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PERSONAL FINANCE

# Health Care You Control

## One family finds that health savings accounts may be the smart choice

In the name of academic research, finance professor Stephen T. Parente got his physician wife to agree, reluctantly, to make a radical change in their family's medical coverage. The health-economics specialist who teaches at the University of Minnesota's Carlson School of Management had realized he knew a lot about health savings accounts (HSAs) as a scholar. But he had no experience with them as a consumer. So two years ago he enrolled himself and his family in a high-deductible insurance plan linked to a tax-sheltered HSA for medical expenses.

Parente's family of five is at the vanguard of a controversial kind of health insurance slowly gaining a place in employee benefits packages. (Just 12% of companies with 1,000 or more workers offer it.) The insurance component is actually a catastrophic policy that must, by law, have a \$2,200 minimum family deductible and an out-of-pocket limit of \$11,000. The average deductible for a family is \$4,000, according to the Kaiser Family Foundation and Health Research & Educational Trust. Parente's deductible is \$5,000. The most a family can contribute to the tax-sheltered account is \$5,650 a year. The figures are lower for individuals.

The HSA contributions are made with pretax dollars. Withdrawals are tax-free as long as the money goes toward qualified medical expenses, which include everything from acupuncture to organ transplants to quit-smoking programs. The money is usually parked in a bank-like account, and beneficiaries of the plan receive a checkbook or debit card for paying bills. It's like a flexible spending account—except that with an FSA, you forfeit what's not spent in a calendar year while unused HSA money rolls over.

The idea behind the high-deductible/HSA plans is this: Catastrophic coverage prevents serious medical illness from financially crippling an individual or family. Patients, who will now have more financial skin in the game, spend their health-care dollars more carefully, putting downward pressure on health-cost inflation. "Besides doing research in the area, I liked the idea of having more control over our medical spending," says Parente, who presented a co-authored paper, *Assessing the Impact of Health Savings Accounts on Insurance Coverage and Costs*, at the 2006 American Economics Assn. meeting.

### SOUND HABITS

So what has he learned as a consumer? Just as with his previous insurance, he doesn't worry that medical bills will cause financial ruin. Once he exhausts his \$5,000 deductible, his insurance kicks in and his family is protected against disaster. In addition, he is now fully covered for preventive care to encourage sound medical habits, a relief with three children, ages 2, 5, and 10. Such services includes immunizations and well-child care, as well as annual physicals and mammograms. Some 82% of high-deductible/HSA plans follow this practice, according to the Kaiser survey.

Parente has been surprised by the cost of using an HSA. The premium of \$84.20 per biweekly pay period is only about 12% less than a preferred provider plan, and he thinks the savings should be greater. Parente also puts \$3,650 in the HSA to reach the maximum contribution (the university puts in \$2,000), but the money belongs to him, not an insurance company.

The tax-sheltered savings account does have an impact on his health-care spending, he says, just as his scholarly work predicted. "When the account is your money, and when you get to keep it, you do act differently," he says.

He draws an analogy between this sort of health plan and auto insurance. If there's major damage to your car, you file a claim with your insurer to defray the cost of repair. But if you just have a cracked windshield or dent in a door, chances are you'll shop around for

the best deal and pay out of pocket, rather than file a claim and risk getting a premium hike next year.

The same applies to your family's health care. If someone develops a major illness, the catastrophic insurance will cover the expenses. But if your child has strep throat, you can pay for the strep test and doctor's visit from your HSA. If Parente sticks with in-network doctors and laboratories, he pays the same rates insurers pay in other university health plans.

Parente says there still isn't enough data to confirm whether the combination of consumer-driven insurance and HSAs lives up to its promise. A lot of the talk in health policy circles about savvy consumers shopping for the best deal is hype. The only good price information currently involves pharmaceuticals. Consumers can go online and compare prices of brand-name drugs vs. generic competitors, or mail order vs. local pharmacy, and so on. "But the notion that it's possible to shop for physician prices, that there's a marketplace in doctors, well, it just isn't there," he says.

One thing Parente the scholar did not anticipate was how Parente the consumer would become more interested in managing the HSA for long-term growth. He had assumed he would park the money in a low-risk bank money-market account, as is typical. Now that his savings are approaching \$9,000, he's thinking of keeping half in the bank for short-term bills and investing half in an aggressive growth-stock fund for the long haul.

Many plans allow participants to invest in a variety of securities, including certificates of deposit, stocks, bonds, and mutual funds. He can always cash in the investment if he needs to for medical bills, but if he doesn't, it will compound over time. He can then make tax-free withdrawals to help defray medical expenses in retirement. After all, Medicare pays for at most half the average retiree's health bill now, and most forecasts say that percentage will shrink.

Obviously, Parente is unusually knowledgeable about health-care pricing and economics. He agrees with one common complaint about HSAs: Consumers who want to spend their health-care dollars wisely still lack good information to compare the cost and quality of physicians, procedures, hospitals, and health plans.

Even so, the scholar in him supports the HSA model. And now the consumer in him does as well.

By Christopher Farrell

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