Health Savings Accounts: New Trends in Health Care

G. Douglas Blatt

G. Douglas Blatt, a 32-year member of the Round Table, is founder of The Brokerage Centers Ltd. He specializes in estate planning and has helped hundreds of clients feel secure in the knowledge that the full value of their businesses will be preserved for their heirs with minimum impact from estate taxes. His most recent passion is the introduction and development of high-deductible health plans for health savings accounts.

The Brokerage Centers Ltd.
14142 Denver W. Parkway, #170, Golden, CO 80401
Phone: 303.989.8668
E-mail: tbcltd@mindspring.com

I/R Code: 100.07
Cassette: A0561
CD: C0561

Many of us attend the MDRT meeting to get energized and hope to find a few transferable ideas to improve our business lives and, ultimately, our personal lives. We hope the speakers share their experiences to allow us to grow into more productive and much wiser sales people and human beings. I am hopeful that my presentation on Health Savings Accounts will give you a working knowledge of this very exciting legislation and you will find ways to grow financially. If I am successful, I know you will feel your choice of this session was the right one. I promise I will do my best.

Life's Lessons

Whenever I speak, I always make an effort to pass on a few pieces of wisdom about useful articles, books, programs or stories. This presentation could have been titled, "A Double Order of Fries with Gravy." A double meaning emerges.

Visualize for a moment a young agent fresh out of the typical two weeks training, swatted on the behind and sent out into the world to sell everyone the products he was told everyone needed and wanted. Everyone would jump at the chance to buy. This young fellow has a wife, a six-month-old son and a $600 per month stipend "loaned" by the insurance company. Nightly family discussions were held on how best to spend the monies: pay for food, rent or gas for the car to get to appointments. The new agent was told to have 1-2 lunches a day, a breakfast meeting and, of course, evening meetings. If everyone was a potential client then the gas station owner who pumped the gas (in those days we didn't pump our own) must be a prospect. "How's your life insurance program?" "How about discussing your needs with me?" he boldly asked. "Sure, son, how about we talk over lunch?" Wow – his first client – this business is easy!

Eyes Opened

Pressed shirt, shined shoes, application, rate book, and a new ink cartridge in his pen. This guy was ready to make money and buy that camel hair overcoat like the top agent owned.

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Double Order of Fries

He ordered a salad and coffee (that fits the budget). The prospect orders (what do you think?) – RIGHT – A double order of fries with gravy, a double cheeseburger and an extra thick milkshake. He still wasn't finished – pie-a-la-mode followed. The car had better have a full tank of gas! Of course, the prospect didn't buy anything and he blew the agent off. But the young agent learned a lifetime lesson: never, never as a young vulnerable insurance agent, offer to buy lunch for a prospect. Instead, remember the double order of fries and offer to split the cost of lunch – that way, no one is obligated. It eliminates those who typically take advantage of the innocent.

One day while driving by the gas station, he saw a For Sale sign. It seems the owner died – he guessed grease from lunches with young vulnerable insurance agents caused clogged arteries.

HSAs

Health Savings Accounts, some call consumer driven health care, are much like a double order of fries with gravy. They offer double tax leverage, an above the line deduction with no tax upon withdrawal for qualified medical expenses. The gravy is the sheltered accumulation.

IRA Wrapped around a Roth IRA

Another example might be an IRA wrapped around a Roth IRA. I cannot think of a better financial vehicle for tax savings, sheltered accumulation and ease of withdrawal.

HDHP

A high deductible medical plan (HDHP) is the platform of the legislation signed into law by President Bush on December 8, 2003 as part of the Medicare prescription drug improvement and modernization act. This legislation improved the HIPAA legislation act of 1996, which established the 750,000 member pilot program.

Two Parts: HDHP and HSA

The two pieces of the program are HDHP and HSA. The genius of the design has created a simple, more user-friendly health insurance plan by combining a tax free savings account to pay for unexpected medical expenses and a high deductible medical plan to pay for the large catastrophic health claims.

After January 1, 2004, nearly everyone can establish an HSA. In simple terms, it allows the American citizen access to the best modernization of medical insurance in the last twenty plus years. This exciting legislation is the platform of the Bush administration's health coverage going forward. Federal employees will be able to choose an HSA starting in November 2004. Two plans will be made available.

Ownership Society

Alan Greenspan's phrase, "ownership society", presents a positive theme for savings of premiums and savings of dollars. We Americans would rather own something than rent or lease. HSA and HDHP give us the feeling of ownership that we do not get from other health insurance plans. Consumers are placed in charge of the most routine and every day spending decisions. Insurance is moved back to what used to make sense: insure against the unpredictable and save for the routine.

Steve Forbes, whose company's health plan is an HSA said in Fortune magazine, July 2004, "Companies workers, as well, will put monies into HSAs tax free, that will cover the lion's share of the deductible. What an employer doesn't use stays in the HSA earning tax-free interest for future use. This is the antithesis of flexible spending accounts in which the worker loses whatever money in the account hasn't been spent by year's end." He goes on to state his company's premiums went up only a fraction of the national average because the employees now have "skin-in-the-game". Shopping for the best, most cost-efficient health care becomes the rule, not the exception.

Mr. Forbes finishes his article, "Companies applying HSAs will see a remarkable phenomenon unfold: Growing accounts of money will accumulate in these accounts. The accounts won't rival 401ks in size, but for many people, they will become a significant asset, thanks to the miracle of compounding interest. Some will place a piece into

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bonds and stocks. HSAs will make insurance more affordable for small businesses, which will be a boon for many of today's uninsured. For health care, we will finally see the return of genuine insurance coverage for major risks, instead of the dollar-for-dollar kind of coverage we have now. And, amazingly, consumers are better off with HSAs than they are with what they have now." I believe these are powerful statements from a CEO who has abundant experience with numerous health plans and thousands of employees.

The HDHP has a minimum deductible of $1,000 for an individual and $2,000 for a family. The maximum deductible (including co-payment, if any) is $5,100 for an individual and $10,200 for a family. The deductibles and the out-of-pocket amounts are adjusted annually for the cost of living. An employer or an employee may make pre-tax contributions to an HSA account up to 100% of the health plan deductible each year. The maximum contribution allowed in 2005 is 100% of one's deductible, but no more than $2,650 for an individual ($5,250 for a family). The contributions are capped and will rise in subsequent years, indexed for cost of living, rounded to the nearest $50. Further, there is a catch-up provision of $600 per year for those over age 55, adjusted for cost of living.

The HDHP combined with a qualified savings plan will allow the consumer to carry a lower premium than the current health plans that have been the norm in the last ten plus years. Most studies reflect that the failure of the current PPO/HMO health care delivery systems has been widespread and many conclude that they have failed to deliver their promises of better health care for a fair and consistent price. HDHP/HSAs should become the future, perhaps calling into question the reasons to keep an existing PPO/HMO product.

Ultimate Shoppers with their OWN Monies

When a savings account (HSA) is attached to the HDHP, the monies not spent stay in the consumer's account and roll over from year-to-year. The consumer will become the ultimate shopper with their own monies in their own accounts, not in the insurance companies' accounts!

Provider Paradigm Shift

How about finding a lower priced dentist, generic medicines, and one visit to the chiropractor, not a dozen; or the old fashioned choice of a provider who fills the patient's needs at a fair price. The physicians, clinics and hospitals will have to change their approaches in providing the kind of care expected for a fair and competitive price.

In an article in the *Wall Street Journal* on December 27, 2004, which discusses disclosure of the costs of hospital care in California, a shift is taking place: a new California law allows patients to look up retail prices of goods and services. As an example, a chest x-ray in seven surveyed hospitals varied from a low of $120 to a high of $1,519. The cost of one Tylenol varied from $0 to $7.06 with the average for the seven hospitals at $2.42. Remember: this is one (1) pill. More disclosure of costs for hospitals and clinics may be a good thing. I would prefer that the facilities policed themselves and publicly disclosed costs and charges much like other businesses. I believe that HDHPs will drive this paradigm change for full disclosure as the demand by the consumer for information and the ownership in HSA rises.

Approved Financial Instruments

HSA monies will be placed into financial instruments approved by the IRS, including bank accounts, annuities, stocks, mutual funds, bonds and real estate. Unused monies carry forward from year-to-year, allowing for contributions to age 64.

Withdrawals

At age 65, the account holder can use the HSA account for Medicare premiums and co-payments. If the account holder chooses, he can withdraw the monies for other than medical reasons and pay only income tax without an early withdrawal penalty. If an account holder is 65 or older, deceased or disabled, non-medical withdrawals are taxed but not penalized. The accounts are established for a specific medical savings purpose, which is why the government is paying so much attention and expanding the benefits so favorably. Withdrawals of contributions or

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interest earned to pay medical expenses are never taxed. Withdrawals of contributions or interest earned for any other reason are taxed and penalized. At an account holder's death, the funds pay to a named beneficiary. The HDHP then makes the spouse the insured.

10% use 70%

When the industry and consumers understand that 10% of the insured account for 70% of the health costs, they will see the benefit of saving premiums in a HDHP, rather than sending unused premiums to the insurance carrier. The high users will continue to have high costs while the modest users will have price reductions. The incentives to save and spend wisely will not impact the high user, and that is the very reason numerous medical plans are available in the free market.

Advisors Help Consumers Make Wise Choices

The life insurance arena offers a plethora of products, so does the health insurance industry offer numerous choices. We as advisors will be asked to present the best choices for our clients' needs

How a $1,200 Bill Becomes $360

Hospitals, clinics and physicians offices have cash discounts. Let me give you an example: A 90-minute emergency room visit resulting in an x-ray and walking cast generated a hospital charge of $1,200. The PPO network discounted the charge to $720. That bill was taken to the cash payment department at the hospital, who cut that cost in half for a cash payment. We who own HDHP/HSAs learn how to negotiate the best possible price for our needs and health care.

Challenges

There will be many challenges in bringing HDHPs to the market place. The biggest may be overcoming the low doctor visit co-pays and the inexpensive drug co-pays.

A most important challenge is to make sure our own HSA clients keep good records year-to-year on medical services performed. Use the IRS publication 502 as a guide to what is HSA eligible. Clients should save receipts and keep records because the test for legitimate HSA expenses is between the consumer and the IRS. The company holding the side fund does not test the legitimacy of the request by the client.

Agent and Client Paradigm Shift

We will require a dramatic paradigm shift by the providers and their clients. After so many years of seemingly "almost free" health care, we will be asking for awareness that, in order to get health care in line and reduce the premiums, the consumer will have to accept and expect that catastrophic insurance plans with higher deductibles and few bells and whistles as the wave of the future.

Perhaps employers are slow to adopt HSAs because of unfamiliarity with the plans. We as financial advisors have a big job and an awesome opportunity to bring the message to our clients. The shift that is going on will be brought to employers by those of vision sooner rather than later.

Critics Voice Concern

Critics voice concern that high deductible plans will burden lower paid employees. If employers and/or employees do not deposit funds into the HSA accounts (the regulations do not require contributions into the account – it is certainly prudent, but not required) then employees will not have monies to cover the small items or the deductible. Perhaps then, the biggest challenge for us as advisors is to strongly encourage contributions be placed into the HSA. Other critics say HDHPs will cause folks, particularly those in low-income brackets, to put off necessary medical care, such as visits to the doctor, when symptoms appear. Some think this may be a good thing, not to rush to the doctor's office every time one feels a cold coming on. Lower utilization will help bring down costs. Some skeptics think preventive medicine will not be practical, but the regulations do allow HDHPs to cover preventive care. First dollar coverage will be available for annual physicals, mammograms; diabetes screening and prescription drugs will count toward fulfilling the deductible. Preventive medications like those to lower choles-

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terol, help stop smoking, and PSA tests can be covered immediately. Be sure to check the company plans and the state mandates.

Acceptance

The IRS reports that 73% of those choosing HDHP/HSAs were previously uninsured.

The National Association of Health Underwriters, Arlington, VA, has issued a statement praising and encouraging agents and insurers to sell HSA plans. "We see this type of plan becoming a mainstream option in a very short period of time", the NAHU VP of Government Affairs said recently.

Colorado state employees are now able to enroll in an HSA plan as of January, 2005. Lawmakers see the biggest difference initially in the savings in out-of-pocket costs. I personally think they are short-sighted and will see a lowering of insurance premiums, competitive pricing by providers who supply their more savvy consumers with reasonable costs for services and, just as important, the excitement of owning the investment account. Lawmakers don't seem to "get" the power of ownership – whether social security, pension plans, individual savings accounts or HSA – the consumer will drive this change and we as financial professionals need to make sure consumers are encouraged to save and invest for their future.

Excitement/Portable Funds/Good Return on the Dollar

In January of 2003, the Zogby International Insurance Poll found that 74% of the likely voters want the option of opening an HDHP/HSA. These plans will give 250 million non-elderly Americans access to affordable health care. The funds remain tax deductible, tax-free and can be invested in fixed or variable accounts. The funds are portable and can be taken from plan to plan or employer to employer. Patients get more return on their dollar with a HDHP. $1.00 cash buys $1.00 in health care services. PPO/HMO individual plans do not get the tax breaks they get with the HDHP/HSA.

Affordability Most Important

For 83% of Americans affordability is the most important consideration when choosing to purchase a health plan for their family. When they understand the premium savings to their employer and ultimately to their own family, and the fact that the employer-paid HSA does not trigger a W-2, they may be open to explore the plans.

Future

A study by Mercer Human Resources in April, 2004 stated that over 81% of employers in the survey with 20,000 or more employees are "somewhat" and "very" likely to offer HSAs in 2006. We do not have a group track record in Colorado, but I do have a 95%+ acceptance of the HDHP/HSA concept in the individual market.

3 Million Account Holders by 2013

Congress Joint Committee on Taxation expects 1 million accounts will have been opened by 2004 and 3 million by 2013. President Bush would like to have an above-the-line deduction for everyone's premiums – even those who do not itemize. President Bush's closing remarks at the most recent economic summit, as reported by the Federal News Service, December 17, 2004: "And I'm pleased to report that health savings accounts are beginning to work their way through our markets. After all, I just signed up for one two days ago! When it makes it to my level, you know it's going to be widespread these days. But HSAs are making a difference.

"Chris Krupinski owns an art and design studio in Fairfax. I talked to her last night. She's pretty enthusiastic about HSAs. If you didn't hear her talk, you should have. First of all, she went to her insurance agent trying to find something she could afford, as she was paying $900 a month for insurance for herself and her family. Then she heard about health savings accounts, innovative ways for people to cover catastrophic care for their families, at the same time manage the cash flow needs, their own cash flow needs so they can provide primary care as well. Now she pays $340 a month for a high-deductible plan and she puts $290 a month into her HSA; puts her own money in, money that will earn interest tax-free, money she can

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take out tax-free – it's her own money! And she's saving money for her family at the same time; in other words, this innovative plan enables her to control her own destiny when it comes to health care, and at the same time provides her comfort in knowing that if there is a catastrophe, the health care insurance will cover it for her and her family. She's paying less overall, she chooses her own doctor, she saves her own money, and she makes the health care decisions.

"Fast-rising medical costs are a drag on this economy, and so there are some things we need to do together. One is to expand health savings accounts. Two, promote association health care plans. Congress needs to allow small businesses to pool risk. Three, pass liability reform. Four, continue to expand information technology throughout the healthcare system. Five, move generic drugs faster to the market. In all we do to reform health care, we've got to make sure the decisions are made by doctors and patients, not by bureaucrats in our nation's capital".

We producers would like to have Washington offer refundable tax credits/vouchers:refundable tax credits for people in low income tax brackets and vouchers available for families below $25,000 a year income. Everyone can become a part of Greenspan's ownership society.

Purchase with HSA

There are many approved expenses that can be purchased with the HSA, these are but a few: acupuncture, treatment for alcoholism, birth control pills, construction or installation of in-home medical equipment, assistance devices for remodeling or accommodating a disability, contact lenses, dental treatment, fertility enhancement, guide dogs, nursing care, stop smoking programs, weight loss programs, long term care insurance, and the list goes on!

MDRT Opportunities

Opportunities for MDRT members are astounding! **Insurance advisors** can cross sell HSA clients: life, disability, annuities, and long term care. **Investment advisors:** Securities placed in the HSA and personal accounts. Each HDHP/HSA client will have to meet one-on-one with the advisor to complete the customer information sheet. **Mentoring:** Health specialists mentor with the investment advisor. Young agents prospect the simpler health piece while the experienced agent sells the investments. **Retirement specialists:** long term care, HSA sheltered funds, supplemental medical coverage.

Use Your Imagination

The December 28, 2004 *Rocky Mountain News* had numerous articles on the changing benefit arena: " The vanishing coverage-cost cutting ax often chops retiree health benefits", "Reduced benefits eat into retirement plans", "Family struggles as buy-out 'deal' to keep health benefits prove costly", "Qwest retiree's dreams get lost in the fine print", "Lucent in quandary over retiree benefits…" If I may be so bold, we are on the cusp of historical changes in health care and retirement benefits for current employees and retirees. Our clients will need advice and direction as they move through these dynamic and perhaps difficult transitions to what many may consider more cost-effective, individual oriented, innovative products.

One day, in the not too distant future, American workers may own their own individual policy that they will buy once and take with them from job to job. Employers will make contributions to the HSA funds that employees own and will move with them into retirement. Group benefits may morph and change in a similar fashion.

In the December 29, 2004 Denver Post, General Motors announced an additional $1,784 cost to each vehicle to pay for pension and health care costs for it's employees – a tab that amounted to $6.2 billion in 2003, thus cutting the profit margin per vehicle to 0.5%. GM's profit margin per vehicle would be 5.5% if they did not have to pay the pension and health care costs to retirees.

I cannot predict the future, but as I watch the trends and paradigm shifts, I sense big change in the way benefits will be delivered in the future.

What a great time to be an MDRT sales professional!

I have enjoyed this opportunity to speak with you. Now make every day your masterpiece!