New Haven Register.com

08/15/2005

Taming the cost of health care

Steve Higgins , Register Business Editor

It was hard enough to keep track when the health care insurance industry spawned acronyms such as HMO and PPO.

The past three years have seen a welter of new health care entities pop up, including FSAs, HRAs and HSAs.

In order, those are Flexible Spending Accounts, Health Reimbursement Arrangements and Health Savings Accounts.

These three health payment plans have one thing in common: they are supposed to make it easier for consumers to pay their ever-rising health care tab.

They are called "consumer-directed health care plans" and are designed to give employers and employees more incentives and methods to control health care costs and choices.

Since they all involve funded accounts, some companies that administer health insurance plans are going a step further and attaching debit cards to these plans.

Progressive Benefit Solutions LLC in North Haven, for instance, offers companies the option of providing employees with a "stored-value health card," allowing them to simply swipe the card at the doctor’s office and pharmacy.

"Health Savings Accounts are where the market is headed over the next couple of years," said Joseph Bucci Jr., chief financial officer of Progressive Benefit Solutions. "It’s like a medical Individual Retirement Account, because the money can be invested. And the health insurance and premiums are less than traditional HMO and POS (point of service) plans."

Health Reimbursement Arrangements, on the other hand, are designed to allow employers "to get creative with managing group medical plans," Bucci said.

To help consumers sort out some of the new choices, here is a brief description:

‰Flexible Spending Account, or FSA.

Many people already are familiar with this plan, which allows employees to contribute pretax dollars to a health care account through their employer.

Once a year, employees have an opportunity to enroll by telling their employer how much money they want deducted from their gross pay and placed in the account.

Employees may use the account to pay co-payments, coinsurance and deductibles, as well as for a wide range of medical procedures including dental and eye care.

Anyone with an FSA may also sign on for a Dependent Care FSA, which may be used to pay for everything from day care to elder care. The maximum annual contribution for dependent care is $5,000, though.

‰Health Reimbursement Arrangement, or HRA.

Created in 2002 by the Internal Revenue Service, the HRA is an employer-funded benefit plan that gives tax benefits to companies that offer it. HRAs require no employee contribution, and the benefits are tax-free to employees.

HRAs allow employers to pay directly for employees' medical costs not covered by the main health insurance plan, including deductibles and co-pays.

The employer defines the eligible medical services, and also determines how much money to put into the accounts at the beginning of the year. It's also up to the employer whether any unused amounts may be rolled over into the next year.

‰Health Savings Account, or HSA.

The newest of the three, HSAs were created by the Medicare Act of 2003. They are the first consumer-directed health account to be both cumulative and portable — the balance rolls over from year to year, and the employee can keep the account after changing jobs or retiring.

Another unique feature of HSAs is that the employee may invest the funds in the account, similar to an Individual Retirement Account. Contributions, earnings and distribution are all free from federal taxation.

To acquire an HSA, an individual, whether employed or not, must first acquire a high-deductible health care plan, because HSAs are available only to individuals covered by a health plan with a high deductible who are not enrolled in Medicare.

High-deductible health plans are those with an annual deductible of $1,000 or more for individuals and $2,000 or more for families.The HSA is designed to pay all medical costs after the deductible is met by the person covered. That switches some of the risk from the insurer to the individual. As a result, the individual gets a much lower premium, along with paying the deductible in pretax dollars.

Both the employer and the employee may contribute, or just the individual.

The maximum annual contributions are $2,650 for individuals and $5,250 for families.

Steve Higgins can be reached at shiggins@nhregister.com or 789-5752.