Haas School of Business
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Personal Finance Course

Health Savings Accounts (HSAs)

Guest Lecture by
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So this video is on health savings account. The other terms that we're going to use are high deductible health plans, consumer directed health care. And I'm going to talk about what this type of insurance is.

Well, insurance is maybe not the right word. But let's get to it. The idea of a health savings account is to put the patient-- let's call him a consumer in this world-- into the driving seat. Give them skin in the game. Let's me, the employer, give you X amount of money. Let's say I was going to buy you insurance-- health care insurance, and I was going to pay $100 a month. Well, what if you never went to the doctor? Guess who is making $100 a month, the insurance company. So the idea was, instead of giving the insurance company $100 a month, and you go to the doctor if you need, that I'll give you the $100 a month. Or maybe I'll give you the $90 a month because the insurance company got some admin costs. You get $90 a month. You put it in a savings account. You get this account that you can pay into pretax dollars. Your employer can pay into pretax dollars. It's a defined contribution. You and your employer decide how much goes into this account. And if you use the money for medically approved services, it's tax free. And if you don't use it, it grows. It stays there. And year after year, it continues growing.

But let's think if I'm not healthy, and I use the money every year. And I use more than is in there. Well, somehow, I need to get other coverage, and that is why, under Bush, the requirement-- they weren't quite ready to say you, the consumer, you're 100% responsible. They require that if you get a health savings account, you also get a high deductible health plan.

I talked a little bit about high deductible health plans in my How Does Health Insurance Work, but basically a deductible is how much you pay, after the premium, before your health insurance kicks in. If you're deductible is $0-- in other words, you pay your premium and you can get health insurance right away, then you pay a higher premium because you know-- they know you're going to use the health care. The higher the deductible, the lower the premium.

So let's say you pay $10 a month at a premium. That's not much. But maybe the premium doesn't kick in. The insurance won't kick in till your deductible of $10,000 is reached. So the question is, where do you pay the money? Up front, so you can go to the doctor first dollar coverage, no deductible? Or do you not pay up front to the insurance company, keep the money in your health savings account, and pay this huge deductible before it goes in? This is a hard question to answer. And one that you have to think long and hard about when you're buying insurance. And it's very complicated because what you're thinking about is, am I going to be sick in the future? None of us know. We may know that we're very healthy. We eat healthy. We exercise. And that's a good thing, and that means, yeah, maybe a high deductible health plan is better because I never get the deductible. I can save my money. And why am I paying a premium? But what if you get into a car accident outside of your control? You may immediately empty out your health savings account. You may need to get more money to pay your deductible. And then you lose a lot of money in the process. This is a hard decision to make. I tend towards the higher premiums, in other words, the lower deductibles because I am conservative when it comes to taking risk. I would rather be over insured. But this is something you have to think about because you need to know how much things cost.

So first is-- the question is, do I do health savings account or do I do low deductibles and get first dollar premium, get an HMO or a PPO, which I talk about in other videos? The idea of a health savings account, the concept is you get this money. You are now a consumer. You have the incentive to shop around. You start discussing your needs. And if you discuss your needs, you might use less. So as a society, we may use less. Or better yet, we don't do things that are unnecessary. But this presumes that you as the patient are able to have these conversations. But once you hit your deductible, everything's covered. So there's a lot of things to consider here.

The pro argument about health savings account is-- especially if you're healthy-- and if you're young and healthy especially, it will reduce your costs for you individually because you don't pay high premiums. And if you never pay the deductible, you never pay the deductible. It's fine. You can save the money.

As a society, it means that we reduce unnecessary care, and this will lead to savings. And, overall, doctors will become competitive in bringing their cost down. And we're seeing this. We're seeing doctors posting their costs. We're seeing hospitals posting their costs. And the idea is they're trying to compete with each other. And in this model, competition is good for everybody.

The con, however, is if you are sick and you run out of money in your health savings account and you still have a high deductible, you're at risk for your costs. And for some people, that is a very hard thing to take care of. It may mean selling your house. It may mean cashing out some savings account. So you really need to look at your income level, your comfort level with risk taking, your health care needs, and so forth, and figure it out. So the idea is you have to be very wary about the decisions you make up front and consider your risk taking and what type of insurance and where you pay for your insurance, whether it's in a premium or at the point of service, what works best for you.