher health care costs and declining insurance coverage, and to reduce the nation's rising health care costs, President Bush proposed expanding the use of Health Savings Accounts (HSA) with high deductibles. The concept is a component of Bush's vision for an "ownership society," which seeks to reduce the cost of government entitlements. The administration pushed for inclusion of HSAs in the 2003 Medicare prescription drug legislation. There are several points to consider when making decisions about Health Savings Accounts.

What are HSAs?

An HSA is a tax free savings account earmarked for medical expenses. Any adult can contribute to an HSA—if they have no other first-dollar medical coverage, are not enrolled in Medicare, and cannot be claimed as a dependent on someone else's tax return.

HSA account holders must have coverage under an HSA-qualified "high deductible health plan" (HDHP) to open and contribute to an HSA. HDHPs are similar to traditional PPO/HMO insurance plans, however, they typically have higher deductibles—over \$1,000 per year. Federal law requires the HDHP deductible for HSA holders be at least \$1,050 for individual coverage, and \$2,100 for family coverage. Annual out-of-pocket expenses under the plan (including deductibles, co-pays, and co-insurance) cannot exceed \$5,250 for individual coverage and \$10,500 for family coverage.

While the deductible is high, there is a cost savings from the lower monthly premium costs. The idea is to deposit the money saved on the purchase of a lower HDHP insurance premium into an HSA. Participants in the HSA plan can make pre-tax contributions to their HSAs each year they are eligible—up to \$2,700 for an individual, and \$5,450 for a family, or the amount

of the health plan deductible, whichever is smaller.

HSA plans differ from traditional healthcare insurance plans in a number of ways. A key selling point of the plan is that it will allow individuals to have control of their healthcare spending which, in theory, will result in less consumption of unnecessary medical care and supplies, increased vigilance against excess and fraud in the healthcare industry, and will encourage consumers to be more cost conscious and be better "shoppers".

This sort of shift onto individuals, while removing safety nets, imposes a huge risk on society.

What are the benefits?

HSA funds are used to pay for qualified medical expenses up to the amount of the HDHP plan deductible. Unused HSA savings are rolled over every year and are portable, regardless of employment status. Funds can accumulate earnings, which are not taxed unless funds are withdrawn for non-medical expenses. If withdrawn for non-medical purposes, savings are considered taxable income and are subject to income taxes, as well as a 10 percent tax penalty. After an individual turns 65, the 10 percent penalty tax no longer applies to withdrawals made for non-medical purposes.

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Table 1 presents a comparison of an HSA and a traditional group plan. The examples assumes costs for a family of four, in good health, with five visits to the doctor and one minor outpatient surgery that costs \$2,100. The family makes the maximum allowable contribution to their HSA, which is optional.

In both examples the families are well-insured. However, the family covered under the traditional health plan paid out \$2,500 more in medical expenses than the family covered under the HSA plan. The family covered under the HSA plan was able to save \$3,910 in out-of-pocket expenses in one year as a result of lower insurance premiums and tax savings. Additionally, the family insured under the HSA has a positive, tax-free balance of \$2,625 in their interest-bearing savings account.

Why should we be concerned?

There are both advantages and disadvantages to HSAs. HSAs are savings plans that allow the account holder to reduce their health insurance premiums and set aside funds to pay current and future medical expenses. HSA contributions are tax-deductible and when used for qualified medical expenses, are never taxed. Unlike premiums,

unused HSA dollars remain in the HSA until they are used. Contributions can be invested in the same manner as funds in an IRA. HSA investment earnings are tax-deferred and do not count toward contribution limits.

For healthy individuals with the financial means to contribute to HSAs, the pre-tax dollars deposited into HSAs can be used for tax shelter and alternative retirement and estate tax planning.

However, if a family incurs large medical expenses before a sizable account balanced is reached; medical expenses up to the amount of the deductible must be paid before the HDHP coverage begins. Individuals that do not contribute regularly to their HSA may decide to put off needed healthcare because funds are not available. Critics argue that HSAs will increase medical costs because people facing the prospect of paying the entire cost of a visit to a doctor's office, or a minor but needed surgery, may skimp on or forego treatment altogether, obtaining only needed care for diseases or injuries before the condition becomes more serious—which is usually more costly to treat.

Table 1

	Traditional healthcare insurance coverage	Health Savings Account (HSA)
Premium	\$11,856 (\$988/month)	\$3,264 (\$272/month)
Contribution to HSA	\$0	\$5,100
Sub-total medical expenses	\$11,858	\$8,364
OOP Expenses (e.g., deductibles, copays)	\$1,500	\$2,475
Total medical expenses	\$13,356	\$10,839
HSA credit (Balance remaining in HSA account)		-\$2,475 (\$2,625)
Total medical expenses	\$13,356	\$8,364
Tax deduction on premium	\$3,675	\$1,012
Tax deduction on HSA		\$1,581
Total tax savings	\$3,675	\$2,593
Total OOPS	\$9,681	\$5,771

Healthcare analysts also suggest that HSAs give the smallest benefit to those least able to afford health insurance. For example, if a person in the 30% tax bracket put \$5,000 into an HSA, the tax saving would be \$1,500 (30% of \$5,000). If a person in the 10% tax bracket were able to put \$5,000 into an HSA, the tax savings would only be \$500.

HSAs do not address two main problems plaguing the nation's health care system—the increasing number of uninsured, and the escalating costs of healthcare. Millions of low and middle-income families are currently unable to afford traditional health care plans and will not find relief with HSAs, because it would be equally difficult to afford “lower”-premium HDHPs and contributions to HSAs. As the cost of healthcare increases, even

more low and middle-income families without insurance, those with traditional low-deductible insurance, and those with HDHP will have to make difficult decisions about whether to seek treatment for medical ailments.

Shifting costs and risk away from the government has become a consistent theme of the healthcare reforms proposed by the current administration. This sort of shift onto individuals, while removing safety nets, imposes a huge risk on society. Healthcare reform may include some type of health savings account, but must also include healthcare options for those whom an HSAs is not an affordable choice.

✦ Cheryl A. Ward

PLEASE HELP!



People who read *Voices*, are not the type who expect praise or recognition when they respond when asked for help. People support us financially because they value the work we do. Last Fall, we were forced to relocate our offices. We have had to stretch our resources. We cut everywhere we could, but moving was an expensive operation. **Monetary gifts provide 35% of the Center's income. That amount is critical—please help us continue our work at Heartland Center.**

The reports we have published over the years have helped make people aware of social justice issues confronting the community. The latest study is *Poverty in Lake County, Indiana*. It narrates the economic difficulties many are facing, as well as programs that are supposed to assist the poor. We hope the report will inspire action to improve some of those programs. Our next report will be on health insurance. We are also investigating the possibility of publishing a comprehensive mapping of community assets in the major cities in Northwest Indiana. This would be a valuable tool to link assets together in order to address the priority needs and uncover gaps between existing assets and what is desired.

In our role as the Office of Peace and Social Justice, we manage the Global Solidarity Partnership between the Diocese of Gary and Haiti. In May we hosted the visit of Bishop Chilby Langlois and a delegation from Haiti. (Pictures on back page.)

Among the other tasks we are responsible for are networking for the Indiana Catholic Conference, assisting with Social Justice Commissions, and working with both the migrant and farm ministries.

We need your support to help us continue serving. Thank you for considering our request.✦

Heartland Center manages the Global Solidarity Partnership between the Diocese of Gary and Haiti. Since the partnership began in 2000, there have been 3 visits to Haiti. Thanks to the generosity of parishioners, over \$130,000 has been contributed to orphanages and soil conservation projects in that poor country.

May 8-12, 2006, Bishop Chilby Langlois and a delegation from Fort Liberte', Haiti visited Northwest Indiana. They visited many areas of the region and were warmly greeted everywhere they went.



Bishop Langlois (third from left) and delegation with staff from St. Margaret Mercy Hospital in Hammond, during their tour of that facility.



The delegation toured Harbor Catholic Elementary School (above) and Bishop Noll High School.

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6819 Indianapolis Blvd., Hammond, IN 46324-1709
Voice:219/844 7515 Fax:219/844 7566 E-mail: mail@heartlandctr.org

Thomas M. Gannon, S.J., Director
James M. Dixon, S.J. Associate
Francine M. Hintz, Assistant Director
John Stankovic, Community Action Coordinator
Cheryl A. Ward, Research Analyst