



Health Savings Accounts Are Here

More employers are discovering what appears to be a new and attractive healthcare option: health savings accounts, or HSAs.

HSA's were established in last year's Medicare prescription drug law. Like the medical savings accounts (MSA) of old, they permit employee and employer contributions to tax-favored savings accounts, which the employee can draw upon to pay healthcare costs.

But where MSAs carried an annoying "use it or lose it" requirement, the new HSAs permit complete rollover of unused funds — which grow tax-free and can be used without penalty or tax to cover almost any health-care expense. Health savings accounts are available to employees who purchase high-deductible health insurance policies — something few employers offer today.

So what's not to like? Skyrocketing health-care costs pose a major challenge for every business, and the combination of HSAs with high-deductible insurance holds out some prospect of relief. But a company that moves forward on HSAs should expect a workout for its change-management and internal marketing skills.

Level with employees: HSAs aren't all gain and no pain. High-deductible health insurance will be a shock to those used to paying \$15 for doctor visits, suddenly facing responsibility for the first \$2,000 of their health costs.

And while the accounts extend tax protection over more income, their limitations are significant. They can't be used to buy Medicaid, for example. And health-care costs are

increasing faster than investment returns. Even accounts that have been continually rolled over can't be counted upon to cover all future health expenses.

Employers, then, may need to take another step in order to succeed with HSAs: to fund them to a degree that offsets what employees may initially perceive as weaknesses in their benefit packages.

There's no free ride with health-care costs, but there may be better options. We can help you explore them.