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HEALTH SAVINGS ACCOUNTS (HSA) DEMYSTIFIED

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HSAs are a great value for a few and of limited to no value for everyone else.

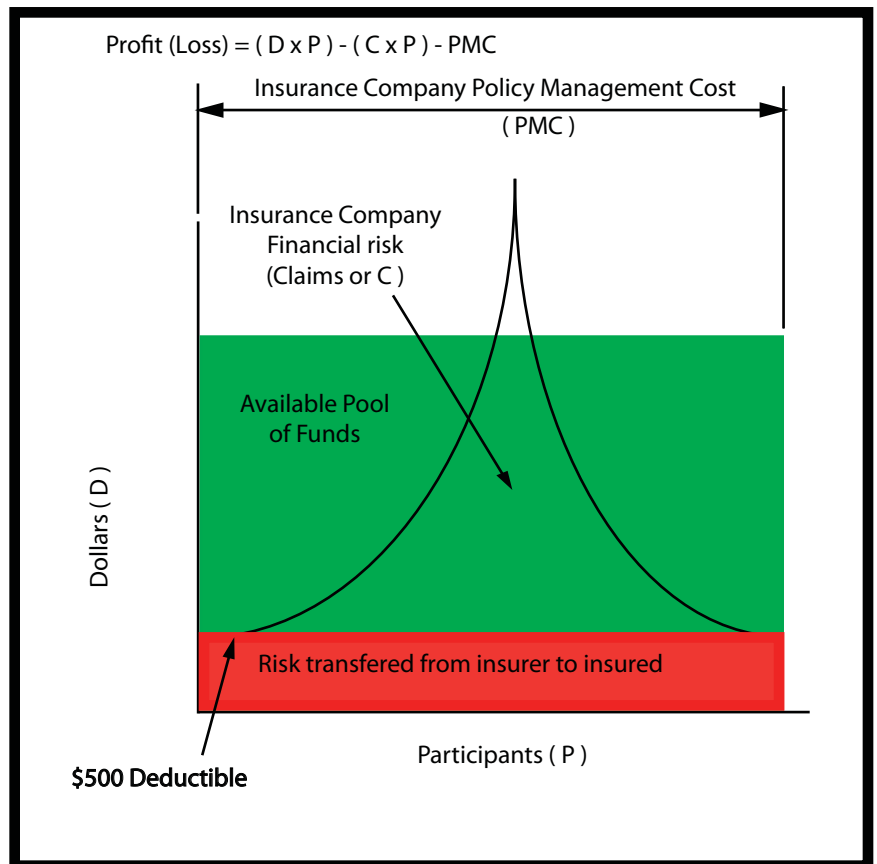
Beware the HSA is my immediate caution. I get push back on this one from the best of brokers, but it's more of a business problem than a philosophical issue. Back to the idea of government in collusion with financial industries (see [Group Health Insurance Demystified](#)), this is a great example of it at work.

In a typical health insurance plan (insurance pays 80% you pay 20% with a deductible-say \$500) and is illustrated below. Profit for the insurance company consists of its cost to manage the plan and the cost of any claims filed by the insured. The insurance underwriter's job is to ensure that the premiums collected exceed the expected cost of the plan. A pretty straight forward cost benefit analysis for all concerned.

Health Savings Accounts (HSAs) trick this up considerably. They are sold to the public on the idea that you and I abuse insurance. Well, it's clearly not you, so it must be me-right. No, that's not true either as it turns out.

A good many insurance sales people are convinced this is true, so don't expect to 'enlighten' them overnight. It took me a couple of years in some cases for some of them to come around.

First, use the common sense approach to kill the political fiction that supports consumer-driven

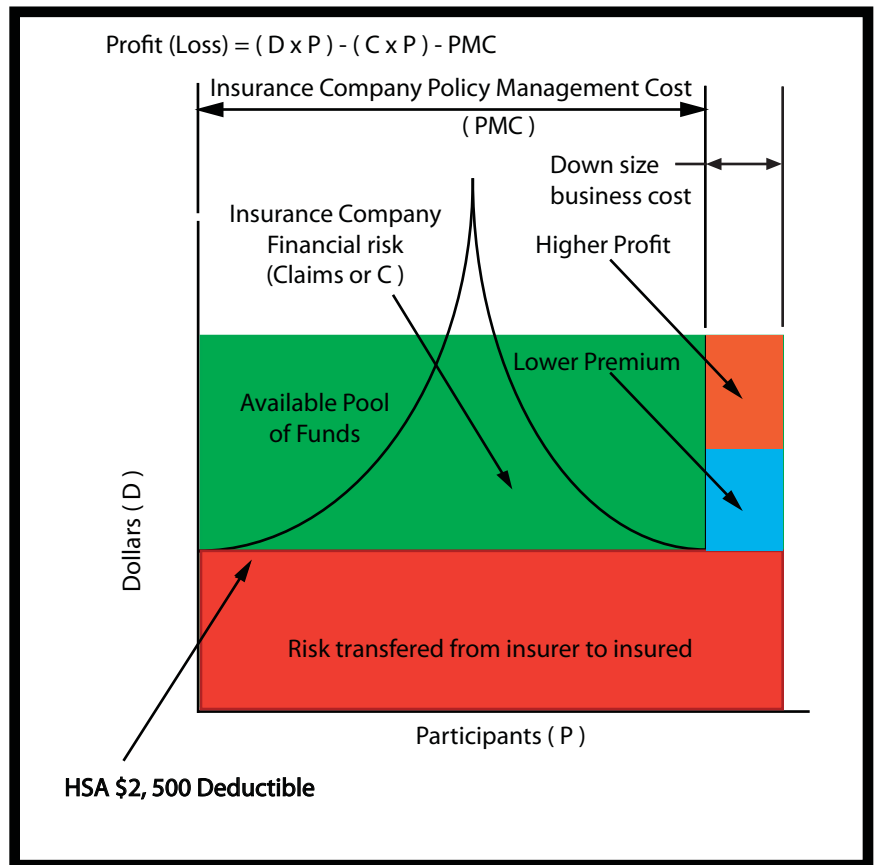


healthcare. Look around the work place. If all the desks, machines, trucks and so forth are empty and everyone is at the doctor's office or emergency room then I bow to you wisdom; however, you'll likely see business as usual 360 out of 365 days ever year. So who are all these people that are driving our insurance costs through the roof that require consumer-driven healthcare to police the market?

There is one group of people who consume 60-90 percent of all health care costs, but most of them don't participate in group health insurance or any private insurance, they are part of Medicare and they are 65 years old or older. Again, using the common sense test, when you do go into an emergency room or a doctor's office who is filling the waiting room—workers? Nope. HSAs do have a purpose, but it isn't what they've been packaged in to sell to you.

Insurance companies are founded on the concept of risk. The more they can lower costs, the higher their profits. So, how do you get government to participate? Those retired

folk, well not exactly the ones you see now, but the retired folk that are called the Baby Boomers, are the insurance industry's carrot to the government. You see, Medicare and Social Security are a doomed idea. The debate is when, not if. The sooner the government can get tomorrow's retirees fending for themselves the better. I wish it were about you, but politicians keeping their jobs is government's interest in promoting HSAs.



The real winner of the HSA concept is the insurance industry. Looking at the figure below, you can see that the real cost of a policy to an insurer is composed of two parts: claims and cost to process them. If the insurance industry can reduce the number of claims filed, they can reduce their cost of labor and their own overhead costs. This leaves a sizable pool of money which they divvy up between the policy holder (usually the employer) and themselves.

If you are the employer, this explains why you see a paltry 20% premium discount for a 250% transfer of risk to your employees. The insurance company quietly pockets the rest of the money.

All of that said, HSAs are a windfall for some employers. If you have an LLC, Partnership or S-Corporation (Basically, any company entity that disallows you to deduct the cost of benefits from you taxes.) As an owner, you are in the red zone of risk no matter what the premium. That means that an HSA can shelter some of your taxable profits. Here again, the services sector (insurance brokers, lawyers, doctors, dentists, accountants and so forth) can add a handsome 30% reduction in taxation of their benefits with an HSA account. Of course, their employees get screwed, but insurance isn't about being fair-its about profit.

I suggest that everyone quote products using a standard \$500 or \$1,000 insurance deductible and with a \$2,800 and \$5,000 deductible HSA attached. It's a good exercise.

Unless you have a young workforce (under 30), you'll likely notice that the real savings goes to the insurer. If you do have a young workforce, you'll also notice that only the ones with a family want any insurance at all.

If the HSA policy may comes with a minimum enrollment you're in a pickle. Forcing employees into insurance will cause turnover in your young workforce, which will drive up the cost of insurance no matter what product you've bought. If the employer covers the bill that has its own pitfalls, but no matter how you slice it, the insurance industry wins.

So, if you're a C Corporation or a Sole Proprietorship, I suggest you pass on HSAs unless there is no other way to offer your employees health coverage. By all means check them out, but be a smart consumer.