On the Money
Health savings accounts make sense for some patients

By Mark Harris

The costs of health care can be considerable in today’s economy. Indeed, the United States spends nearly twice as much on health care as 10 high-income nations. From pharmaceuticals, administrative expenses, costs for medical devices, and other outlays for goods and services, American health care is undeniably expensive.

In the health care marketplace, the costs of care include significant expenditures for health insurance coverage, which only partly relieves costs for consumers. The average family of four enrolled in an employer-sponsored preferred provider organization (PPO)—type health plan in 2018 averaged $28,166 in health expenditures. This substantial figure represents both employer contributions and what employees paid in payroll deductions and out-of-pocket expenses for the health care services they used.

Notably, employees paid just over $12,000 in out-of-pocket health expenses for the average family—about 44% of the total costs of care in employer-sponsored PPO plans. The percentage of the shared costs assumed by employees in employer health plans is also steadily on the rise, increasing at a rate of about $100 a month over the past decade or more.
Health savings accounts

Bang for your buck

Consumers with a health savings account (HSA) enjoy several benefits:

- The account holder can claim a tax deduction for contributions made (by someone other than the account holder’s employer) to an individual’s HSA even if the account holder doesn’t itemize the deductions on Schedule A (Form 1040).
- The employer’s contributions to an individual’s HSA (including contributions made through a cafeteria plan) may be excluded from that individual’s gross income.
- Contributions remain in the account holder’s account until used.
- The interest or other earnings on the assets in the account are tax-free.
- Distributions may be tax-free if the account holder pays for qualified medical expenses.
- The HSA stays with the account holder when the individual changes employers or leaves the workforce.
- Even if the account holder becomes an ineligible individual, the account holder can still receive tax-free distributions to reimburse or pay for qualified medical expenses.

“A health savings account, or HSA, acts just like a regular savings account except it gives a tax preference,” explains Tristen Cohen, CPA, JD, a consultant with Aldrich Advisors in Lake Oswego, Oregon. “Thus, your contributions into an HSA are tax deductible. You do have to couple it with a high-deductible health plan, but otherwise it functions just like a regular savings or checking account.”

To qualify for an HSA, an individual must carry a qualified high-deductible health plan (HDHP) as their only insurance. However, allowances for additional dental, vision, disability, and long-term care insurance are permitted under HSA rules. Despite its origin in Medicare-related legislation, Medicare enrollees are not eligible to open an HSA.

What specific criteria define an HSA-eligible HDHP? “For 2019, your annual deductible cannot be less than $1,350, and your annual out-of-pocket expense for your plan is $6,750,” reports Joe Lessard, CPA, EA, a consultant with Professional Business Management in Barrington, Illinois. “These figures are for self-coverage. If we’re talking about family coverage, the deductible cannot be less than $2,700, and the annual out-of-pocket expenses cannot exceed $13,500.”

An HSA is not necessarily for everyone, says experts. “Health savings accounts are good for two groups of people,” says Cohen. “The first is young adults who aren’t likely to be high consumers of health care services. The HSA allows them to save at a time when they’re not always using many of the insurance benefits they might need when they’re older or have children. High-deductible health plans provide the catastrophic and preventive care protection they need, while the HSA allows them to save for future health expenses tax-free.

“The other group that can benefit from an HSA are people who make enough money to self-insure. The HSA gives them another tax write-off for their expenses they wouldn’t otherwise have. They are also less at risk of a high-deductible health plan wiping them out financially.”

Although more people are covered by health insurance today under the Patient Protection and Affordable Care Act (ACA), Lessard notes that many people are not in the habit of visiting their primary care or other physicians often. For such individuals with relatively low health expenses, the HSA can be advantageous.

“An HSA can allow this group to contribute on a per-dollar basis,” he says. “Thus, for every dollar they contribute to their account, they’re able to reduce their taxable income by that dollar amount, up to the limit of their contribution. I know people who use an HSA as a bank of sorts to manage their health care expenses. With a high-deductible plan, the monthly premiums are also lower. So, you keep costs low for budgeting purposes but still receive a tax benefit. But if you’re seeing the doctor a lot, or if you have a lot of health issues, I definitely would not recommend an HSA because you’re going to come up with a lot of out-of-pocket expenses based on your high-deductible insurance plan.”

Another advantage of an HSA is that it can be used as part of a retirement or overall investment strategy. “A health savings account can essentially be an investment vehicle that allows certain people to contribute money into this investment vehicle,” says Lessard, a member of the National Society of Certified Healthcare Business Consultants (NSCHBC). A portion of HSA funds may typically be invested in mutual funds, for example, once the account reaches a designated balance.

“Some of my clients really take full advantage of the HSA, not by using it just as a bank for their medical expenses, but as a savings and investment vehicle. This is what I believe is the true value of the HSA,” says Lessard. “For those who have already contributed what they can into their 401(k), IRA [individual retirement account], or other retirement plan, they’re essentially capped. But the HSA allows them to treat the account as another investment resource. They can contribute up to the account’s limits and choose who manages the HSA. For example, they can choose a brokerage account and put it in stocks and bonds. The HSA allows their investment to grow just like other retirement plans.”

Budget basics

The issue of escalating health costs represents an ongoing challenge for health care leaders, policymakers, and everyone concerned about the future of health care in the United States. In whatever way the larger public policy issues may play out over time, resources and savings strategies are available that can help consumers better manage their health care dollars now.

One resource is the health savings account, or HSA. An HSA is a type of tax-free savings account designed specifically for medical expenses. The HSA model has been available to consumers since 2003, when it was established under the Medicare Prescription Drug, Improvement, and Modernization Act.
In 2019, individuals can contribute up to $3,500 into their HSA and up to $7,000 for family coverage. Individuals older than 55 can contribute an additional $1,000.7

Taxing choices
Consumers can set up an HSA through either an employer, insurance company, or bank. While most accounts are similar, an employer-sponsored HSA has one distinct advantage.

“The employer can make a tax-deductible contribution into the employee’s HSA,” explains Lessard. “That’s a great benefit versus doing it on your own. With an employer-sponsored HSA, your taxable wages also go down. For every dollar that the employee contributes from their paycheck, they also reduce their Social Security and Medicare taxes. If you open your own HSA, your taxable wages don’t go down, but you will receive what we call an above-line deduction. This reduces your adjusted gross income on your personal tax return for every dollar that’s put into your plan. But either way you will still save on your personal income tax.”

Notably, an HSA differs from a flexible spending account (FSA), which is another type of popular employer-sponsored account used for medical expenses. The FSA works by funding an account through payroll deductions, which are not taxed if used during the year to pay qualified medical expenses. The employer can also contribute. The main difference between the two accounts is that an HSA allows users to roll over any unspent money annually, thus growing the account, whereas FSA money must—with some allowances—be spent within the year or is lost.5,8

In some ways, an HSA may be more flexible than an FSA, observes Cohen. “With a health savings account, not only do you not have to decide every year how to spend the money, you can vary your contributions from month to month,” he says. “At the end of the year, if you don’t spend what you’ve saved, you get to keep it and continue to earn interest.”

With an FSA, the IRS does allow employers to offer a grace period to March 15 of the following year for account holders to use any unspent money or the option to carry over up to $500 of unspent money into the next year. However, while unused FSA money may be returned to employees, this is generally done based on dividing the total pool of money used by employees, not the specific amount left over in an individual’s account.8 Thus, an FSA can require careful yearly planning to be used most efficiently.

Drawing interest in HDHPs
As a financial advisor to medical practices, Cohen says HSAs have become a popular choice with consumers in recent years. This is largely due to the growth of HDHPs under the ACA, a trend he says is driven by the insurance industry’s response to more extensive coverage mandates under the ACA.

“The nature of the high-deductible health plan is that individuals have to pay more up front for their health care expenses, which lowers the cost of the insurance premiums,” remarks Cohen, who also is affiliated with the National Society of Certified Healthcare Business Consultants, like Lessard. “Health insurers have been forced to take on more risk with some of the market protection provisions in the ACA. The high-deductible health plans help them off-load some of that risk.”

Interestingly, 59% of health care leaders reported an increase in patients using HSAs due to the increased availability of high-deductible health plans, according to a national practice management poll sponsored in early 2019 by the Medical Group Management Association (MGMA).9

Respondents also described some of the ways HDHPs impact their collection practices. “It now sets expectations that patients will pay a portion of the deductible at time of service,” wrote one poll participant. Another explained: “We collect $60 from each patient who has a high-deductible plan if they have not met the deductible…. Then we bill, and if necessary, collect the difference…. This helps with cash flow.”10

Between 2007 and 2017 enrollment in employer-sponsored, HSA-eligible HDHPs increased from 4.2% to 18.9% among adults 18–64 years old.11 Enrollment in such plans was slightly higher among adults in the 30–44 age range and those with higher incomes and educational levels.10

Notably, not all HDHPs are HSA eligible. This is because IRS rules prohibit HSA-eligible health plans from paying benefits other than preventive services before deductibles are met. Thus, HDHPs that cover any pre-deductible portion of benefits for prescription drugs, specialist visits, or X-rays, for example, would be ineligible to include an HSA.9

Pay it forward
Having effective billing and reimbursement procedures in place to handle every patient financial circumstance is essential for medical practices. But patients with HDHPs in particular, with or without an HSA, can pose reimbursement challenges that increase risks for delays in payment or bad debt.

Understanding, most medical practices would like patients with high deductibles to have an HSA or FSA with their health plan in response to the trend toward high
deductibles and co-pays, notes Pamela Ballou-Nelson, PhD, MSPH, RN, CMPE, a principal consultant with MGMA in Englewood, Colorado. “It can be reassuring to the practice to know that the patient has something that is going to help pay these costs, so they don’t have to set up payment plans or put it to bad debt because the patient doesn’t have the money to pay these very high deductibles,” says Dr. Ballou-Nelson.

While unmet deductibles are a part of life for today’s medical practice, this is especially true early in the annual billing cycle. “Everybody’s going to have some deductible,” says Dr. Ballou-Nelson. “It used to be ages ago that a person’s deductible may have been only a couple hundred dollars, but now we’re well into the thousands. If a patient comes in for a procedure or an office visit in January, they’re going to have the co-pay, [and they will] likely owe for the whole visit because they will not have met their deductible.”

Accordingly, medical practices need to stay on top of patients’ current insurance details. “The key is to have mechanisms in place to check the patient’s insurance before the patient comes into the office,” says Dr. Ballou-Nelson. “There are applications on practice management systems and billing systems you can use to look up where a patient is with their deductible and what their co-pay amount will be. You can then let the patient know what their co-pay is at the time of service. Most practices are pretty good at this now.”

As a rule, staff should always inquire how much the patient is prepared to pay today, says Dr. Ballou-Nelson, and arrange as much payment up front as possible. She encourages staff to carry out this task respectfully, with consideration for the patient. The intention is not only being nice but expressing the practice’s commitment to the broader mission of patient care.

“When we’re looking at a model of value-based care, we’re looking at how much a patient values you as a provider,” says Dr. Ballou-Nelson. “What is it that you’re doing to bring value to the patient? Are you considerate of the patient when you’re ordering a prescription, for example? If you have the [software] apps available, you can look up the prescription and let the patient know their insurance company will pay this amount, and this is what they will have to pay out of pocket for the medication. You can ask the patient, ‘Is this going to be OK with you, or should we try another medication that’s going to cost less?’”

Such consideration can go a long way toward developing valued relationships with patients, says Dr. Ballou-Nelson. “It’s
important to be considerate of what things cost. For example, do you ask a patient to come back for an office visit to check on their medication when you could easily do this over the telephone or use some other less costly mechanism? You’ve got to [keep in mind patients’ financial situation] when they’re paying more out of their own pocket.”

When providers show consideration, patients notice. In turn, they tend to become more willing to pay what is due. “There needs to be more shared decision-making with patients, helping patients be aware of what costs are,” concludes Dr. Ballou-Nelson.

**Penny-wise**

About two-thirds of employers now offer HSA-eligible HDHPs, according to Employee Benefit News. Of course, not everyone wants or needs a high-deductible plan, with or without an HSA. For those who do, this means assuming more of the cost-sharing responsibility in their insurance coverage. The latter fact only underscores the importance for consumers to understand their plan’s benefits. Yet about half of employees do not have a good understanding of their insurance benefits.

With employer-sponsored HSAs especially, many patients may not be familiar enough with how their accounts work, reports Lisa Shelton, CMA (AAMA), an account manager for Norris, Blessinger & Woebkenberg Orthopaedics & Spine in Jasper, Indiana. “They might understand they’ve got money there, but they don’t understand when or how they can use it. They have questions about whether they can use it just for themselves or for other family members. Or if they need to reimburse themselves for an out-of-pocket medical expense, they might not always be sure how to do that.”

For these and other issues, Shelton says patients will frequently ask her office for assistance. “Often, they need help with the documentation for a reimbursement, or just with other really basic aspects of how to use their accounts,” she says. “For example, there was a lady who called our office recently who said, ’I have an HSA. I’ve never used it and don’t know how to use it, but there’s supposed to be money there.’ She didn’t know how to check the balance. She wanted me to charge the credit card $100, and if it didn’t clear, then try $80 and just keep trying to charge lesser amounts until I found an amount that would go through.”

As an account manager, Shelton tries to help patients better understand how to use their HSAs. “There is a lot we can do to educate our patients. First, I always encourage them to contact their human resources (HR) department at work for information. Unfortunately, if they work second or third shift, their HR department isn’t always easily available. I might tell the patient how to get on their HSA website and create an account login so they can access their account anytime. Or I might help them get set up to receive text messages to get their balance.”

Patients need to know “what is covered as qualified expenses by their HSA,” adds Shelton. “They should also know what fees are involved. There was a patient in our office recently who was paying a $3-a-month fee for getting a statement, then another $2.75 a month for not having the average balance in the account. If he used his HSA as a credit, it went through with no fees, but if he used it as a debit with a PIN, there were additional fees. As it turned out, he was using up a lot of money in fees.”

Shelton says she appreciates the opportunity to help patients with their questions. “Our thinking is it’s their money and you’ve got to be a good steward of your money. We kind of have to walk some of our patients through how to use their accounts. But once they get the hang of it, most of them really like the HSA.” Shelton adds that most patients who set up their own individual HSA, not through an employer, have a good idea of how to use their accounts effectively.

Generally, most questions about HSAs can be answered through the insurance...
provider, employer, or bank used by the beneficiary to set up an account. One commonly asked question is who is eligible to use the account. While HSAs are set up by the individual account holder, beneficiaries should know that eligible medical expenses of other family members can be paid for with their HSA.

They should also know that if they are under age 65 and withdraw money for non-medical expenses, they will incur a financial penalty and have to report the withdrawn money as income. As such, qualified medical expenses covered by HSAs are broadly defined under IRS tax regulations but can include medical expenses not covered by an individual’s health plan, such as dental procedures, eyeglasses, and hearing aids. Also, meeting the health plan’s deductible before using HSA funds to cover medical expenses is unnecessary.13

In the medical practice, front-desk and billing staff should try to have a basic working knowledge of the various insurance plans they encounter, including high-deductible plans with HSAs. Remember: the medical assistant is often the first person patients will ask to find out whether their insurance covers a visit or provider service. Of course, knowing everything about someone’s insurance plan is impossible. But the staff’s ability to provide correct information will do much to not only assist patients but also help the practice maintain a smoothly functioning and viable billing system.

Money talks
U.S. health care is technologically sophisticated and resource-rich, offering advanced, high-quality care in both primary and multiple specialty care areas. But there are many moving parts to the ways we pay for this care. As such, the insurance sector is only one part of an economic labyrinth of health industry interests, all in their own way contributing to the long-term trend toward escalating costs.14

Admittedly, HSAs or other savings arrangements may only partially assuage cost pressures in today’s charged health care environment. With accelerating health costs, what the employer is willing to contribute and what the consumer is willing—and able—to put into the HSA may not offer adequate financial protection for patients, concludes Dr. Ballou-Nelson.

“When people say HSAs are the solution, I have to scratch my head a little,” she admits. “If you have a $10,000 or higher deductible, and you’re not putting enough money in your HSA to cover that, the money’s just not going to be there to pay for your out-of-pocket costs. At the current prices of where we are with health care, it would take quite a bit to save. Unfortunately, a person’s HSA could be wiped out in one incident if they’ve got a high-deductible plan. Until we can get the cost of health care down, how much money can any one person save in an HSA to be able to cover costs?”

These concerns create all the more reason for patients to make wise decisions about how they spend their health care dollars. For many consumers, having a tax-free HSA has become a popular way to minimize the impact of high health costs. To the degree possible, medical practices should try to ensure patients are adequately informed about their HSA-eligible health plans and how they work. Doing so is essential to their own sound billing and reimbursement practices. ◆

References


