Health Savings Accounts

Where Banks and the Future of Health Care Meet?

By Kara Backus, Attorney, Lane Powell PC

Since 2003, when Congress created the Health Savings Account (HSA), banks have been involved in helping employers and individuals set up the accounts to fund future health care costs. HSAs are increasingly striking a chord among employers and individuals as a useful option for the future. This is partially due to efforts to tie health care costs in the United States to market forces by creating informed health care consumers. It is also likely that health care reform will facilitate increased use of HSAs.

What are Health Savings Accounts and How Are Banks Involved?

Health Savings Accounts are just what the name implies: they are tax-exempt trusts or custodial accounts that allow individuals to save for their future medical expenses and those of their spouses and dependents. Individuals are generally eligible for an HSA if they are enrolled in a high-deductible health plan (HDHP), defined as a plan with an annual deductible of at least $1,250 for an individual or $2,500 for a family, and which adheres to certain limits on annual out-of-pocket expenses and other requirements. The maximum annual contribution to an HSA, which may be sponsored by an employer or established by an individual, is currently $3,250 for an individual (increasing to $3,300 in 2014) and $6,450 for a family (increasing to $6,550 in 2014). Anyone may make tax-free contributions to the HSA on behalf of the beneficiary within the annual limits, and the HSA beneficiary can then withdraw the funds on a tax-free basis to cover qualifying medical costs not covered by the HDHP. Unlike the more widely familiar flexible spending accounts, amounts held in an HSA are transferable to another custodian and may be rolled over from year to year. As an additional benefit, HSA beneficiaries who reach age 65 may choose to use the funds in the HSA for medical expenses or as additional retirement income. Funds used for additional retirement income are taxed at ordinary tax rates without penalty.

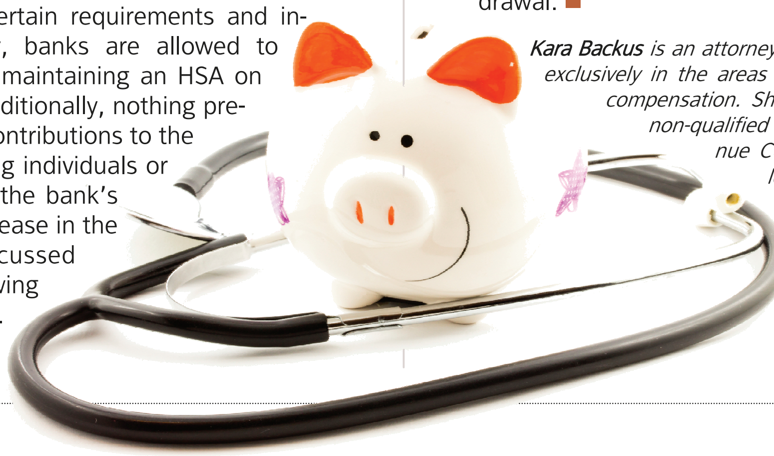
Banks (including domestic building and loan associations, credit unions and other entities subject to federal banking regulations) have a significant role to play in the administration of HSAs, as the HSA trustee or custodian is almost always a bank or insurance company. Although certain requirements and investment restrictions apply, banks are allowed to charge reasonable fees for maintaining an HSA on behalf of the beneficiary. Additionally, nothing prevents a bank from making contributions to the HSA as a way of encouraging individuals or employers to participate in the bank's HSA program. The likely increase in the utilization of HSAs discussed below could signal a growing source of business for banks.

The Rising Popularity of HSAs and the Future of HSAs Under Obamacare

The popularity of HSAs has increased substantially in the last several years and will likely continue to grow. A recent study by Towers Watson and the National Business Group on Health reports that 66 percent of large employers are now offering HSAs to employees. From a policy standpoint, HSAs were designed to help lower the costs of health insurance premiums by offering the option of coverage with a high deductible. Individuals or employers use the significant savings from premiums to fund the HSA, which is then used to pay health care costs up to the amount of the deductible (or for copayments or items not covered under the plan). Any savings from a healthy year may be retained for use in future years. HSAs are believed to reduce costs for non-catastrophic medical care by creating an incentive among individuals to purchase only those medical services that are necessary and to save any remaining money. This behavior by consumers fosters a more competitive market among doctors and hospitals, who are motivated to control costs and compete for customers.

The future use and popularity of HSAs will likely be affected by the implementation of comprehensive health care reform under the Affordable Care Act, commonly known as "Obamacare." One fundamental element of Obamacare is the requirement that individuals be covered under a plan that offers "minimum essential coverage." The HSA/HDHP model plans will almost always meet this requirement for low-cost plans in the small group and individual markets. HSAs tied to larger group health plans may meet this requirement if employer contributions to the HSA are substantial. In any case, it is likely that the HSA/HDHP model will continue to be a prevalent plan in the future for at least some portion of the health plan market.

Although Obamacare has not reduced the tax-free contribution limits for HSAs, HSAs may no longer be used to pay for over-the-counter drugs without a prescription. Additionally, under the new law, if an HSA is used to pay for non-medical costs, the IRS penalty has doubled from 10 to 20 percent of the total withdrawal. ■



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