

February 3, 2006

Health Accounts Have Benefits For Employers

By THEO FRANCIS and ELLEN E. SCHULTZ
 Staff Reporters of THE WALL STREET JOURNAL
 February 3, 2006; Page B1

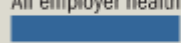
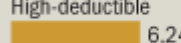
Amid the debate over whether health-savings accounts will fix America's health-care problems, another important effect has received less notice: The accounts are generating savings on payroll taxes for companies that adopt them, and they could hasten a shift of health-care costs from companies to employees.

Trade groups cheered President Bush's call in his State of the Union address Tuesday to expand key elements of health-savings accounts, or HSAs. The president's proposals could make it more attractive for millions of people to sign up for HSAs, either on their own or at the growing number of companies that are adopting them.

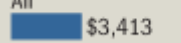
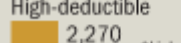
Paying Less

Average annual premiums employers pay for high-deductible* versus all other plans, per employee:

Family coverage

All employer health plans
 \$8,167
 High-deductible
 6,245

Single coverage

All
 \$3,413
 High-deductible
 2,270
 *Linked to HSAs

Source: Kaiser Family Foundation

The growing acceptance of HSAs accelerates a transition in health-care benefits, from employers providing a safety net to employees taking on more risk. The shift parallels a similar trend away from traditional pensions in retirement benefits. Indeed, HSAs may be poised to become the 401(k)s of health care: a low-cost substitute for a once-standard workplace-provided benefit, which can offer employees greater flexibility but also can increase their financial burdens and risk.

"I think what [employers] are really after is that they're moving the risk from their balance sheet to the employees," said Richard T. Evans, a health-care analyst with Sanford C. Bernstein & Co. in New York. "The risk is being transferred without the consumer really realizing it," he said.

Just as the 401(k) -- invented as a supplemental benefit -- ended up supplanting pensions, HSAs could do the same to traditional employee health insurance. Already, companies with HSAs are enjoying savings on payroll taxes that mirror gains they made


in the shift to 401(k)s.

"Employers are saying they want some certainty" in health-care costs, says Daniel Halperin, a Harvard University law professor. Although HSAs don't place the full burden of paying for health care on employees, "it's a movement in that direction," he said.

But employers see this trend as simply reflecting the changing nature of the employment relationship, says James Klein, president of the American Benefits Council, a trade group for employers and the benefits industry. "It's a positive trend in our view -- it's not a panacea, but it's something that ought to be encouraged."

Health-savings accounts enable workers to set aside pretax pay -- sometimes combined with contributions from their employer, if the company chooses to contribute -- to pay for certain health-care costs. The account can be

DOW JONES REPRINTS

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit:

www.djreprints.com.

- [See a sample reprint in PDF format.](#)
- [Order a reprint of this article now.](#)

applied to health-care costs up to a minimum deductible of \$1,050 for an individual and \$2,100 for a family in 2006. After that, costs are covered by a catastrophic insurance policy that users must purchase.

Established in 2003, HSAs are flexible in ways many experts have long sought. Money in the accounts can be rolled over from year to year, taken with the employee to a new job and spent on non-health-care-related items after age 65. They also are available to people who don't have insurance through their employers or who are unemployed. Mr. Bush is proposing that such people be allowed to contribute with pretax money.

Business groups generally hailed Mr. Bush's proposals, including the National Association of Manufacturers, the insurance industry and the financial-services industry, which is poised to reap billions of dollars in fees from managing money squirreled away in HSAs. Among the major companies offering employees an HSA option are **Wal-Mart Stores Inc.**, **DaimlerChrysler AG's** Chrysler Group and **General Motors Corp.**

Chrysler Group says it contributes an annual \$500 to single employees' accounts and \$1,000 for families. "Most companies do it because it makes sense economically for the company and the employee," says spokesman Dave Elshoff. A Wal-Mart spokesman declined to comment on specifics of Mr. Bush's proposals but says the company has "advocated that there be more latitude in HSAs."

RELATED READING

• [Weighing the Benefits of HSAs](#)¹
02/02/06

• [A Doctor's Report Card on HSAs](#)²
01/24/06

• [Bush to Seek Bigger Health-Savings Tax Break](#)³
01/21/06

About three million people have taken out the high-deductible insurance that qualifies them to open an HSA, about triple the number of a year ago, according to America's Health Insurance Plans, the insurance trade group. Of those, about one million consumers have actually opened an HSA, the group says. The White House has said it intends its proposals to expand the number of Americans using HSAs to 21 million by the end of the decade.

Proponents say HSAs will help rein in health costs because employees will be more careful about how they spend their money.

Critics say HSAs are unfair because they saddle the sick with the costs of treating themselves, rather than spreading those costs across large groups.

Employers decide whether to contribute money to the accounts. Even if they do contribute, the employer's total cost for each employee in an HSA is generally lower than for a worker in a traditional health plan. For example, employers typically pay \$3,284 for a single employee in a traditional insurance plan; covering the same employee in a high-deductible plan would cost \$2,850, according to the Kaiser Family Foundation.

Even if they don't contribute a cent, employers still get tax benefits. And the more of their own pay employees set aside each year, the bigger their employers' tax breaks. That's because employers ordinarily have to pay a variety of payroll taxes on cash income their employees earn; these taxes fund Social Security, Medicare and state and federal unemployment programs. But under at least some HSA arrangements, employers can skip most of those taxes on employee contributions to the account, bringing the employer savings of as much as 7% to 10%, according to some estimates.

For example, for an employer with a thousand workers collectively setting aside \$1.5 million, the employer would save as much as \$150,000 a year. Those savings are in addition to the income-tax deduction the employer gets for contributions it makes to the accounts. At a minimum, "the [payroll-tax] savings basically pay the administrative costs," said Rebecca Miller, a tax specialist with Minneapolis accounting firm McGladrey & Pullen.

Those tax savings could give employers "an incentive to encourage contributions" from employees, said Princeton University economist Uwe Reinhardt.

While payroll-tax savings do benefit employers, they are unlikely to be a decisive factor for employers considering HSAs, said Mr. Klein, the employer lobbyist. "In the scheme of what health-care costs are, I doubt that would be a compelling reason to move to that kind of plan design."

Employees also enjoy payroll-tax savings, which helps make the accounts attractive to them. What's more, the Bush administration proposal also calls for allowing people to put even more money into the accounts, enough to cover not only deductibles, as provided by current law, but also the cost of premiums, co-payments and amounts not covered by their health plan. Currently, maximum annual contributions to an account are limited to the lesser of the plan's deductible or a fixed amount: \$2,700 for individuals and \$5,450 for a family in 2006.

Write to Theo Francis at theo.francis@wsj.com⁴ and Ellen E. Schultz at ellen.schultz@wsj.com⁵

URL for this article:

<http://online.wsj.com/article/SB113892775497563903.html>

Hyperlinks in this Article:

- (1) <http://online.wsj.com/article/SB113884412224162775.html>
- (2) <http://online.wsj.com/article/SB113804809106053907.html>
- (3) <http://online.wsj.com/article/SB113780946475152685.html>
- (4) <mailto:theo.francis@wsj.com>
- (5) <mailto:ellen.schultz@wsj.com>

Copyright 2006 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com.