THE CASE FOR HSAs: WHY NEARLY EVERYONE CAN BENEFIT FROM OWNING A HEALTH SAVINGS ACCOUNT

By Robert Hopper, Ph.D.
Hopper Insurance Services
Santa Barbara, CA
Bob@BobHopperInsurance.com

The most important reason for owning a Health Savings Account is the ability to use tax-free dollars to pay for healthcare expenses.

With a traditional health plan, you pay medical expenses with after-tax dollars but with an HSA-qualified health plan, you use tax-free dollars from your HSA. That's like comparing apples and oranges. What is needed is a common currency you can use to easily compare HSA plans to traditional plans. That common currency is what you need to "earn" in order to pay a medical bill.

When people learn and use the concept of "common currency," they are often shocked that the affordable, high-deductible Bronze HSA-qualified health plan often outperforms the more expensive Silver, Gold and Platinum plans. In some cases, the Bronze HSA plan can be dramatically better. I call it "HSA magic."

WHAT DO YOU NEED TO EARN IN ORDER TO PAY A MEDICAL BILL?

In order to understand this common currency, it is important to understand a few basics about taxation. When an employee earns wages, the employer is required to withhold federal taxes as well as Social Security and Medicare taxes (FICA), amounting to nearly 33% for the average worker.

Tax Chart: Single Filers Earning $36,901 to $80,350; Married Filers Earning $73,901 to $148,850

Tax	Tax Rate
Federal	25% (most common tax rate)
Social Security	6.20%
Medicare	1.45%
Total taxes withheld:	32.65% (we'll round that to 33%)

This means that for every $100 earned, the employer is required to withhold $33 in taxes. The employee is then left with $67 "after-tax" dollars.

Let's use the example of a lab test that conveniently costs $67. How much do you have to earn to pay for this test?

Traditional health plan: You must earn $100 and have your employer withhold $33, leaving you $67 after-tax dollars to pay the lab bill.

HSA-based plan: You only need to earn $67, have it go tax-free into your HSA, and then you pay the $67 bill with your tax-free money in your HSA. This leaves you $33 in your HSA for future medical expenses.

HOW TO BALLPARK WHAT YOU NEED TO EARN

For people who fall in the 25% tax bracket (single filers earning $36,901 to $80,350 and married filers earning $73,901 to $148,850), I like to use a simple "ballpark" method to determine how much must be earned to pay for a medical bill. Simply compute half of the bill and add that amount to the total bill.

In our example, the bill is $67. One half of $67 is around $33. Add $33 back into the total bill of $67 and you get $100.

Amount of Bill	Need to Earn	Need to Earn with HSA
$50 (copay)	$75	$50
$100	$150	$100
$500	$750	$500
$1,000	$1500	$1,000
$2,000	$3,000	$2,000
$4,000	$6,000	$4,000
$6,000 (out-of-pocket max)	$9,000	$6,000 (HSA magic at its best)

HOW TO APPLY THIS KNOWLEDGE

Let's compare a Bronze HSA plan ($4,500 deductible, no copays) to a more expensive Silver plan ($2,000 deductible, copays for office visits and prescription drugs) where the employee is 40 years old and his employer pays 100% of the premium for the Bronze level HSA-qualified plan.

Question: Is it more beneficial to pay an additional premium to get a Silver, Gold or Platinum plan, or would it be better to deposit that additional premium into a Health Savings Account?

Judge for yourself. Put a check mark in front of each category that follows if the Bronze HSA plan outperforms the traditional Silver plan.

Most Affordable Health Plan

PPACA standardized health plans into four categories: Bronze 60 (most affordable), Silver 70, Gold 80 and Platinum 90 (most expensive). The number next to each plan is the actuarial value, or the percentage of bills that will be paid by the health insurance plan. A low-cost Bronze plan will pay on average around 60% of medical bills. Silver pays 70%, Gold 80% and Platinum 90% of medical bills.

Since a Bronze plan pays the lowest percentage, it also has a lower premium than Silver, Gold or Platinum. Note: If the employer is paying less for the premium, it may allow the employer to make an additional contribution towards the employee's HSA.

Premiums to upgrade from Bronze to a Silver, Gold or Platinum plan

This chart shows how much extra you need to pay (per month and per year) for more expensive plans.

	Bronze	Silver	Gold	Platinum
Age 25 Premium:	Base rate	+$68/mo ($816/year)	+$114/mo ($1368/year)	+$180/mo ($2160/year)
Age 40 Premium:	Base rate	+$86/mo ($1032/year)	+$140/mo ($1740/year)	+$229/mo ($2748/year)
Age 55 Premium:	Base rate	+$151/mo ($1812/year)	+$245/mo ($2940/year)	+$399/mo ($4788/year)

Source: Anthem Small-Group Rates, Santa Barbara, CA. January 2016

Large, Infrequent Medical Expenses

Case: Three-day hospitals stay including surgery ($30,000)

The main reason for getting health insurance is protection from large, infrequent medical bills. If you knew for certain you would never spend more than $500 per year, it would be foolish to pay $500 per month for health insurance.

One of the most important changes in PPACA was the standardization of out-of-pocket maximums, with Bronze, Silver and Gold plans all averaging about $6,000 per year.

If you have large, infrequent medical bills such as hospitalization, you generally will reach the out-of-pocket maximum and will not have to pay any additional costs.

Traditional plan: How much do you need to earn in order to pay the $6,000 out-of-pocket maximum? Use the ballpark method: half of $6,000 plus the total $6,000 out-of-pocket ($3,000 +$6,000 = $9,000). You need to earn $9,000 and pay taxes of $3,000 to pay the $6,000 medical bill.

HSA-based plan: Earn $6,000; put in HSA; avoid taxes; pay $6,000 medical bill.

- This is HSA magic at its best. You only need to earn $6,000 with the HSA plan, while you will need to earn $9,000 with the traditional plan.
- What if there is insufficient money in your HSA? Employees can elect additional payroll deductions to pay for medical bills. Money can go into HSA and can be used immediately to pay ongoing expenses.
- What if it takes two years to build up money in your HSA? Employees can pay for medical expenses with their checking account or credit card. Later, when there is money in the HSA, employees can reimburse themselves from the HSA.
- The goal is to save regularly in your HSA over the years. Then, if you reach the out-of-pocket maximum, there will be sufficient money in the HSA to pay all medical bills.

Medical bills less than $1,000

For someone 40 years of age, upgrading to a Silver plan will cost an additional $90 per month or $1,080 per year. Is it better for an employee to pay the additional premium or put money into a Health Savings Account?

Case: $1,000 for routine costs such as labs, x-rays or outpatient procedures that accrue towards deductible.

Traditional plan: Pay all expenses up to the deductible using after-tax dollars. This translates to earning $1,500, paying $500 in taxes and leaving $1,000 for medical expenses.

HSA-based plan: Deposit the $1,080 in an HSA; there is sufficient money to pay the entire $1,000 in medical bills.

Medical bills less than $2,000

Case: An employee has medical expenses of $2,000 that would apply towards the $2,000 Silver plan deductible.

Traditional plan: The employee must earn $3,000 and pay 33%, or $1,000, in taxes to have $2,000 remaining to pay these medical expenses.

HSA-based plan: The employee would only have to earn $2,000, which all goes into her HSA tax-free.

Physician Office Visits

Case: When employees have an HSA-based plan, they pay a negotiated fee for a doctor visit. (Insurance companies negotiate lower fees for in-network providers.) In this case, the negotiated fee is $80 and the Silver plan copay for a general practice physician is $45.

Traditional plan: The employee must earn $67.50 to pay the $45 copay. Relying on the ballpark method: One half of $45 is $22.50. $22.50 + $45 = $67.50, the real cost to the employee for this copay.

HSA-based plan: Pay the negotiated fee of $80 from the tax-free HSA. The employee only earns $80, which is just $13 more than the traditional plan. In most cases, there is no out-of-pocket cost because the $80 bill is paid from the money already in the HSA.

Using tax-free HSA dollars makes the cost of negotiated fee much closer to the copay amount.

Prescription Medications (ongoing)

Case: A brand-name drug that costs $150/month

Traditional plan: The employee pays the first $500 prescription deductible, then pays a $50 copay for each remaining month. $150 x three months is $450 to satisfy the deductible. Then he pays the $50 copay for nine months ($450). Total is $950.

Using the ballpark method: One half of $950 is $475; added to $950, it totals $1,425. The employee would need to earn $1,425 to pay the $950 for the medications.

HSA-based plan: The total cost for the medication would be $150/month x 12 months, or $1,800. The employee would use $1,000 from an HSA to pay for part of the medication. The employee would then elect to payroll-deduct an additional $67/month to pay the remaining costs ($67 x 12 = $800). Net result: The employee would only need to earn $800 to pay for the brand-name medication (versus $1,425).

SUMMARY

In many cases, it is more cost-efficient to deposit money into an HSA than to buy a plan with richer benefits. As you go from Silver to Gold to Platinum, the amount of money that goes into an HSA increases, and that often makes the HSA plan a better value. Of course, there will always be medical situations where a traditional plan might be better, such as when an individual has more expensive ongoing medical conditions or takes one or more expensive medications. These people might opt to choose different plans. One option would be a Silver-level HSA plan with a deductible around $2,000. Other options would be traditional Silver, Gold or Platinum plans.

Interesting note: When dealing with family coverage where only one person has large ongoing medical expenses, enrolling in a more expensive Gold or Platinum plan means the premiums for dependents are also higher. Sometimes, enrolling in the HSA plan yields lower dependent premiums, and those savings can be payroll-deducted into the HSA to help pay for the ongoing medical expenses of the one family member.

ADDITIONAL LONG-TERM BENEFITS

Choosing an HSA-based plan provides benefits that traditional plans cannot duplicate.

Reward for good health

HSA-based plan: If the employer puts money into an employee's HSA and the employee does not use that money, the money is effectively a reward for good health. If invested properly over the long term, the reward can be quite substantial at age 65, when the HSA money can be withdrawn for ANY use, not exclusively medical.

Ability to plan and save for retirement

According to Fidelity Investments, the average couple will spend $220,000 on healthcare expenses between age 65 and their final years.

HSA-based plan: HSAs function like a retirement plan, only better. Money goes in pre-tax and comes out tax-free. Health Savings Accounts provide the tool to plan and save for retirement healthcare expenses.

Money for personal wellness program

HSA-based plan: HSA dollars can be used tax-free to pay for nutritional counseling to lower cholesterol or a for a weight-loss program.

Fund to pay dental, vision and alternative care plans

HSA-based plan: Tax-free HSA dollars can be used to pay for dental services, eye tests, classes and contacts, as well as alternative health providers not covered by traditional health plans.

Become more prudent buyers of healthcare services

Traditional plan: While low copays make it easier to access the healthcare system, they also mask the real cost of services and encourage choosing more expensive options. For example, instead of paying the real $150 cost for a medication, the plan member only pays a $75 copay. They may not ask about a lower cost generic drug since they are getting a $150 drug for only $75.

HSA-based plan: People who have money in an HSA are using their own money to pay for services and will often be more prudent shoppers. They will ask their doctor if a cost-effective generic or older brand name drug will work for them.

SUMMARY

When given the tools to correctly evaluate health plans, employers and employees—as well as individuals who buy their own insurance—often benefit by choosing a Bronze-level HSA-qualified health plan in lieu of more expensive Silver, Gold or Platinum plans. Those with higher medical expenses may opt for a Silver or Gold level HSA plan.

They may start by thinking that plans with lower deductibles and low copays will be best, however they will be surprised to learn that HSA-qualified plans outperform traditional plans time and again. HIU