

DOW JONES	NASDAQ	S&P 500
↑	↑	↑
10,628.89	2,152.82	1,226.50
+71.50	+8.71	+3.21

INSIDE
LOOKING BACK
ON A SUPREME JUSTICE



A Rutgers law professor reflects on his days as a law clerk for retiring Supreme Court Justice Sandra Day O'Connor.
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The Star-Ledger

Forcing consumers to pay the price

Small businesses face one of the biggest challenges of the modern economy: paying for health insurance. But they are starting to use a new tool to help cut costs: Health Savings Accounts.



AMANDA BROWN/THE STAR-LEDGER

Peter Pfister, owner of the Curchin Group, works at a company that adopted Health Savings Accounts.

BY BETH FITZGERALD
STAR-LEDGER STAFF

Peter Pfister has done something akin to turning back the hands of time: He lined up a health insurance plan for himself and his employees that costs less than the plan it replaces.

Pfister's Red Bank accounting firm, the Curchin Group, is among the first in the state to adopt the Health Savings Account, and he is paying a hefty price for this bargain: The first \$5,000 of his family's annual medical bills will come out of his own pocket.

The HSA is a simple idea: Companies provide less-generous health benefits to their workers, who in turn gain the right to contribute tax-free dollars to a "health savings account" that can be used for medical bills that aren't covered by the plan.

The result is a 15 percent to 25 percent drop in the premium - precisely because the benefits aren't so rich. HSA regulations require individuals to pay at least the first \$1,000 of medical bills - this is known as the "deductible" - while for families, the minimum deductible is \$2,000.

"With the high deductible, the premiums are so much lower, and that is why people are buying HSAs - for the cost," said Eileen Shrem, an independent insurance agent in Bradley Beach who figures 10 percent of her small-firm clients will eventually opt for HSAs.

Pfister is saving nearly \$200 a month on health

insurance for himself, his wife and their two teenage sons. The \$5,000 deductible is cutting the monthly premium to cover his family to \$536, from \$733; that translates to an annual cost of \$6,432, compared with \$8,796 under his old plan.

And why would anyone want a less-generous health insurance plan? Because for some folks, this might be the only game in town.

Years of alarming escalation in health-care expenses, which soak up more than 15 percent of the U.S. economy, have pushed the cost of coverage beyond the reach of thousands of employers and millions of their workers and swelled the ranks of the uninsured above 42 million - more than 1 million of them in New Jersey.

The experts are betting that by forcing consumers to spend some of their own money for health care, Americans will start acting like consumers who shop around for lower medical fees and try to avoid medical care if they don't really need it.

"The aim of the HSA is to give people an incentive to be prudent shoppers for health care," said Joel Cantor, director of the Center for State Health Policy at Rutgers University. "The hope is that if enough people start acting like market players and not just patients, the providers will start lowering their prices."

More than 60 percent of Americans get their health coverage at work, but employers have no legal obligation to provide these benefits. With

the average cost of health insurance in New Jersey topping \$9,000 a year, per worker, according to a recent New Jersey Business and Industry Association survey, companies are dropping health coverage, scaling back benefits or telling workers to pay a bigger share of the premium.

Low-paid workers who can't afford coverage often forgo insurance and pray for good health: The premium discounts under HSA might be the thread that weaves more Americans into the nation's health-care system.

For Pfister, the carrot at the end of the stick is the "savings" part of the deal: HSA participants are allowed to put money away, tax-free, in a HSA. And so long as the cash in the HSA is used for medical care, no taxes will be paid on either the original contribution or the accumulated wealth that builds up during the years if the HSA is invested, say, in a mutual fund.

"What I like is that it's my money and I get to use it as I please," said Pfister, whose firm has 25 employees. "I can use it for medical care or I can leave the money in there and keep it invested. Then it's there to pay for medical care in the future."

At Back Thru the Future Computer Recycling, the HSA is affordable coverage that will finally get all seven employees covered, according to Daniel Bayha, vice president of the Ogdensburg firm.

"Under the old plan, premiums had risen to

\$8,000 a year per employee," Bayha said. "We were asking employees to contribute half the premium, and employees were opting out of the plan because it was too expensive."

His HSA plan from Horizon has a \$2,500 deductible, bringing the premium down to about \$3,000 per employee, annually, and the company is contributing \$1,250 per employee to the savings account portion of the HSA.

"If people stay healthy, they will have money in the bank - and they will have health insurance if anything goes seriously wrong," Bayha said. "As far as I can see, this plan makes all the sense in the world."

Small employers who for years have struggled to find affordable health insurance have so far been leading the way, but HSAs are likely to emerge as an attractive employee benefit at big companies, where they are poised for take-off in early 2006: Big companies tend to revise benefit packages at the beginning of the year.

In the state-regulated "small group" market - firms with 2 to 50 employees - HSA products are being rolled out by Horizon Blue Cross Blue Shield, Oxford, Aetna and AmeriHealth.

"So far, it almost seems as though the most willing segment of the market are the very small, individually controlled business where an owner can make a decision based on his or her own imperative," said Darrel Farkus, vice president of New Jersey sales for Oxford.

Aetna's James Reid, who heads the small group market for the Northeast, said "rising health-care costs are a major challenge to small business owners, and they will be receptive to the HSA; it's starting to gain momentum in the marketplace."

So far, Horizon has sold 298 HSA plans to small employers, and finds about 25 percent were not previously offering health insurance to their employees.

"We are seeing 10 (percent) to 25 percent premium savings," with HSAs, according to Larry Altman, vice president of corporate marketing at Horizon. "They provide a lot of flexibility. Some people will use the HSA to accumulate money to pay future medical bills after they retire, and others will use it for their out-of-pocket medical expenses right now."

In a deal with JPMorgan Chase, Horizon customers can keep the savings portion of the HSA in an account at the bank, which then issues a debit card to pay medical bills. As balances accumulate in the accounts during a period of years, Chase will offer investment options for a portion of the money. The individual's annual contributions to the HSA can't exceed that deductible, and there are also annual caps that increase each year.

One drawback of HSA: Federal rules say the deductible must apply to prescription drugs. So instead of carrying a prescription drug card, where the consumer pays nothing or a nominal co-pay for drugs, the consumer shoulders the full cost of prescription drugs until all medical expenses combined hit the deductible.