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# The End of HSAs

*Harry Reid wants to kill consumer-driven health care.*

About the best that can be said about the Senate health-care bill that Harry Reid revealed this week is that it's marginally less destructive than the House monster. By a hair. Its \$1.2 trillion cost (more like \$2.5 trillion if you discount the accounting gimmicks), multiple and damaging new taxes, and new regulations will make health insurance more expensive for most Americans while reducing the quality of medical care.

We'll dissect the damage in the days to come. But for today let's focus on the damage the bill would do to consumer-driven health plans—the kind that give individuals more control over their health dollars and insurance choices. The 2,074-page bill crushes them with malice-aforethought.

Start with its attack on flexible spending accounts that are an important part of many employer plans. Flex accounts let employees set aside some portion of their pre-tax pay for out-of-pocket costs or medical services that their insurance plan doesn't cover, such as a child's orthodontics or testing supplies for diabetics. The Reid bill caps these now-unlimited accounts at \$2,500 per year and imposes new restrictions on qualifying medical expenses, raising some \$5 billion by exposing income above the non-indexed cap to taxes.

Democrats say flex accounts encourage wasteful spending, because an arbitrary "use it or lose it" rule doesn't allow balances to roll over year to year. But they really hate them because they give consumers a more active role in managing spending, instead of having the government decide.

The Reid bill also assaults health savings accounts, or HSAs, which allow individuals to accumulate tax-free funds for future medical expenses when coupled with low-premium, high-deductible insurance. The Reid bill changes tax provision to make HSAs less attractive, but the real threat comes via increased regulation.

These insurance products will likely be barred from the insurance "exchanges" that will demolish and supplant today's individual market. Employers will also find them more difficult if not illegal to offer once the government has new power to "define the essential health benefits" that all plans must eventually offer. Plans that focus mainly on catastrophic health expenses, instead of routine procedures, aren't generous enough for Democrats.

Liberals claim people who choose these options aren't helping as much to finance a common pool and may encourage adverse selection if too many young or healthy people opt out. While all insurance involves some degree of risk-sharing, Democrats want to impose true social insurance à la Europe by obliterating the flexibility of insurers to design products that are tailored to suit different individual needs.

In fact, about 40% of tax filers with HSAs earn under \$60,000, according to the IRS. The Employee Benefit Research Institute reports that 4% of adults with private insurance have an HSA this year—up from 1% in 2006—and about 9% are enrolled in some form of consumer-directed health plan. It also found that beneficiaries are evenly split between those wi

health problems and those without.

The Blue Cross Blue Shield Association, whose members dominate the HSA market, says that enrollees are more likely than those with traditional insurance to be better consumers. They're more likely to track expenses (63% to 43%), save for the future (47% to 18%), and search for information on physician quality (20% to 14%). They're also more likely to participate and see results from wellness programs like weight loss, fitness and smoking cessation. This makes intuitive sense: They've got skin directly in the game.

David Goldhill, a media executive, recently wrote in the Atlantic Monthly that if a 22-year-old starts at his company today earning \$30,000 and health costs grow at 3%, by the time he retires he'll have paid out \$1.77 million in premiums, lower wages, out-of-pocket costs and both sides of the Medicare payroll tax.

If all that money were instead available via an HSA, including by borrowing against future contributions, "wouldn't you be able to afford your own care?" Mr. Goldhill asks. "And wouldn't you consume health care differently if you and your family didn't have to spend that money only on care?"

This is precisely the future liberals fear because it would make health care less susceptible to political control. The Reid bill makes it impossible for people to choose better reform alternatives, the ones that can only be discovered through innovation and competition in a dynamic marketplace.

Not that any of this seems to matter at this stage of the health-card debate. The polls show the public opposes the Democratic bills, President Obama is below 50% job approval in the Gallup poll, and business and medical providers are increasingly horrified at what reform will do to consumers and patients. But so what? This is about putting government in charge of health care, whether Americans like it or not.

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