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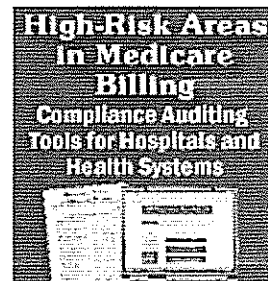
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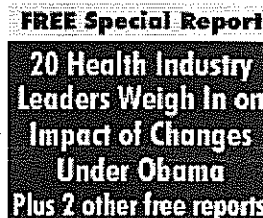
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Dec. 8, 2008

1. Since January 2004, health savings accounts (HSAs) have been a key component of the Bush administration's health policy. But some industry observers contacted by AIS predict that the incoming Obama administration and 111th Congress could work to dismantle the accounts, or at least erect barriers to make them less attractive. Others contend that the Obama administration and Congress are more likely to simply ignore account-based coverage, which is not likely to fit into any of their health reform efforts.

Paul Feldstein, a professor of health care management at the University of California in Irvine, suggests that some Democratic lawmakers see HSAs as a threat to their version of health reform, and says they could propose changes to the tax code that would make the accounts more restrictive. Bruce Fried, a partner at law firm Sonnenschein Nath & Rosenthal LLP in Washington, D.C., agrees that some of the tax advantages HSAs have received could be removed by the incoming Congress. Fried was chief coordinator of the Clinton administration's Health Care Advisory Group in 1992. "There will be little appetite to continue HSAs. I think many people have perceived this as emblematic of the ideology of the Bush administration," he says.

While the incoming Obama administration supports the existing employer-based system of health coverage, there are indications that it might not fully support HSAs, says John

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Hickman, an employee benefits attorney with the law firm Alston & Bird. A rule that would require substantiation for all HSA distributions is one potential roadblock that already has some Democratic support. "The key word for [consumer-directed health] advocates is vigilance," he says.

Roy Ramthun, who co-wrote much of the early HSA guidance in 2004 while working at the Treasury Dept., agrees that a substantiation rule, or other restrictions, could hamper the growth of HSAs. But he adds that Congress is unlikely to try to eliminate HSAs. "Too many people would be affected now," he tells AIS.

Some industry observers say there is too much momentum to derail account-based health plans. More than 12 million lives are now covered by a health plan that either includes a health reimbursement arrangement (HRA) or is compatible with an HSA. And with more employers than ever offering such plans to employees during this fall's open-enrollment period, that number is expected to jump on Jan. 1. Plus, banks collectively now hold more than \$4 billion in HSA assets.

With more than half of all large employers now offering an account-based health plan as an option, the offering has become "ingrained and continues to be a powerful tool," says Randy Abbott, an employee benefits consultant in the Boston office of Watson Wyatt.

"Nothing on the table would indicate to me that [such plans] are going to go away."

Paul Fronstin, senior research associate at the Employee Benefit Research Institute in Washington, D.C., agrees and says the incoming Obama administration "certainly won't be friendly toward HSAs, and is highly unlikely to support anything that expands them. But with millions of Americans enrolled in these plans, it is also highly unlikely that the administration will do anything to prohibit or stunt their growth."

Jay Savan, an employee benefits consultant in the St. Louis office of Towers Perrin, says the potential for account-based health coverage actually remains as bright as ever. The exclusion of employer contributions for health coverage now is uncapped and is the Treasury Dept.'s third-largest tax expenditure. Savan contends that the tax break will need to be capped at some point, "particularly if Obama intends to have any money left to pay for an expanded [State Children's Health Insurance Program] or other federal subsidies that ensure children have health coverage, as he's maintained as part of his platform."

And if a cap is placed on the amount of pretax dollars employees can contribute to their health coverage, employers will be pressed by their employees to offer options that don't exceed the tax cap. Low-premium, account-based plans might be an attractive option, Savan says.

Ramthun says he's encouraged that HSA-based health plans remained available in Massachusetts after the state enacted its landmark health reform efforts. "That is a likely model given the [Sen. Ted Kennedy] connections to Obama. I don't believe Kennedy will go farther than where Massachusetts has gone."

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