

December 29, 2009

## Reform Bill Could End Popular HSAs, Flex Spending

Written by Thomas Cheplick

Proposed health care legislation in the U.S. Senate could eliminate tax-advantaged savings accounts used by thousands of Americans, even as evidence suggests they have helped lower health care costs.

Legislation proposed by Senate Majority Leader Harry Reid (D-NV) would significantly alter key tax-free provisions of HSAs, prohibiting them from the government-regulated health insurance exchange market created by the reform package and subjecting the accounts to new mandatory benefit requirements guaranteed to hike prices.

Health Savings Accounts, or HSAs, were created by Medicare Prescription Drug Improvement and Modernization Act of 2003. They can be opened at any bank, and the money deposited within them is not subject to income taxes. Although money in HSAs can be used toward medical expenses only, unlike other tax-advantaged accounts, it does roll over year-to-year.

### Eliminating Tax Exemptions

Roy Ramthun, president of HSA Consulting Services in Silver Spring, Maryland, which specializes in the creation of HSA accounts, believes Reid's death stroke against HSAs is an act of crass partisanship.

"This is pure politics," Ramthun said. "They do not care about the evidence and in fact go to considerable lengths to construct points that are wrong, like, 'HSAs are just tax shelters for the wealthy.'"

Ramthun finds it ironic that Reid and Democrats on Capitol Hill are lambasting health insurance companies while planning to end HSAs and force more Americans to give more money to health insurance companies as opposed to budgeting for their own care.

"What puzzles me is that for all the criticisms of insurance companies, they are basically trying to build a system that forces everybody to buy a policy from a health insurance company," Ramthun said. "HSAs mean that you do not pay your money to the insurance company—you get to keep and manage your money yourself."

### 'An Unsustainable Path'

Savings achieved through HSAs depend on the size of the deductible accepted by employers and employees. According to Devon Herrick, a health care expert with the National Center for Policy Analysis in Dallas, Texas, patients using an HSA receive a median savings of 33 percent.

Sally Pipes, president of the Pacific Research Institute in San Francisco, notes Americans who have HSAs have an incentive to shop selectively within the health care marketplace.

“Patients are finding out more and more that you get a reduced cost if you have an HSA,” Pipes said. “Yet if you look at everything in Washington right now, Health Savings Accounts are probably not going to survive as what qualifies as a benefit package.”

Ramthun believes consumers need to be prepared to have to fight to keep these accounts—or be ready to give up more control over their health care to the federal government.

“The move in Washington seems to be toward a program like Medicare, where somebody else is always paying for health care for you, no one knows the actual cost of anything, no one cares about the actual quality, and the patient is completely disengaged,” said Ramthun. “That’s an unsustainable path where we will be always spending more, not less.”

## **President’s Promise Broken**

HSAs aren’t the only consumer-driven accounts under assault.

Reid’s health care plan will also significantly change flexible spending accounts, which many Americans have with through their employers and use primarily for elective health care needs. Reid proposes capping the maximum amount Americans can deposit at \$2,500 per year and restricting what flex spending dollars can be used to purchase.

Although President Obama has repeatedly promised anyone who likes their current health care plan can keep it under his reforms, Ramthun says when it comes to these accounts, that is simply not true.

“My fear is that people will not actually find out what they have lost until long after a health care bill has been passed and signed into law by the President,” Ramthun said. “People who think they have been promised that they can keep what they have, such as an HSA, need to ask if they know that promise is true or not. We just might not be allowed to keep what we have.”