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Health Savings Accounts Come Under Fire



Gothamist.com

HSA's allow you to give these guys less of your money

Dow Jones Newswires reporter **Victoria E. Knight** writes:

Some lawmakers want national health-care reform to include new constraints on health savings accounts, a move that banks and insurance companies warn could discourage saving at a time when it is needed more than ever.

Proposals in the Senate would set tighter limits on contributions to these tax-advantaged accounts, called HSA's, and would require more oversight of how money in them is spent. Annual contribution limits this year are \$3,000 for individuals and \$5,950 for families, but one proposal would reduce it to the deductible on an account holder's health insurance plan, if that deductible is less.

Money from HSA's can pay for current year health-care expenses, such as copays and deductibles. Unlike the more widely used flexible spending accounts, which must be emptied each year, HSA's can also be used to save for future years to cover Medicare premiums and other health costs on a tax-free basis.

To qualify for an HSA, investors need to be enrolled in an insurance plan that meets certain conditions. This year, those include a deductible of at least \$1,150 for individual coverage or \$2,300 for a family.

"Implementing the suggested policy changes would simply cripple one of the few health-care reforms that are accomplishing the president's stated goals" of expanding health coverage to the uninsured, says Kevin McKechnie, staff director of the American Bankers Association's HSA Council, which represents banks, insurance companies and their technology providers.

Around a third of people who have HSA's were previously uninsured, he says. McKechnie has sent a letter to Sens. Max Baucus (D-Mont.) and Charles Grassley (R-Iowa), both of the Senate Finance Committee, detailing the industry's concerns.

Launched around five years ago, HSA's were the cornerstone of the Bush administration's policy for making health care more affordable for American families. Democrats resisted the introduction of HSA's, describing them as an "unnecessary \$16 billion subsidy" for the wealthy—a criticism they renewed last year after a report by Congressional investigators revealed that the adjusted gross income for enrollees in HSA's was about \$139,000, compared with \$57,000 for all other tax filers. President Barack Obama has said he wants to pay for health-care reform in part by raising taxes on the wealthy.

Financial advisers say using the accounts to save for future years, while paying for current costs out of pocket, can be an astute way to save for medical expenses in retirement.

"We should be encouraging people to save more—not less—for their future health-care expenses," says Roy Ramthun, president of HSA Consulting Services and a former senior health policy adviser to President George W. Bush. Ramthun is

opposed to lower limits on account contributions. A couple retiring now with Medicare coverage will need about \$240,000 to cover medical expenses during retirement, he says, citing a recent estimate from Fidelity Investments.

Another proposal would require employers or independent third parties to verify that account holders are spending funds on qualified medical expenses.

“Such a requirement would be a dramatic departure from current law and greatly increase the cost of HSA administration,” says McKechnie. It would also lead to substantially higher account fees, he says.

Currently, account holders, trustees and custodians are required to report annual contributions and distributions from HSAs to the Internal Revenue Service. If the IRS decides to do an audit, it’s the responsibility of the account holder to prove, by showing receipts, that he or she used the money for medical expenses—or face tax penalties.

If fraud is the driving concern, a study should be conducted first to assess its prevalence before new rules that would raise costs are introduced, says McKechnie.

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