

## Facts About Health Savings Accounts

by Mary Katherine Stout, Director of the Center for Health Care Policy

**T**he cost of state employee health benefits has soared in recent years, crowding out increases in wages as health care costs climb. In addition, for most state employees there is little choice in health insurance, resulting in no meaningful competition among plans based on service or price. Today the state pays the full price of health coverage for state employees and splits the additional cost for dependents between the state and the employee. As a result, individual state employees have been insulated from these increasing costs, while families bear a significant burden. Between 2001 and 2007, the state paid an additional \$1,300 annually for each state employee's health care; family coverage increased by roughly \$3,900 over the same period which was shared between the state employee and the state.<sup>1</sup>

In an effort to control costs and preserve a quality benefit for state employees, Texas should allow state employees an option between the current traditional plan and a High Deductible Health Plan (HDHP) in combination with a Health Savings Account (HSA). Those employees choosing in the HDHP/HSA will reap significant savings and greater control over their health care, while all state employees will benefit from competition and choice in benefits.

Unfortunately, persistent myths misrepresent how HDHPs and HSAs work and what it means for state employees.

**Myth:** *HSAs are a cut in health benefits and leave state employees without health insurance coverage when they need it most.*

**Fact:** HSAs would offer state employees a new option in benefits, allowing employees greater control over money already spent on their behalf by pairing a high deductible health insurance policy with a savings account for tax-free deposits and withdrawals for health care purposes. This is an enhanced benefit, not a reduction in benefits.

In addition, the savings account is paired with a health insurance plan with a deductible of at least \$1,100 for individuals or \$2,200 for families (figures for 2007—minimum deductible established under federal law). Services under the deductible are paid out-of-pocket at a negotiated rate between providers and the health plan. Once the deductible and the out-of-pocket maximum (if required) are met, health insurance covers all additional cost for the duration of the plan year. State employees would still have insurance coverage for high-cost bills as well as benefits of lower premium costs and negotiated rates on services.

**Myth:** *HSAs are an unproven experiment.*

**Fact:** 4.5 million Americans were enrolled in an HSA in January 2007. Enrollment doubled between 2005 and 2006, and grew by another 50 percent between 2006 and 2007. A number of large private employers use HSAs, including Austin-based Temple Inland, along with Wal-Mart, and Wendy's. In addition, at least 10 states offer an HSA option: Arkansas, Colorado, Florida, Georgia, Indiana, Kansas, Mississippi, South Carolina, South Dakota, and Utah.

**Myth:** *HSAs will be unattractive to lower paid, older, and unhealthy state employees.*

**Fact:** This is a common charge, but the facts simply do not bear this out.

- The Milliman report to ERS notes that one challenge in generating interest in an HSA option is that only 12 percent of state employees make more than \$50,000.<sup>2</sup> While this sounds reasonable on its face, further consideration must acknowledge that these employees will benefit by any contribution the state would make to the HSA on their behalf, not to mention the immediate benefit of reducing the out-of-pocket outlays if they also cover their family.
- Cost increases have been more stable for consumer-driven plans than for traditional Preferred Provider Organizations (PPOs), with consumer-driven plans decreasing 3-5 percent from 2004-05 while PPOs increased 8-10 percent over the same period.<sup>3</sup>
- According to research from America's Health Insurance Plans, 46 percent of enrollees in an HDHP/HSA were age 40 or older, with the remaining 54 percent split evenly between ages 0-19 and 20-39.<sup>4</sup>
- Remember that Medicare-eligible persons are not able to use an HDHP/HSA, which distorts any calculations about the average age of those electing such coverage.
- Although publications have argued HSAs are bad for women, enrollment is almost evenly split between men and women.<sup>5</sup> Presumably, more than 2 million women would disagree with this characterization.

**Myth:** *HSAs encourage people to forego necessary care to save money.*

**Fact:** HSAs make people more cost conscious, creating incentives for appropriate utilization, as well as weighing the short-term and long-term costs of their decisions. A three-year study by United Health Group looked at 50,000 people and found that among those with a consumer-driven plan, there were 22 percent fewer hospital admissions, 14 percent fewer emergency-room visits annually, and preventive care increased 5 percent.<sup>6</sup> Furthermore, a recent study found that more than 90 percent of employers offer HDHP/HSA plans that cover preventive services before the deductible is met.<sup>7</sup>

Policy makers often point to the lower cost of preventive care in contrast to the higher cost of treating acute, but preventable conditions in finding savings in health care. Individuals make the same calculations and draw the same conclusions when the incentives are aligned properly.

**Myth:** *State employees can already choose an HSA.*

**Fact:** State employees do not have an HSA option today. They do have a Flexible Spending Account, which only allows contributions from the individual employee (not the employer) and requires FSA participants to spend all of their money by the end of the year, or they lose it. HSAs can include contributions from employers and individuals, and funds are owned by the individual making HSAs portable and allowing balances to roll over each year.

**Myth:** *The last time the legislature created an HSA it failed.*

**Fact:** The State of Texas has never offered an HSA to state employees or school employees. In 2003, the 78th Legislature created a Health Reimbursement Arrangement for teachers, but participation was not optional. The HSA plan now under consideration would allow employees the *option* of enrolling in an HDHP/HSA instead of traditional insurance. In addition, the HRA has significant structural differences that make it a less attractive choice, including limitations on who can make contributions, and lack of portability because the employer—not the individual—owns the account.

**Myth:** Introducing an HSA will hurt the current plan and cost the state more money.

**Fact:** The Milliman report for ERS responds to this notion, saying that consumer-driven health plans “may be introduced without substantial negative impact on the current plan and enrollees, while representing an attractive choice to a subset of the [Group Benefits Program] participants.”<sup>8</sup>

The reality is that costs will continue to increase in the current traditional plan with or without an HSA. As such the real question is whether a lower cost option that can better control cost over the long-term should be available to state employees to choose from.

#### **Additional Facts to Consider:**

**State employees with family coverage will see immediate benefits from an HSA.**

As the Milliman report to ERS in November 2006 says, it will be hard for the state to create incentives for individuals to choose a lower HSA due to a lower employee contribution since the state currently funds the individual state employee’s share in full.<sup>9</sup> However, this is not the case for families, who pay a handsome amount each month for coverage and would immediately benefit from the reduced out-of-pocket cost.

In the states with an HSA option, families in particular see tremendous savings in their monthly premiums compared to the traditional plan:

- In Arkansas, the savings for family coverage is \$457/month;
- In Colorado, the savings for family coverage is \$50.24/month;
- In Florida, the savings for family coverage is \$115.70/month;
- In Indiana, the savings for family coverage is \$290.09/month and the state channels its premium savings to the HSA as an employer contribution of at least \$1,870 annually; and
- In South Carolina the savings for family coverage is \$186.02/month.<sup>10</sup>

**HSAs can actually reduce out-of-pocket costs for those who elect HDHP/HSA coverage.** Consider the following:

- The state’s current health plan has a \$1,000 coinsurance maximum per member, per calendar year, and the insured continues to pay copayments even once the coinsurance maximum is satisfied.
- Under an HSA, the deductible is a family deductible, not a per member amount. Once the deductible is met and out-of-pocket costs are satisfied by any single member of the family (the specific amount depends on the plan design), the insured pays nothing more for services. Whether for individual or family coverage, the HSA does not “nickel and dime” the insured.

**Plan design is important and the Employees Retirement System should have the flexibility to negotiate the plan that is best for the state.** Efforts to require the plan to meet certain statutory criteria should be avoided.

<sup>1</sup> Calculations from the Employees Retirement System of Texas data, “2005 Comprehensive Annual Financial Report,” and published Health Premium Rates from FY 1999 to FY 2007.

<sup>2</sup> Milliman report, “Employees Retirement System of Texas: Actuarial Evaluation of Long-Term Impact of Health Savings Accounts or Health Reimbursement Accounts and High Deductible Health Plans Within the Texas Employee Group Benefits Program,” 9 November 2006, iii, [http://www.ers.state.tx.us/AboutERS/cdhpreport\\_execsummary.pdf](http://www.ers.state.tx.us/AboutERS/cdhpreport_execsummary.pdf).

<sup>3</sup> United Health Group, Press Release, “Three-Year Study Shows Consumer Driven Health Plans Continue to Stimulate Positive Changes In Consumer Health Behavior,” 12 July 2006, <http://www.unitedhealthgroup.com/news/rel2006/0712Consumer.htm>.

<sup>4</sup> America’s Health Insurance Plans, “January 2007 Census Shows 4.5 Million People Covered by HSA/High-Deductible Health Plans,” April 2007, 6 [http://www.ahipresearch.org/PDFs/FINAL%20AHIP\\_HSAReport.pdf](http://www.ahipresearch.org/PDFs/FINAL%20AHIP_HSAReport.pdf).

<sup>5</sup> Ibid.

<sup>6</sup> United Health Group, Press Release, “Three-Year Study Shows Consumer Driven Health Plans Continue to Stimulate Positive Changes In Consumer Health Behavior,” 12 July 2006, <http://www.unitedhealthgroup.com/news/rel2006/0712Consumer.htm>.

<sup>7</sup> America’s Health Insurance Plans, “January 2007 Census Shows 4.5 Million People Covered by HSA/High-Deductible Health Plans,” April 2007, 9, [http://www.ahipresearch.org/PDFs/FINAL%20AHIP\\_HSAReport.pdf](http://www.ahipresearch.org/PDFs/FINAL%20AHIP_HSAReport.pdf).

<sup>8</sup> Milliman report, “Employees Retirement System of Texas: Actuarial Evaluation of Long-Term Impact of Health Savings Accounts or Health Reimbursement Accounts and High Deductible Health Plans Within the Texas Employee Group Benefits Program,” 9 November 2006, ii, [http://www.ers.state.tx.us/AboutERS/cdhpreport\\_execsummary.pdf](http://www.ers.state.tx.us/AboutERS/cdhpreport_execsummary.pdf).

<sup>9</sup> Milliman report, “Employees Retirement System of Texas: Actuarial Evaluation of Long-Term Impact of Health Savings Accounts or Health Reimbursement Accounts and High Deductible Health Plans Within the Texas Employee Group Benefits Program,” 9 November 2006, iii, [http://www.ers.state.tx.us/AboutERS/cdhpreport\\_execsummary.pdf](http://www.ers.state.tx.us/AboutERS/cdhpreport_execsummary.pdf).

<sup>10</sup> See data from Texas Public Policy Foundation, “Survey of State Employee Benefits: Comparing Traditional Health Benefits and Health Savings Accounts in the States,” May 2007.