

# Introducing... The HSA Strategy!

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Every American should have a high-deductible health plan (HDHP) coupled with a Health Savings Account (HSA). I call this "The HSA Strategy" because it provides an opportunity for individuals to maximize current health and plan and save for future expenses, including expenses not covered by Medicare during retirement.

I recommend this strategy to all my individual and group clients because I am convinced it is in the best long-term health and financial interest plan for just about everyone. The HSA Strategy can also provide significant solutions to two significant, national issues: skyrocketing health insurance premiums and rising health care costs.

All Americans can benefit from a health care system that will make health care more affordable, increase access to providers, and protect their health and wellbeing in the future.

According to Steve Forbes, "The problem with American medicine is in the way we finance it—almost all of it through third parties, primarily insurance companies and the government. In any market where there is a disconnect between provider and consumer, bad things happen."

Scott Atlas, in his book *Power to the Patient*, said, "The third-party system of payment—the absence of direct payment from patient to doctor for most medical expenses—has shielded Americans from considerations of cost and imparted the illusion that 'someone else is paying' for medical care. The forces of supply and demand have become lost amid the sea of governmental regulation and oversight in the third-party payer system. The essential step to remedy this is to change the nature of health care insurance so that patients make direct payments to their health care providers."

## *Agents Play a Key Role*

Einstein provides two ideas for solving problems:

**Idea #1:** "Insanity: doing the same thing over and over again and expecting different results."

**Application:** We cannot continue to offer health plans that focus on first-dollar coverage and expect premiums and health care costs to subside.

**Idea #2:** "We cannot solve our problems with the same thinking we used when we created them."

**Application:** We need new thinking about the problems of skyrocketing premiums and health care inflation. A central role of the insurance agent in today's rapidly

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changing marketplace is to educate clients and help them transition to the new thinking.

The old thinking is expecting third-party insurance companies to pay for routine and expected health care costs in addition to protecting against large, unexpected medical bills.

The new thinking? Consumer-directed health plans.

The original purpose of insurance was to protect against large, unexpected medical bills, and NOT pay for smaller bills. Think of home or car insurance as good examples of protecting against large expenses. Insurance companies can do a good job providing these high deductible health plans at affordable premiums. So let's have insurance companies focus on what they do best and provide a variety of high deductible health plans for consumers.

HSAs let us self-insure routine and expected health care costs. Use a tax-advantaged Health Savings Account to pay smaller bills and save for future bills and deductibles.

Health economists suggest this is a smarter way to insure your health. They believe that The HSA Strategy is a smart move in the short term, and the consumer is way ahead in the long run.

When consumers stop paying additional premiums to get copays and low deductibles, they save substantially (30% to 70%) on insurance premiums. They can put those savings into a tax-advantaged account to pay current expenses and save for future expenses, including retirement years. With good health, money accumulates quickly over time. This puts consumers in charge of their own health care dollars. They will shop for the best values, providers will compete for their business, and competition will begin to control prices at their proper level.

Congress acted on this new thinking and, beginning in 2004, authorized HSAs as a tool for individuals, employers and employees to take control of their own health care costs. In the future, the growth of these plans will be exponential across America.

## *The Strategy*

Step 1: Replace your current low-deductible PPO or HMO plan(s) with an affordable HDHP to protect against large, unexpected medical bills. Protection from large claims should be the real reason for having insurance.

- Benefit: Save 30-70% on premiums
- Average savings based upon rates for a 40-year-old person:
  - Individual: \$1,000-2000 per year
  - Family: \$2,000-4,000 per year

**Step 2:** Put those premium savings into a tax-advantaged HSA to pay for routine expected medical bills and to save for deductibles.

- Key statistic: 68-73% of Americans spend \$500 or less on health care each year, and unused HSA dollars will roll over to the next year.

**Step 3:** Set a goal to “save and invest” those unused dollars over 10, 20, 30 or more years. Then use those tax-free dollars to pay for future health care costs, long-term care insurance premiums and health care expenses not covered by Medicare during retirement.

***The number-one reason to get an HSA: the potential to plan and save for a lifetime of benefits.***

The first option for using HSA dollars is to spend them now in order to maximize one’s health. This might mean paying for services not normally covered by traditional health plans. For example, a diabetic or a person with heart disease risk factors, such as elevated cholesterol, blood pressure or stress, might use tax-free HSA dollars for nutrition counseling from a registered dietitian to lower cholesterol and weight; exercise counseling to develop an exercise program; and stress-management counseling to lower stress in life. It can mean using HSA dollars to pay for “health coaching” from a wide variety of traditional and alternative health care professionals.

The second option is to save for future deductibles. Accumulating enough money in the HSA to pay several deductibles creates a comfortable feeling—you know you have already saved for your future health care expenses.

The third option is to accumulate unused dollars to spend during retirement. Fidelity Investments estimates that the average couple going into retirement will spend \$190,000 in health care expenses not covered by Medicare. In a perfect world, maximizing health and savings now will lead to a substantial accumulation of money that ultimately pays health care expenses for the rest of one’s life.

Susan, Age 40

- The premium for a low-deductible health plan with office visit and prescription copays is \$300/month.
- The premium for an HSA-qualified HDHP with no office visit or prescription copays is \$150/month.
- The \$150/month premium saving can be used to self-insure routine, expected expenses.

If Susan spent \$50/month for routine expenses—just like 68% of all Americans—and \$100/month grew in her HSA with compound interest, by retirement she would have a pool of money to pay for health care expenses as well as long-term care premiums. At age 70 she would have \$100,000 in her HSA to pay her LTC premiums and expenses not covered by Medicare. Note: This is especially important to people in their 20s and 30s who will reach retirement when Medicare might be dramatically different. Young people truly do need to plan now for an unknown future.

If Susan had ongoing health problems that totaled up to \$1,000/year (an estimated 24% of the population), she could use a portion of the \$1,800 from her HSA to pay those bills. She would still accumulate unused dollars each year.

If Susan had a major hospital bill, her out-of-pocket expenses would be roughly similar to the low-deductible PPO. After two years of good health, she would have saved sufficient dollars in her HSA to pay the out-of-pocket maximum in full.

With reasonably good health, at retirement Susan could have \$75,000 in her HSA to pay her long-term care premiums, as well as expenses not covered by Medicare, including annual exams, dental, vision and alternative care.

## *For Individuals and Businesses*

Individuals: High-deductible health plans are often among the most affordable health plans on the market, and consumers can save substantially on premiums. Congress wants to encourage consumers to make this switch from traditional health plans to the HDHP, and provides a triple tax benefit for HSA contributions:

- tax-deductible contributions
- tax-deferred growth
- tax-free withdrawals for medical, dental, vision, alternative and long term care premiums

**Businesses Owners:** Business owners and HR professionals can finally get control of the skyrocketing health insurance premiums. They can now buy very affordable major-medical coverage instead of offering a variety of traditional HMOs and low-deductible PPO plans. These HDHPs are geared to pay for large, unexpected bills, which normally are not subject to consumer preferences. Premiums are based upon incidence of major claims, and insurance company actuaries have a good handle on those costs.

The intent of Congress is for employers to pass these premium savings to employees, thus there are substantial tax benefits. The HSA contribution avoids payroll and income taxes, and is excluded from computation of workers' compensation premiums. The HSA Strategy is a tax-efficient way to pass on "tax-free compensation" to employees. In addition, an employee can use a cafeteria plan and payroll deduction to make additional contributions to the HSA up to the maximum allowable amount.

Employees: Employees get "cash" instead of copays. Now employees control the money for health care. If they are healthy, the tax-free money grows with compound interest. If they have ongoing health problems, they have a pool of money to pay for those expenses. Once employees understand the power of these accounts—their deductions create tax-free cash—they will happily use payroll deduction to maximize HSA contributions. Money grows tax-deferred and can be used tax-free for health care expenses. Since it is an IRA, at retirement, they can pay taxes on any amounts they use to supplement retirement.

## *In Summary*

Once your clients have this smarter way of doing health insurance for a few years—and see money grow in their HSAs—they will never want to change health plans again. Early data suggests that once employers switch to this smarter way of doing health insurance, they rarely switch back. The net result is that both you and your clients will feel good about playing a role in healing America's health care system. For more information, visit [www.HSACrusader.com](http://www.HSACrusader.com). This Web log is dedicated to proposing new ideas that will increase the adoption of Health Savings Accounts.