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SPECIAL HSA ISSUE

THE RAUSER AGENCY, INC.

PRIVATE SECTOR HEALTH SOLUTIONS FOR SMALL BUSINESS

THE RAUSER REVIEW

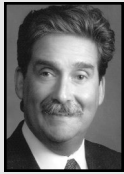
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A VIEW FROM THE CROW'S NEST

Although my name is still on the company letterhead, I have a new boss. I haven't met him yet but in a very large organization, that's not so unusual. Let me explain.

Along with a handful of Wisconsin delegates, I recently spent several days in Washington, D.C. at the National Association of Health Underwriters' Capital Conference. With 20,000+ broker/members nationwide, NAHU has become a strong voice in the health-care public policy debate. This 'clout' afforded us the opportunity to visit with the entire Wisconsin Congressional delegation and many other legislators who have championed private sector health



Jon C. Rauser

met him

HEALTH SAVINGS ACCOUNTS: A Case Study *By Andrew Wadsworth*

Those of us on the front lines selling health insurance to small employers overwhelmed by premium increases of recent years, have a success story to tell. This story should also be of interest to those opposed to HSAs.

Some are saying that because you must have a high deductible health plan in force to be eligible for an HSA, only young healthy, or older very wealthy individuals will find the higher deductible attractive. Thus, instead of an insured pool containing the old/young and healthy/unhealthy, adverse selection will occur, driving up costs for those most in need of coverage. Further, if coverage does not kick in until a deductible of at least \$1,000 has been satisfied, people will avoid routine preventive care; small undetected problems become big expensive problems. No savings there! ('They' say.) The following is a dose of reality.

Recently I worked with a client to establish a new health plan. We chose a "Qualified" High Deductible Health Plan plus HSAs. The premium for their old health plan was shared by the employer/employees (70%/30%). The same premium sharing continued for the new plan, but because of the higher deductible, the annualized total cost went from \$92,500 to \$57,500. Instead of dropping coverage altogether, this non-profit business (with a shrinking budget) now could afford to continue to offer health insurance *and* partially fund the employees' higher deductible through contributions to HSA accounts. Employees could also take the premium savings (literally) to the bank. An added bonus: the lower premium made coverage affordable for a staff member who had previously elected not to take insurance! Early reporting

TAX SEASON AND HSA's

Wisconsin employers contributing to HSAs are entitled to a federal but not state tax deduction. The maximum deduction is based on the date the health plan and HSA were established, the coverage type (single/family) and the amount of the health policy deductible. Since Wisconsin is not in sync with the IRS, 'state wages, tips, etc' reported in box 16 of the W-2 will be greater than the federal earnings.

Individuals are entitled to the same federal *but not state* deduction for their contributions to an HSA. (Employers sponsoring a "qualified" group HDHP are under no obligation to also fund their employee's HSA's.) The deduction reduces Adjusted Gross Income (AGI) and is reported on line 28 of the 1040 Return and on Form 8889 (Part 1). Wisconsin returns

use Schedule I to reconcile the federal AGI with what Governor Doyle allows.

Finally, your HSA financial institution will report to IRS the amounts paid to you. There is no tax on these distributions as long as they are offset by "unreimbursed qualified medical expenses" which you also report on IRS Form 8889 (Part 2). Although receipts for such expenses are not submitted with the return, they should be kept by the taxpayer.

Yes, HDHP + HSA can cause a bit of tax filing aggravation, but they have also reduced premiums by 30-60% and provided considerable tax savings. We believe this Consumer Directed Health Plan will be even more popular; perhaps popular enough to cause our stubborn Governor to get with the program.

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Crow's Nest Cont.

care reform. The tone in D.C. for this visit was unlike any of my other trips. Everyone we met is busy working on this issue. Congressman John Shadag (R-AZ) has proposed the Health Care Choice Act (HR 4662) which would allow consumers to purchase health insurance policies from any state, not just their state of residence. This would greatly increase competition across state lines and reduce premiums.

As a former state Insurance Commissioner, Congressman Earl Pomeroy (D-ND) is acutely aware of Medicaid shortfalls; his two bills would make the purchase of Long Term Care insurance more affordable.

Senator Jim DeMint (R-SC) is shepherding a bill through Congress allowing a carryover of Section 125 dollars from one year to the next thus reducing the year end spending frenzy caused by the current "use it or lose it" rules.

Our own Congressman Paul Ryan is almost universally recognized for "fathering" HSA's in the last Congress. Now he has his eye on measures that would bring transparency to health care pricing plus electronic medical records to the marketplace (i.e. reduce paper-work/errors/cost). Space won't permit reporting on the many other initiatives.

You may be wondering what all this Washington legislative activity has to do with my "new boss?" As I said, I haven't met the guy, but most of the legislators I visited have. His directions to them - and thus, indirectly to me is: Now Go And Insure Americans!

Legislation that provides for additional tax deductions/credits for insurance are simply tools to make health insurance more affordable. Ditto measures to improve quality and pricing. Competitive forces unleashed will drive down cost.

Now, someone has to use these new tools to reduce the much debated number of uninsured. Being my own boss these many years, it isn't all bad that someone helps me bring back into focus my primary objective: deliver affordable health insurance to businesses and self-employed individuals. And the Boss reminds us, if he gives us these tools and we don't come through, we may not like our new Boss in four years.

Thanks for the resources, Boss, and the kick in the pants!

HSA Case Study Continued

indicates 30% of all HDHP+HSA Plans have been purchased by people who previously were uninsured. What data may never be able to measure, is how many people today would drop insurance without HSAs!

Here's a little additional information for the skeptics. The insurer we used in the case study above has a unique contractual feature that pays for unlimited preventive care at 100% (no deductible). Even without this feature, the employer's contribution to the HSA would more than cover routine care. Finally, small group (2-50) insurers, almost always co-mingle those covered by High Deductible Health Plans in one pool with those covered by older 'traditional' plans.

Using HSAs I have had the opportunity to show employers and employees alike the advantage of giving their insurer less premium and banking the savings. If the saving is equal to the new deductible - and it usually is - everyone wins. Everyone except, *maybe*, those protective of government spending. And note 'maybe' is highlighted. If more people are insured using lower premium high deductible health plans, fewer tax dollars will be spent caring for the uninsured.



Private Sector Health Solutions
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STATS

•Number of States that do not allow tax deductions for HSA Contributions? 8 •Number of Governors to veto

such legislation nationwide? 1 •Phone Number of the only Governor to do so: 1-608-266-1212