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Hefty Tax Break Spared in Health Care Bill

By RON LIEBER

The health care bill that passed this week offers subsidies to people with low income so they can afford [health insurance](#). To help pay for those subsidies, people with large incomes will have higher tax bills.

It sounds like a rout for Robin Hood, but [President Obama](#) and Congress ultimately spared one big tax break — the health savings account — that Republicans love and senior members of [George W. Bush's](#) administration had championed. In fact, the legislation makes it likely that many more people will take advantage of the accounts by the middle of the decade, keeping even more money out of the hands of the government.

Consumers were able to sign up for H.S.A.'s beginning in 2004, though similar accounts had existed before that. When you deposit money into an account at a bank, you pay no federal income taxes on the money you deposit, it grows tax-free in the account and there's no levy on earnings once you tap into the account for qualified expenses. It's a rare triple play in the world of tax breaks.

But it comes with some big restrictions. You have to use the money for health care costs to qualify for the tax break. And you can put in only \$3,050 in 2010 if you're just covering yourself, or \$6,150 if you're also covering your family. (If you're 55 or older, you can make an extra \$1,000 contribution. Anyone of any income level can put in money, and an employer can contribute, too.)

Finally, you can't open an account unless you have health insurance with an annual deductible of at least \$1,200 this year for individual coverage and \$2,400 for a family. If you get your health insurance through your

employer and it doesn't offer a plan like this, then you can't put money in an H.S.A. (A few other restrictions apply as well, and I've provided [links to helpful Web sites](#) on the topic in the online version of the column.)

You can use the account to pay for costs up to and beyond the deductible each year. But the real victory comes if you have leftover money, invest that savings and end up with a big pot of money to use for health care in [retirement](#) or Cobra health premiums if you lose your job. The money doesn't evaporate after a year, the way it does with a health care flexible spending account.

Why were H.S.A.'s created in the first place? The big idea was that if people had to pay more out of pocket each year, they'd have an incentive to shop around and be less wasteful with their health care spending. The cumulative effect of millions of people doing that would supposedly lower costs. Tax savings from the accounts, meanwhile, would lure the uninsured into high-deductible plans, which often have lower premiums. And if the new enrollees were young and healthy, their premiums could subsidize coverage for the old and the sick.

We don't know yet whether all of this can help cure what ails health care. But it is definitely a spectacular tax dodge for those who can afford to max out their contributions and not touch them for decades. Plenty of doctors and tax lawyers have their own H.S.A.'s. And they would know, wouldn't they?

So it wasn't particularly surprising to J. Kevin McKechnie, who runs the American Bankers Association HSA Council, when policy specialists on Senator Obama's campaign staff declared that they had selected the H.S.A. for possible elimination. Once the senator became president, Mr. McKechnie and others set out to meet with each member of Congress not once, but twice, to plead their case.

Their point was this: If you order companies to offer [insurance](#) or make people buy it, you're going to have to offer options that are affordable. And high-deductible plans generally have cheaper premiums, while health savings accounts help people pay for their costs before they hit the deductible. (The group also cheekily reminded some Democrats that they had supported an earlier version of the accounts in the 1990s, when some legislators hoped the accounts and their associated insurance plans might offer alternatives to health maintenance organizations.)

Not only did many House members and senators decide to leave the accounts alone, but the president also came around, too. Earlier this month, in an effort to appease Republicans, [he declared his support](#) for also

making H.S.A.'s available to people who would buy eligible insurance through the federally regulated insurance exchanges.

So here we are. Soon, millions of people will be buying health insurance who didn't have it before. Many of them will probably choose lower-priced plans with higher deductibles. And it appears that enrollees in those cheaper plans on the exchanges will be eligible for the accounts. In the meantime, many more big employers will also begin to offer H.S.A.-eligible insurance plans in an effort to keep costs in check.

How many more people might sign up? As of early 2009, according to America's Health Insurance Plans, a health insurers' trade group, **eight million people were enrolled** in H.S.A.-eligible insurance plans. But a **2008 study** by the **Government Accountability Office** noted that more than 40 percent of enrollees earlier in the decade had not bothered to open accounts.

Why wouldn't they, given the enormous tax benefits? Well, if you're having trouble affording health insurance to begin with, it's going to be hard to scrape together extra money to put into an H.S.A. That same G.A.O. report noted that the average adjusted gross household income for taxpayers from the ages of 19 to 64 who reported activity in an H.S.A. was about \$139,000, as opposed to \$57,000 for all other filers.

So are the accounts destined to be mere tools of the affluent? Roy Ramthun, president of **HSA Consulting Services** in Silver Spring, Md., and a former **Treasury Department** staff member who worked on health initiatives, said this didn't have to be the case. Those with an account could theoretically keep their health care receipts throughout the year, he said, deposit a lump sum into an H.S.A. to qualify for that year's tax benefits and then immediately yank the money out again to reimburse themselves for the expenses.

Banks that administer the accounts probably wouldn't like that approach very much. But they often charge fees on the accounts, and some of the balances have already gotten quite large. HSA Bank, which is based in Milwaukee but has customers all over the country, had 265 accounts with at least \$50,000 stored up as of Jan. 1. The largest balance was at least \$115,000.

Still, this hardly makes the accounts a big plaything for the rich, according to Mr. McKechnie of the bankers association. "The notion that you're going to maintain richness by being able to sequester \$5,000 a year, well, it offers a very limited utility for the average Wall Street hedge fund guy," he said. "He's not thanking the

president for preserving H.S.A.'s because this is what his retirement planning was hinging on.”

Maybe not. But for anyone who will soon be paying higher taxes because of the health care bill, taking some of it back through an H.S.A. contribution is pretty easy money if you qualify. And for everyone else who ends up in an eligible health insurance plan, it would be wise to at least cycle some money through an account.

Do you have a health savings account already? How much have you managed to save? And how has your experience been with the high-deductible health insurance plans that go with them? Leave a comment at nytimes.com/bucks.

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