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Health Care at the Swipe of a Card

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The paper-pushing method of paying medical bills, which has long been fairly resistant to the electronic age, is about to be challenged as new payment options like health savings accounts and prepaid medical cards gain wider acceptance in the workplace.

Beyond their practical aspects, these products - and health savings accounts in particular - represent a philosophical shift toward consumer-directed health care, with people taking a more active role in supervising their medical treatments and benefits.

Health savings accounts, created in late 2003 as part of Medicare legislation, allow users to funnel pretax earnings to a bank account that can be used exclusively for medical expenses, including doctors' visits, medications and insurance premiums on long-term care. Only people who sign up for health insurance plans with high deductibles - \$1,000 or more for an individual in 2005, or \$2,000 or more for family coverage - are eligible.

Both employers and workers can deposit funds in the accounts, and the amount that each contributes depends on the individual plan and the worker's preferences. The accounts can be linked to a debit card and can be managed online or by telephone; account holders receive a regular statement by mail.

For now, most employers are likely to offer health savings accounts alongside traditional health insurance plans, and workers will have to decide which option makes the most sense by looking at their tax rate, their medical risks and other factors. (One helpful Web site is www.hsainsider.com, which is maintained by the H.S.A. Coalition, a nonprofit group.)

One advantage to health savings accounts is that they can accumulate from year to year - in contrast to the more common flexible spending accounts, which must be used up in a single calendar year or the funds are revoked. Both types of accounts are a way for people to reserve pretax dollars from their paychecks.

Some employers have begun offering medical prepaid payment cards linked to flexible spending accounts. Instead of having to fill out a reimbursement form to cover eligible expenses, account holders can use a MasterCard or Visa card to pay a drugstore, doctor or other provider directly.

Since the card will work only for expenses that are authorized under the cardholder's flexible spending account plan - which typically include things like eyeglasses, child care

and prescription drug co-payments - there is never a question of whether the outlay is covered.

Health savings accounts have been cited as a way to get people to shoulder more medical expenses and for insurers and employers to pay less. Critics say that these accounts benefit the healthy over the sick, because people with chronic medical conditions would be forced to tap them more often and thus would end up saving less for retirement.

"It's fair to say that this is a way for employers to save money," said Joe Martingale, national leader for health care strategy at Watson Wyatt, a consulting firm. But "the real policy objective is to make the costs of health care more affordable and sustainable for everybody."

As consumers spend more of their own money on medical expenses, the thinking goes, doctors, hospitals and pharmaceutical companies will have more incentives to compete on price and market forces will thus bring down the overall cost of health care, Mr. Martingale said.

If these accounts are successful, they could become the dominant or exclusive option at some companies, Mr. Martingale said. That does not necessarily mean that people will have to spend more of their own money on health care, as long as employers continue to contribute meaningful amounts to the accounts, he said.

Among large employers, 8 percent already offer health savings accounts, 18 percent plan to offer them in 2006 and 47 percent are considering offering them, according to a survey that Watson Wyatt released in March. The company polled 555 employers with at least 1,000 workers each.

Scott Hauge, who owns Cal Insurance & Associates, a small property and casualty insurer in San Francisco, introduced health savings accounts for his employees this year. He said he was able to lower his company's health insurance bill to \$139,000, from \$175,000. Of his 30 workers, 17 chose a health savings account and 13 picked a traditional health insurance plan.

"Initially there was confusion" among the employees about the new program, Mr. Hauge said. "It is somewhat complex and people have to take a look at it and look at their own situation and make sure that it works for them."

Polls by Watson Wyatt and Visa suggest that awareness of health savings accounts is quite low. And confusion runs high, in part because the accounts can be offered through several types of providers - banks, insurers, third-party administrators - and the necessary infrastructure to support the accounts is in some cases a work in progress.

Some banks, including [J. P. Morgan Chase](#), were ready at the beginning of 2004 with health savings accounts that mimicked existing online banking programs. About 40,000

people have signed up for health savings accounts at Chase and the bank expects that number to increase tenfold over the next year, executives there said.

One major insurer, the UnitedHealth Group, has gone so far as to set up its own bank, called Exante, to offer health savings accounts, and says that 44,000 accounts have been opened there, with an average monthly deposit of \$862, including money contributed by both employers and employees.

UnitedHealth also offers health reimbursement arrangements, which are medical-related accounts financed solely by employers that can also be carried over from year to year.

With a health savings account, "those dollars go in pretax, stay pretax, and can go out pretax" if they are used for qualified expenses, said Tracy Bahl, chief executive of Uniprise, a division of UnitedHealth Group. "The account is portable, the account goes with the employee after termination, whereas with the H.R.A., the dollars do not go with the employee" but are returned to the employer after a worker leaves.

Though UnitedHealth customers have health savings accounts through various banks and providers, the accounts offered through the company's Exante Bank pay 4 percent interest and come with a MasterCard debit card, Mr. Bahl said. Exante plans to add a credit feature to the cards and to introduce mutual funds tied to the accounts, he added.

Keith A. Bennett, a 34-year-old information technology consultant in Kansas City, Mo., opened a health savings account through UnitedHealth a year ago when he left a corporate job to set up his own consulting business. The insurance plan he selected for his family pays 100 percent of medical expenses after a \$3,550 deductible.

Mr. Bennett said he was given a checkbook rather than a debit card to use in conjunction with the account, and that if he leaves the checkbook behind, he can pay medical bills with a regular credit card and reimburse himself by check, as long as he keeps the receipt to prove that it was a qualified expense.

"One of the nice features that I was sold on is that it's tax deductible, and as a small-business owner, that's important to me," Mr. Bennett said. "I might not be so quick to go to the doctor with just a slight sore throat now that I'm more aware of costs and of the bottom line."