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## For the Thinking Employee, No-Brainer Health Care Is Passé

By DAMON DARLIN

It's a time-honored ritual of autumn in corporate America: you get your thick company benefits package. You are asked to choose from a "cafeteria" of benefits. Has anything good ever come out of a cafeteria? You sigh. And you sign up for exactly what you had last year because it is all too daunting.

That might have worked in years past, but more companies are demanding that employees take more control of their health care spending in much the same way employees took over management of their retirement funds. The shift seems unstoppable. Companies like [Wal-Mart](#), the nation's largest private employer; [General Motors](#); and Chrysler are using high-deductible insurance plans coupled with health savings accounts to get control of health care costs.

Are such plans bad news for employees? When you consider that 73 percent of Americans incur less than \$500 a year in medical expenses, it pays to figure out if you can save some money with lower-premium, high-deductible plans buttressed by a tax-advantaged health savings account.

The account works a little like a 401(k) for medical expenses. You put money in to pay for health care not covered by insurance. Any unused portion of the account rolls over to the next year, when you can add more to accumulate tax-free. You can move the account from job to job. You can even use it 20 years from now to pay yourself back for medical expenses you paid out of pocket today.

Given that the average couple at age 65 is predicted to need \$190,000 in savings to cover medical expenses for the rest of their lives, the smart thing to do is leave the money in the health savings account to accumulate for use in old age and pay for current medical expenses out of your pocket. (Because of state mandates, residents of New York and New Jersey can't open individual health savings accounts, though larger companies can offer them.)

The rub is that the account can be used only if you accept a health plan that carries a large deductible: at least \$1,050 for single coverage and \$2,100 for family coverage. Many consumers will undoubtedly focus on the risk: "How will I come up with \$2,100 for the deductible?" Others will look for the plan that requires the lowest cost sharing or co-payment. But, Jerry Ripperger, director for consumer health at the [Principal Financial Group](#), said, "That's the exact opposite of how they should look at it."

What you have to do is add up the costs of the premiums you pay each month as well as the numerous \$10 or \$20 co-pays that you expect to give up next year. Balance that against the lower premiums you could pay - sometimes as much as 60 percent less - in a high-deductible plan.

There is a lot to think about, and there is a list of resources on the [New York Times](#) Web site at [www.nytimes.com/yourmoney](http://www.nytimes.com/yourmoney). Because everyone's health needs and the plans offered to them are so different, it is impossible to verify that a given high-deductible plan is better or worse than a particular managed care option. You need to crunch the numbers yourself or go to an online plan comparison

calculator that insurers or financial institutions may provide to your employer. Here are some other things that tend to be overlooked in any assessment of health plans.

**TAXES** Not only do you get to save for retirement in a health savings account, doing so also lowers your tax payment. "It's another avenue for tax deferral and wealth accumulation," said Dan Kelly, manager of health savings accounts services at U.S. Bank, which sells the plans to employers and individuals. For example, when you put \$2,500 in the account and you face an income tax rate of 25 percent, you have immediately saved \$625. The account gives you tax advantages every which way - you put in pretax dollars, it compounds free of taxes, and the accumulation is tax-free when you take it out to pay for medical expenses.

"You get the trifecta," says Dan Perrin, publisher of HSA Insider ([www.hsainsider.com](http://www.hsainsider.com)), an insurance industry information Web site that includes information on numerous insurers' fees and rates of return. The key is to contribute an amount equal to the deductible. One of the biggest mistakes an employee makes is picking a plan with a low deductible. But pick a plan that has 100 percent coverage above that deductible.

**OTHER ACCOUNTS** In a perfect world, that one where money grows on trees, you would want to contribute to all the alphanumeric savings vehicles: the health savings account, 401(k) and individual retirement account. If you can't finance all of them, you might consider putting money into the health savings account first because it is the most tax advantaged.

Indeed, if in retirement your bills are small, you can use it for anything else and pay regular income taxes on it as you would a disbursement from your 401(k) account.

This advice holds true even if your employer is equally generous matching the health savings account and the 401(k). To entice employees to use the cost-cutting plan, about a quarter of employers are starting to make a contribution to an employee's account.

However, if your employer matches 25 percent or more of your 401(k) contribution - and you expect to stay on the job long enough to see that contribution vested and become your money - investing as much as you can in a 401(k) is still your best bet. That's because if an employer matches 50 percent, you've automatically made a 50 percent return on your money.

**YOUR HEALTH** Young people, particularly young men, are usually ideally suited for a high-deductible plan that imposes lower premiums. They rarely face major medical expenses. Why pay high premiums for services that you will never use? "A huge portion of the population is overpaying," Mr. Kelly said.

Though it might seem counterintuitive, those who are chronically ill may also want a high deductible plan. Their expenses will quickly exceed the deductible. If their health insurance plan picks up nearly all of the costs after that deductible is met, the overall cost because of lower premiums might be less than making a co-pay for every little expense throughout the year.

What about everyone else? A cost estimator provided by United Healthcare found that an asthmatic employee with a pregnant wife and a three-year-old prone to ear infections would pay about \$1,000 a year out-of-pocket in a high deductible plan compared to \$3,613 for an H.M.O. That doesn't prove every family will save, but those who are middle aged or those with families shouldn't dismiss the new plans.

**FLEXIBLE SPENDING** In light of these health insurance innovations, flexible spending accounts are starting to seem a little old-fashioned. With this benefit, you tell the company how much money you want it to take out of your paycheck each year, and it deposits the money into an account to pay for medial expenses. Because the money is taken out of your paycheck before it is taxed, your take-home pay is lower and you pay less income tax.

But studies have shown that despite the tax advantage, fewer than 14 percent of all employees use the flexible savings account. "It is probably the most underutilized tax-saving tool the government has given us," Mr. Ripperger of Principal Financial said.

People do not use it for good reason. If you do not spend all the money in the account, your employer gets to keep it. "There is a bad taste in some people's mouths when they have to forfeit dollars," Mr. Kelly said.

To overcome some of that resistance to throwing money away, you are now allowed to apply expenses three months into the new year to the previous year's account. Of course, then you have three months fewer expenses in the coming year, so you'll have to adjust how much money you put in the coming year's account. (Try as they might to fix it, the flexible spending account is just too annoying to ever catch on.)

If people do use it, they tend to put far less than they could into the account. But here is another way of looking at it: Since you are spending pretax dollars, if your tax rate is 25 percent, you can spend a dollar more than 75 percent of the money in the account and still come out ahead.