

## OPINION

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Guest column

### **HSAs treat ills of health care payment system**

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Health savings accounts (HSAs) recently celebrated their one-year anniversary. In the short span of time since Jan. 1, 2004, when HSAs were made available to the public, the stage has been set for a paradigm shift in the way individuals interact with the health care system. As financial institutions enter a market dominated by insurance companies, we can expect their fresh perspective to have significant impact on consumer-directed health care.

The concept of HSAs is focused on individual management of all health care expenditures below a preset deductible in a high-deductible health plan (HDHP). HSAs require the establishment of an HDHP with a minimum deductible of \$1,000 for singles and \$2,000 for families. Individuals and families then pay for expenses up to this deductible out of the HSA.

The HSA realigns people's behaviors in terms of how they approach health care expenditures. This realignment begins with how the HSA is funded. The money contributed to an HSA can be either of a pretax nature or a post-tax contribution that is deductible. In both scenarios, one resounding truth remains -- the funds an individual invests in his or her HSA belong to that individual. Unlike a flexible spending arrangement, the funds roll over from year to year so that the account can be built into a significant asset over time.

Essentially, the HSA is like a medical IRA. Funds can be invested and grow on a tax-free basis, and then, at age 65, the individual can take out the funds for any purpose without incurring a 10 percent penalty for nonqualified medical expenditures. While sharing many of the positive features of an IRA, HSAs also have an additional advantage -- HSAs function like a checking account. Individuals can pull out money for health expenditures at any time. In fact, if they are willing to pay the penalty mentioned above, people can even withdraw funds for nonmedical expenses.

From a consumer standpoint, it is important to recognize that not all HSAs are created equal. Banks and other financial institutions will compete for HSA customers just as they do for checking, savings and other services. Consumers must be aware of how HSAs fit into the overall structure and operation of the financial institution they choose, and what usage fees or other charges may be associated with the account. But then, this is what consumers do in every other area of their lives. HSAs give individuals the opportunity to manage their own health care needs.

These opportunities and this new level of responsibility probably will mean greater benefits for consumers. What makes the HSA so special is that it brings the banking industry into the medical/health insurance arena. Banking core competencies revolve around payment processing, and there is not an industry in more need of efficient payment processing than the health insurance business.

The world of debit cards and information technology will allow the consumer to pay a doctor the insurance-adjusted price of the visit before leaving the office. The doctor will be pleased, as well. With the introduction of point-of-sale payment, overhead costs can be lowered, and an end to long lags between service provision and compensation will be at hand. As banks assume responsibility for many of these transactions and speed their resolution, insurance companies also will benefit by cutting out large portions of their administrative costs.

The transformation of individuals into empowered health care consumers through the use of HSAs represents a tremendous shift in the health care market. Although financial institutions are merely one component of this change, the possibilities in this sector are exciting as banks begin to provide debit cards, investment options and to facilitate transactions. No doubt, these are just the first glimpses of the impact consumers will have as companies of all types begin responding to their health care demands.

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