

HSAs' reign among consumer-driven plans may come to an end

Plans could be limited in the future, despite current support

By **JERRY GEISEL**

Washington's five-year honeymoon with health savings accounts may be coming to an end, though no one envisions a divorce.

The honeymoon began after Congress—at the urging of the Bush administration—authorized HSAs as part of broader Medicare prescription drug legislation it passed in late 2003.

That law showered HSAs with tax breaks. Enrollees in high-deductible health insurance plans to which HSAs must be linked can make tax-deductible or pretax contributions to HSAs, while funds can be withdrawn tax-free from the accounts to pay for uncovered health care expenses.

In late 2006, lawmakers approved and the president signed a bill that allows employees to make bigger HSA contributions and clarified an interaction problem between HSAs and so-called grace periods for flexible spending accounts. This made it easier for employers to move from first-generation consumer-driven health plans linked to health reimbursement arrangements to plans linked to HSAs.

All that activity helped accelerate HSA adoption, said Gregg Larson, national HSA product leader with Affiliated Computer Services Inc. in Minneapolis.

As of Jan. 1, 6.1 million people were enrolled in high-deductible health insurance plans linked to HSAs, a number that nearly doubled in just two years, according to a survey by America's Health Insurance Plans, a Washington-based industry trade group.

Now, however, there are signs that the honeymoon may be coming to an end among lawmakers and, depending on the outcome of the November presidential election, the White House.

One sign came in April when the House of Representatives passed legislation to require banks and other

financial institutions that administer HSAs to substantiate that account distributions are for health care-related expenses, such as prescription drug copayments.

With a health care substantiation requirement, account holders in some cases would have to file a claim form and provide a receipt to the bank where they established their HSAs to receive reimbursement.

To handle that, many banks would have to acquire new administrative systems and those costs would be passed onto account holders. Those added costs and com-

plexity might result in some banks withdrawing from what already is a low-profit business, experts have said.

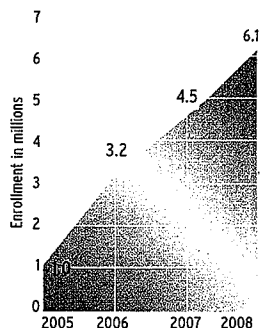
At the same time the substantiation legislation was being considered, several legislators blasted HSAs.

Rep. Pete Stark, D-Calif., who chairs the House Ways and Means Health subcommittee, said HSAs over the long term would lead to higher health care costs because enrollees may delay getting needed care, resulting in more expensive

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ON THE RISE

How enrollment in high-deductible health insurance plans linked to HSAs has grown.



Source: America's Health Insurance Plans

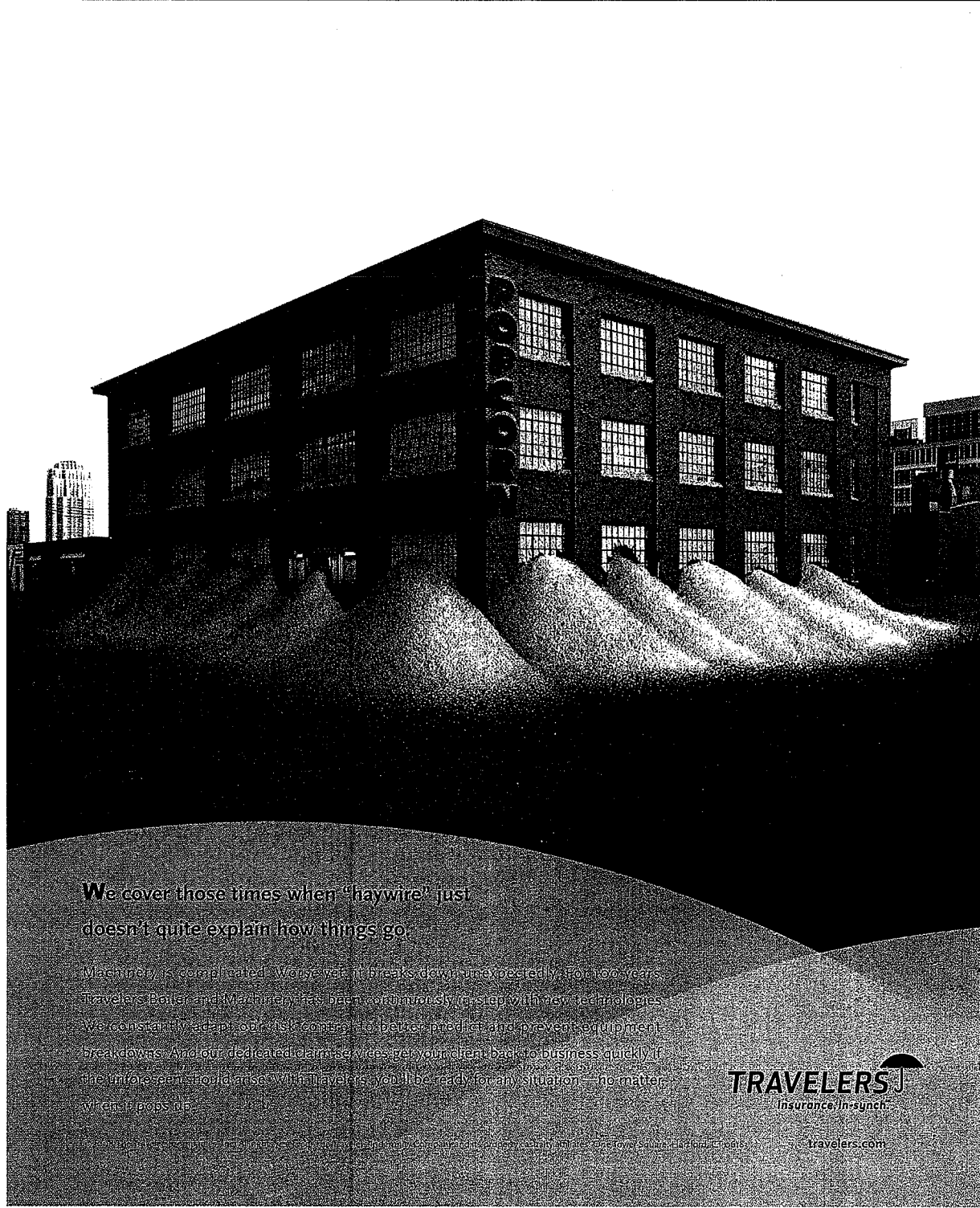
Eager to jump-start HSAs, the Bush administration pushed regulators to develop guidance quickly.

"This was an important priority for the administration," recalled Bill Sweetnam, then-benefits tax counsel for the Treasury Department and now a partner with Groom Law Group in Washington.

The first batch of Internal Revenue Service guidance came a little more than three months after HSAs became available, which was lightning speed compared with other employee benefit issues. The guidance laid out which health care services are preventive and thus, under the law authorizing HSAs, fully covered by linked health insurance plans.

The guidance kept coming at a rapid clip, with the most recent batch issued last month. The latest direction, among other things, describes services that onsite corporate medical clinics can offer at little or no cost without employees losing their eligibility to participate in an HSA.

Since passage of the authorization legislation, regulators have had company in giving HSAs special treatment. Three years after first blessing HSAs, Congress further sweetened the arrangements.



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HSAs: Future of plans may depend on next president

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treatment later on.

Another panel member, Rep. Xavier Becerra, D-Calif., labeled HSAs as tax shelters for the wealthy.

Indeed, Bush administration officials warned of a presidential veto if the substantiation legislation, which the Senate has yet to consider, received final congressional approval.

But whoever becomes the next president might not take the same line.

Sen. Barack Obama, D-Ill., the presumptive Democratic presidential candidate, is at best lukewarm about HSAs. Responding earlier this year to questions posed by the American Academy of Family Physicians, Sen. Obama described HSAs as a helpful way of saving taxpayers money "in the current health care environment. But the current health care environment is unsustainable and health saving accounts don't do enough."

By contrast, Sen. John McCain, R-Ariz., the presumptive Republican presidential candidate, has been more supportive. While offering no specifics, he said, if elected, he would work to encourage and expand HSAs. The accounts "take an important step in the direction of putting families in charge of what they pay," Sen. McCain said on his Web site.

The contrasting views means the future of HSAs could depend on the outcome of the November presidential election, said Grace-Marie Turner, president of the Galen Institute, an Alexandria, Va.-based health policy organization.

Others say that regardless of the election results, HSAs are here to stay simply because millions of

people already have coverage through them.

"There are too many to wipe them out. It would be very difficult to reverse course at this point," said Ted Nussbaum, a principal with Watson Wyatt Worldwide in Stamford, Conn.

Other Washington observers agree, but say if Sen. Obama is elected and the Democrats continue to control Congress, there could be a drive to limit HSA availability.

"I don't think HSAs will be taken away, but I also don't expect them to be improved. Depending on the political climate, there could be an effort to pare back the tax breaks for those above certain income levels," said Frank McArdle, a consultant in the Washington office of Hewitt Associates Inc.

There are numerous precedents in the benefits realm of linking tax breaks to income. For example, tax credits for dependent care expenses and adoption expenses are linked to income. In addition, employees covered by corporate pension and savings plans can make full tax-deductible contributions to individual retirement accounts only if their incomes are below certain levels.

Still, Mr. McArdle noted, attempts to link HSA eligibility to income would be strongly resisted by congressional Republicans.

Sen. McCain would be likely to offer proposals to further sweeten HSAs, but if Democrats continue to control both congressional branches, such proposals would have little chance of passage, observers say.

Indeed, proposals the Bush administration has made during the past two years to boost maximum contributions that can be made to HSAs have received scant attention from lawmakers.