

## “Key employer advantages to Health Savings Accounts”

After being available for four years, Health Savings Accounts (HSA) combined with a high Deductible Health Plan (HDHP) are finally catching on. A recent nationwide study indicated that 26 percent of U.S. companies with 500 or more employees are considering this option.

Unfortunately, there is still a lot of confusion about Health Savings Accounts and High Deductible Health Plans. One of the most important things to understand is that only employees who are covered under High Deductible Health Plans can set up Health Savings Accounts.

Employees use their HSAs to pay for qualified medical expenses below the annual deductible on their HDHPs, such as doctor visits, prescriptions and even some over-the-counter drugs.

Employee and optional employer contributions to the HAS, plus interest, stay in the employee’s HSA for qualified medical expenses or for their retirement. Health Savings Account funds are deposited pre-tax and are withdrawn tax-free if they are used for eligible expenses. To learn more about what constitutes an eligible expense, employees can speak to their plan administrator or visit [www.ustreas.gov](http://www.ustreas.gov).

As 26 percent of U.S. companies have already found, employers that choose to offer a HDHP with HSA will be rewarded in several way:

- 1. HSAs reduce taxes.** Employer HSA contributions are treated as deductible employer-provided coverage for medical expenses under a health plan. Furthermore, a person pays 7.65 percent of eligible pay for Social Security tax. Because employee and employer contributions

made to HSAs are not subject to Social Security taxes, employees save on each dollar they contribute to their HSAs.

- 2. HSAs reduce premium rates.** Used in conjunction with HDHPs, HSAs reduce immediate premium rates and may help to slow the long-term escalation in their health care costs.

Even with an employer contribution to employees' HSAs, the overall cost for health care coverage is usually less because the premium rates on HDHPs are considerably lower than medical plans with more modest deductibles.

- 3. More available capital.** Payroll tax savings and savings from lower investment in health care premiums free up capital to be directed to other critical business areas. Saving money on health care expenses is a good thing in itself, and savings can be reallocated to different parts of a business to help it grow.

- 4. Cash matters.** The old adage that "cash is king" rings true for most employees. A \$500 deposit into an HSA is a very visible, valuable and welcome addition to an employee's total compensation package. On the other hand, an additional \$500 in health care premiums that an employer pays on behalf of an employee is often overlooked. In addition, HSAs are portable, and employees appreciate this feature, even if they are not planning to leave the company.

- 5. Healthier employees.** Companies offering HSAs find that employee health care choices and behaviors change dramatically due to the

financial incentives inherent in this option. Employees are responsible for more of the upfront costs of medical care, and unspent money in the HSA carries forward to future years. Because of these incentives, a recent study found that employees with HSAs were more likely to use preventative services and seek lower prescription drug options. HSAs create a powerful reason for employees to want to stay healthy so they don't have to pay as much for health care.

6. **Any size company may offer HDHPs and HSAs.** A small company can compete with larger employers in offering this new benefit, making it easier for even small companies to compete for employees in a tight labor market.
7. **Plan flexibility.** The two cost components of HDHPs and HSAs – the HDHP premiums and the employer contribution to employees' HSA accounts – are independent, and can be changed annually. Flexible plan design means employers and employees can adapt this medical plan option according to their changing business needs.
8. **Banking relationships.** Encouraging employees to open their HSAs with the employer's bank strengthens the business relationship with a key business partner. Although HSA accounts are not likely to hold large balances for many years, the bank will appreciate the additional customers.

There is no panacea to rising health care costs. It's a fact of life for all business owners. However, an HDHP coupled with HSA offers advantaged that may help to soften the blow of those rising health care costs.