

Health Savings Accounts — a Popular Approach to Health Insurance

by Robert Spicknall



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It has been an honor and a pleasure to work with law firms for over twenty years. Serving as a broker or agent, my colleagues and I continue to guide law firms with the selection of group health insurance products.

In 2004 Virginia State Bar President Jeannie Dahnk invited me to make a presentation to Bar Council on a new approach to health

insurance called Health Savings Accounts. Today, some twelve years later, approximately twenty million people in this country have opted for the Health Savings Account approach to health insurance. The popularity of Health Savings Accounts is expected to increase given the dynamics of our current health insurance system.

Small and medium sized law firms, with 2–50 employees, will want to consider the Health Savings Account approach to health insurance. Often law firms take a dual prod-

uct approach by giving employees a choice between two health insurance products. The first option is a traditional health insurance plan, with copayments for physician visits and prescriptions, but often more expensive. The second option is the Health Savings Account approach.

Briefly, the Health Savings Account (HSA) alternative is a tax advantageous approach where one combines a high deductible health insurance plan with the HSA. The HSA is an IRA-like account used for most medical expenses. The HSA enables an individual to deposit and draw from pre-tax dollars to pay for or to be reimbursed for most out-of-pocket medical expenses. The high deductible insurance product is often \$3,000 or \$6,000 annually. A high deductible as low as \$2,000 is sometimes paired with the HSA.

Health insurance premiums continue to increase each year and employers occasionally look to increase the health plan's deductible to help offset the rising premiums. Thus, a comprehensive deductible in excess of \$1,000 has become common, so if a higher deductible product is chosen, one compatible with the tax-favored HSA may be selected.

The Affordable Care Act or Health Care Reform brought great change to health insurance. Perhaps the most significant change was the move to modified community rating for groups with 2–50 employees. No longer is there medical underwriting starting with the group's annual renewal in 2014. Health insurance rates became based solely on age, geographic location, and smoker status. No longer were groups composed of healthy individuals rewarded with lower rates. Likewise, medical conditions and large medical claims did not result in a group being singled out to receive higher than average rates. The analogy I used in describing how health insurance rates were determined for groups of 2–50 was, "View me as your law professor. No longer will anyone receive an A or C as their grade. Everyone will get a B." This change in health insurance underwriting was enjoyed by some, yet many healthy law firms voiced displeasure as their rates increased dramatically. Health insurance rates no longer reflect the health

risks associated with small and medium sized groups. In theory, healthier groups subsidize other groups in Virginia.

A decade ago it was primarily higher income individuals, or those in the higher tax brackets, who found the Health Savings Account approach appealing. Since then escalating health insurance premiums have necessitated that groups consider higher deductibles and the Health Savings Account approach. Today, it is also the healthy people who find the Health Savings Account approach appealing as healthy people enjoy both the lower premiums and the tax advantages associated with HSAs. As one attorney told me, "As a healthy person I feel good because I am not sending all my money to the insurance company, rather, I now have a tax-favored bucket that I can use to pay for my out-of-pocket medical expenses during my working years and in retirement."

Conversely, the traditional copayment alternative is preferred to the Health Savings Account approach by those with significant and predictable medical expenses. Those anticipating numerous physician visits and costly prescriptions often find the traditional copayment alternative more appealing. Risk-averse people are also reluctant to try the HSA alternative. Thus, the Health Savings Account approach will appeal to many, but not to everyone.

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Robert Spicknall is president of the Virginia State Bar Members' Insurance Center. VSBMIC is an affiliate of Digital Benefit Advisors and is endorsed by the Virginia State Bar.