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Health Savings Accounts

Affordable, Portable, and Accessible Health Insurance

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Health Savings Accounts offer employers and individuals an affordable new option for health insurance coverage. Health Savings Accounts (HSAs) have grown in popularity following the passage of the *Medicare Prescription Drug, Improvement, and Modernization Act of 2003*, when Congress authorized the use of the tax preferred accounts. The forerunner to HSAs, Archer Medical Savings Accounts (MSAs), were first established in 1996 and had extensive restrictions that impeded their use and success. However, the Medicare Modernization Act shed those restrictions and now allows anyone to own an HSA with added flexibility.

This brief overview of HSAs will answer the following questions:

- What are HSAs and who is eligible for an HSA
- How HSAs make health insurance more affordable
- How HSAs make health insurance more portable
- How HSAs make health insurance more accessible, particularly for the uninsured
- How HSAs control costs and create savvy consumers
- How HSAs benefit everyone regardless of age and health
- Why HSAs are a good option for state employees

As the state grapples with the effects of increased health care costs that lead to higher numbers of uninsured Texans, as well as the increasing cost of providing benefits to state employees and their dependents, HSAs offer the state of Texas an opportunity to address the uninsured and control cost. Offering state employees the option of an HSA would allow Texas to stand as an example to the private sector and other states looking for a way to control cost while continuing to provide health benefits to its employees.

Health Savings Accounts: What are they and who is eligible?

- HSAs pair a High Deductible Health Plan (HDHP) with a tax preferred savings account. The higher the deductible, the lower the premium, which allows the policy holder to use the savings from the premium to fund the savings account.
- The money in the savings account pays for medical expenses below the deductible. Once the deductible is met, the HDHP may cover all remaining expenses at 100%, or require the policy holder to pay a percentage of remaining costs until the annual out-of-pocket maximum is met.
- Many HDHPs will also pay for preventive health care, such as immunizations or annual exams, even before the deductible is met.

- To qualify as an HDHP, the deductible must be at least \$1000 for an individual or \$2,000 for a family.
- Individual and/or their employer may make a total annual contribution to the savings account that is the lesser of the deductible, or \$2,650 for an individual and \$5,250 for a family (indexed annually for inflation).
- The HSA belongs to the account holder and is entirely portable. At the end of the year, any unused money remains in the account and continues to grow tax free for future years.
- Deposits to the savings account grow tax-free and may be withdrawn at any time for a qualified medical expense. Withdrawals that are not for a qualified medical expense (specified by IRS Code Section 213(d)) are taxed as income and subject to a 10 percent penalty.
- After age 65, withdrawals made for something other than a qualified medical expense are treated as retirement income and the withdrawal is not subject to the 10% penalty that applies at all other times.
- Medicare and Medicaid recipients are not eligible to have an HSA; however, individuals who qualify for Medicare, but are not enrolled in Medicare, may open and/or contribute to an HSA.
- At the time of death, the HSA will work as an HSA for a surviving spouse if the spouse is the named beneficiary, otherwise it will be included in the federal gross income of the estate or for the named beneficiary.

Anyone is eligible for an HSA provided:

- 1) They are covered by a high deductible health insurance plan, also sometimes referred to as a qualified HSA plan.
- 2) They are not covered by another health insurance plan. An individual may qualify for an HSA and have certain permitted coverage such as, coverage for a specified disease or illness, dental insurance, and long term care insurance.
- 3) Not enrolled in Medicare, though they may be Medicare *eligible*.

Health Savings Accounts: Making Health Insurance Affordable

Health insurance is growing more costly for both employers and individuals. In September 2004 the Henry J. Kaiser Family Foundation released its Annual Employer Health Benefits Survey. The survey reported that in 2004, health insurance premiums for a family reached an average of \$9,950 annually or \$829/month, and \$3,695 annually or \$308/month for single coverage. These increases equate to an 11.2 percent increase in the average employer-sponsored health premium, making 2004 the fourth consecutive year of double digit growth.

By contrast, the table below shows data collected by ehealthinsurance.com reviewing the price of monthly premiums for HSA-eligible plans written in the first year since Congress authorized their use.

Monthly Premiums of HSA-Eligible Plans, January-December 2004

\$50 or less	8.6%
\$51-\$100	47.6%
\$101-\$200	32.5%
\$201-\$300	8%
\$301-\$400	2.5%
\$401-\$500	.4%
More than \$500	.4%

The average monthly premium price for individual HSA eligible plans: \$137.94

The average monthly premium price for family HSA eligible plans: \$277.45

The ehealthinsurance.com data on HSA-eligible plans illustrates the potential savings by using an HSA rather than traditional health insurance. Given the large percent increases each year, HSAs offer an opportunity to control cost and a more affordable alternative to traditional health insurance for employers and individuals.

Health Savings Accounts: Making Health Insurance Portable

Most Americans get their health insurance through an employer sponsored plan, and such benefits are generally expected from full time employment. While Americans have grown accustomed to health insurance as an employment benefit, this arrangement is really a vestige of World War II era wage and price controls. Yet in the sixty years since this arrangement emerged, much has changed in the labor market. Few Americans will retire from the first job they ever had, and as they switch jobs and even have temporary breaks in employment, their health insurance status will change accordingly. In fact, a longitudinal survey by the Bureau of Labor Statistics found that young baby boomers (born 1957-1964) held an average of 10.2 jobs from ages 18-38. Such mobility may mean changes in insurance plans, providers and benefits, as well as possible periods without insurance coverage.

Because HSAs are portable, however, they begin to return ownership of health care decisions and health insurance to the individual, rather than reserving it strictly to the province of employers. Even though the insurance plan may change, the money in an HSA moves with the individual and, regardless of whether the contributions come from the individual or the employer, the HSA is entirely portable.

In addition, although HSAs generally cannot pay for insurance premiums, it can pay for COBRA coverage as well as health insurance premiums while an individual receives government unemployment compensation. HSAs can truly help bridge the gap for people who may otherwise be uninsured or between insurance.

While the HDHP may change from employer to employer, the HSA itself is entirely portable and may continue to be used in conjunction with any qualified health plan.

Health Savings Accounts: Making Health Insurance Accessible

Texas leads the nation in the number of uninsured. Affordability and portability are critical in making health insurance accessible, particularly to the uninsured. Studies have found that people go without insurance for a variety of reasons, not simply because they are poor. In fact, we know that a significant portion of the uninsured have some connection to the work place and 25 percent of the uninsured earn more than \$50,000 annually. Several surveys in recent years have shown that for many of the uninsured, health insurance is not a financial priority. Similarly, other surveys have shown that many of the uninsured are young, healthy individuals who willingly gamble that they will not need health insurance and do not want to spend the money for perceived unnecessary coverage. Whether it's employers who cannot continue to meet the rising cost of health insurance for their employees, or a young, healthy person who decides to forego health insurance because the cost outweighs the benefit, HSAs offer the uninsured an affordable alternative to traditional health insurance and a better alternative to being uninsured.

In January 2005, America's Health Insurance Plans' Center for Policy and Research reported that in the first year of HSAs, thirty percent of HSA/HDHP policies sold in the individual market were for individuals who were previously uninsured. These statistics are consistent with the success of the more restrictive MSAs in reaching the uninsured. Designed to offer an affordable health insurance solution exclusively to the self-employed and to small employers, 73 percent of all people who purchased an MSA in 2001 were previously uninsured.

With a lower monthly premium, an HDHP/HSA makes health insurance much more affordable for many uninsured individuals. In addition, employers will find that HDHPs/HSAs better control cost, allowing employers to offer a health benefit that has previously been too expensive. Rather than going without insurance coverage or going on the public health insurance rolls, a lower cost alternative to traditional health insurance will encourage greater participation in the private health insurance market.

Health Savings Accounts: Controlling Costs and Creating Savvy Consumers

The current health care system insulates people from the cost of their health care. A \$15 copayment is little deterrent to unnecessary use of the health care system, whether from an individual receiving unnecessary medical care, or a provider tacking on extras because the insurance company will pay the additional costs. Giving people an incentive to save doesn't prevent them from getting legitimately necessary medical care, it only encourages a second thought in situations where the care may be optional. Furthermore, it encourages people to ask their health care providers about the cost of services and make a deliberate decision as to their necessity. In fact, this really puts patients and doctors back in the driver seat together when it comes to health care decisions. Giving individuals a stake in the game will only encourage them to be better consumers and will naturally control cost.

Health Savings Accounts: Not Just for the Young and Healthy

One of the most frequent objections to HSAs is based on the myth that the HDHP/HSA combination is only for the young and the healthy. This is simply not true. While an

individual with a chronic condition may not be able to build substantial savings, HSAs give everyone greater choice and control over their health care decisions. In fact, with the combined benefit of a lower premium and tax free spending on health care, an individual with chronic health needs is certainly no worse for having an HSA, but actually has greater flexibility in making decisions for their health care.

According to a press release from America's Health Insurance Plans' Center for Policy and Research, nearly half of the people who purchased a policy in the individual market in the first year of HSAs were over age forty. These results suggest that age does not deter individuals from purchasing an HSA rather than a traditional insurance policy.

In addition, consider an individual with chronic and expensive health conditions. There is no difference in a person who pays coinsurance to reach a \$1,000 out of pocket maximum and a person who pays a \$1,000 deductible, except when they pay. In either case, the ultimate out of pocket expense is the same. Furthermore, the HSA allows a person greater control in making these decisions, as well as the tax benefits of paying out of the savings account rather than simply out of their pocket.

Health Savings Accounts: A Good Option for State Employees

HSAs offer private employers a tremendous opportunity to provide employees with health insurance benefits at a more affordable price and with greater control of costs. Private employers continue to look for more affordable ways to offer these benefits, just as the state of Texas does for its employees. Providing state employees with an option for an HSA would make an important statement to businesses and employers around the state, drawing their attention to this new model and encouraging HSAs as an affordable and cost containing option for private employers as well.

The Henry J. Kaiser Family Foundation's Annual Employer Benefits Survey reported in September 2004 that since 2000, the cost of health insurance has risen 59 percent, while workers wages have increased only 12 percent. While such numbers are often used as an indictment on the cost of health insurance, these numbers actually best illustrate the lost pay increases as employers deal with increased benefits costs.

The same is true for the state. Each year the state spends more to cover the full cost of health insurance premiums for state employees. In FY 2002, the state covered the entire premium for state employees at a monthly cost of \$267.00 for the employee alone. By FY 2004, the state's contribution for employee health premiums had grown 11% to \$298.04 per employee, per month, and then almost another 5 percent in FY 2005 to \$315.56 for each employee, each month. In real dollars, state employees got an almost \$600 annual increase in the cost of their benefits between FY 2002 and FY 2005.

The state has met the increasing cost of health care each year by absorbing those costs into the budget, and continuing to pay 100 percent without asking the members to share in the cost. As health care costs grow, they effectively crowd out increases in cash wages as the state struggles to balance the total wages and benefits employees receive in their total compensation package. In fact the Employees' Retirement System (ERS) noted this

effect in their October 2000 board meeting when they discussed the impact of increasing health care costs on employees through the erosion of their take home pay. This isn't just additional cost sharing for employees, it is also the receipt of a more expensive benefit in lieu of a larger paycheck.

Many legislators have already indicated their desire to give state employees a pay raise in the '06-'07 budget. However, the state can do even better using the dollars it already spends and giving state employees control of more of that money. State employees should actually *see* the de facto wage increase they have gotten each year as the state spends more on the health benefits for each person.

Conclusion

HSAs provide an affordable, portable and accessible option for health insurance that can help address the growing number of uninsured Texans, as well as control health care costs. Insurance experts report that the growing popularity of HSAs among employers and individuals will only increase as other private employers, particularly small business, see just how affordable providing health benefits can be. Texas can serve as a model for other states and private employers by giving state employees the option of having an HSA, which will not only control cost for the state, but also give state employees greater control over their health care and the money already spent on their behalf.