

Bulletproof? Health Savings Accounts in 2007 and 2008

By John R. Graham

Key Points:

- Health Savings Accounts (HSAs) are a tax-advantaged way to give patients more control of how their health dollars are spent. Legislation passed in December makes HSAs significantly more attractive.
- By 2009, traditional PPOs in the employer-sponsored market will cost 50 percent more than HSA-eligible plans, and by 2019 (if they still exist) they will cost twice as much, if the current trend persists.
- By the end of 2008, HSAs will be politically "bulletproof."
- Current dissatisfaction with HSAs is a predictor of success, not failure.

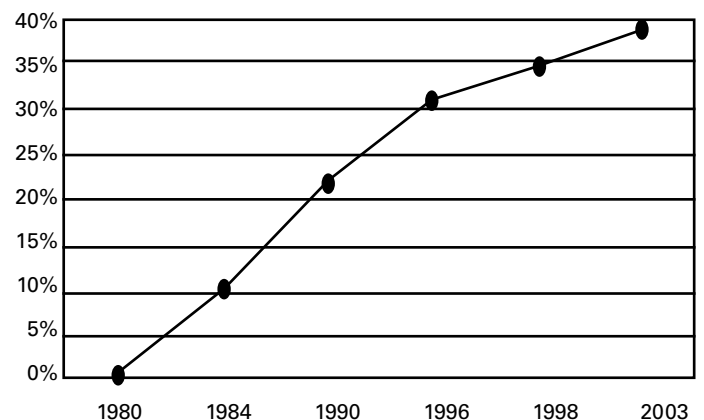
Year of the HSA

Last year, I anticipated that 2006 would be "The Year of the Health Savings Account,"¹ or HSA. Such accounts are held at financial institutions, into which employers or employees deposit pre-tax dollars. Any American with a qualifying, low-premium policy can open an HSA. Money in the account used for health spending is never taxed. HSA owners 65 and older can tap the account for non-health purposes, but that money is added to their taxable income when they withdraw it. In this respect, an HSA is similar to a 401(k) retirement account.

The Growth of 401(k)s

If an HSA is a "401(k) for your health," then it makes sense to compare the two; they are both elements of the "ownership society," and this provides critical perspective. In 2005, President Bush's admirable plan to introduce private accounts in Social Security was knocked back by outrageous attacks from those who want the government, not you, to control your retirement income.² On the other hand, no serious politician would suggest retreating in the other direction: eliminating 401(k)s, seizing the balances, and using them to increase traditional Social Security benefits. Nevertheless, 401(k)s were threatened once.

**FIGURE 1: Active 401(k) Participants/
Total U.S. Private Employment**



Source: Author's calculations from EBRI and Bureau of Labor Statistics.³

Established effective January 1980, with regulatory guidance in November 1981, about 11 percent of employees were contributing to 401(k)s by the end of 1985, versus just under 40 percent today. (See Figure 1) Nevertheless, President Reagan proposed abolishing them in that September's budget proposal.⁴ However, by the end of the month, the president's attack had been pushed back to a reduction in contribution limits.⁵ Eleven percent of employees proved more than enough to make 401(k)s politically "bulletproof." The Treasury issued regulatory guidance for HSAs in late 2004. Therefore what 1985 was for 401(k)s, 2008 will be for HSAs, when Americans choose a new president who may not be as enthusiastic about these accounts.

Are HSAs and HSA-Eligible Plans on Track?

The health insurers' trade association, AHIP, reported nearly 3.2 million people with HSA-eligible plans in January 2006, up from a little more than a million in

March 2005 and slightly less than half a million in September 2004. That amounts to an annualized growth rate of 340 percent, with a key feature: *it occurred during a period when people had not even digested the regulatory guidance.*⁶ More recently, the Blue Cross Blue Shield Association (BCBSA) reported that its member-companies alone covered two million lives in HSA-eligible plans in August 2006, apparently about double those of August 2005.⁷ Steve Davis, editor of *Inside Consumer-Directed Health Care*, estimates that there were 6.5 million in HSA-eligible plans in October 2006.⁸ William Boyles of the Consumer Driven Market Report estimates 7.2 million in HSA-eligible plans at the end of 2006.⁹

About 204.6 million Americans are eligible for these plans.¹⁰ This implies penetration of about 1.6 percent a year ago, and about 3.5 percent now. If we keep up this growth rate – faster than the rate for 401(k)s at the comparable time in their development – we can be confident of about a nine-percent penetration rate at the end of this year, and it is not absurd to forecast 20 percent or more for 2008. In contrast, the naysayers' cases look weak under examination.

Behind the Slow Growth of Employer-Based Consumer Directed Plans, for example, shows no such thing. In fact, it shows that enrollment in HSA-eligible plans jumped by 75 percent in the twelve months to July 2006, from 800,000 to 1.4 million, and these were only workers in the employer-sponsored market, not their dependents, nor the individual market where HSA-eligible plans are critical.¹¹ The Employee Benefits Research Institute (EBRI), *based on a 14-minute Internet questionnaire*, figures there were 1.3 million employees (not dependents or individuals) in consumer-driven plans in September 2006, by which it means the enrollees actually have an HSA or Health Reimbursement Account (HRA). However, it artificially differentiates them from another 8.5 million in high-deductible health plans who do *not* have HSAs or HRAs, although many of them legally could do so.¹²

Not everyone who can open an HSA chooses to do so. A survey of 150 custodians found 1.7 million accounts opened at the end of June 2006, with an average balance of \$1,200. The custodians expected the number of accounts to increase to 3.6 million by this month, consistent with evidence that a little more than half of enrollees in HSA-eligible plans actually open HSAs.¹³ Thus, it is not absurd to forecast at least a 10-percent penetration of HSAs in the eligible population in 2008 – a benchmark that will likely prove bulletproof.

Last month President Bush signed the Tax Relief and Health Care Act, which measurably improves HSAs by increasing contribution limits to \$2,850 (single) or \$5,650

(family) for 2007, deregulating employers' right to make higher contributions to lower-earning employees, and allowing a once-only transfer of balances from a HRA or IRA to an HSA, among other changes.

HSA-Eligible Plans Cost Less

In spring 2006, premiums for PPOs were 38 percent higher than for HSA-eligible plans in the employer-sponsored market. Further, premiums in consumer-driven plans increased 4.8 percent over the previous twelve months, versus 7.3 percent for PPOs. Even with the employer's contribution to the HSA itself included, PPOs were 13 percent more expensive for singles and 23 percent more for families.¹⁴ At this rate, traditional PPOs in the employer-sponsored market will cost 50 percent more than HSA-eligible plans by 2009; and by 2019 (if they still exist) they will cost twice as much.

Are Patients Satisfied? Should They Be Satisfied?

Some argue that these new plans will discourage people from seeking timely care. In a 100-page review of the evidence so far, the Congressional Budget Office concluded last month that: "Meanwhile, critics charge that consumer directed plans will discourage enrollees from getting needed care and thus will adversely affect their health – but there appears to be little empirical evidence to support that view."¹⁵ Also contentious is whether people who are signing up are satisfied.

Some recent articles indicate significant discontent versus traditional health insurance, with many enrolled indicating a desire to switch back.¹⁶ However, as discussed above, there is no going back. There is only going forward, and this pain is a prelude to systemic reform. Let's look at a *real* example.

A man living in a fairly large American city (about three quarters of a million people) got a fairly minor injury. Empowered with his HSA, he looked for a doctor who publishes prices and found two. He chose the one who charged \$95 for a basic consultation. The doctor prescribed some meds, and also recommended a tetanus shot costing \$30. The patient leaves with \$125 out of pocket. Satisfied? Yes: HSA patients are not unhappy with their doctors.¹⁷

A few weeks later, the ABC Health Plan mails him an Explanation of Benefits (EOB) (See Table 1 below). I will send a free copy of *What States Can do To Reform Health Care: A Free Market Primer* to anyone who can figure out how these dollar figures relate to what the patient paid. Furthermore, I will give a free copy of my next major publication, *U.S. Index of Health Ownership*, to the first person who can figure out what the doctor "balance billed" the patient soon after he received the EOB.

The answer is \$40.89. (To claim the prize, you have to explain how \$40.89 is the sum or difference of any of the figures in table 1.) The patient is getting annoyed: consumer-driven patients are dissatisfied with their plans.¹⁸

The plan must change. The doctor must change. (Don't get me started on the hospitals!) Advocates of consumer-directed health care knew this from the start. We should not be surprised when HSAs cause patients more frustration with the status quo. As the bumper sticker says, *if you're not outraged, you're not paying attention*. Patients are starting to pay attention. In 2007 and beyond, politicians need to do the same.

Table 1: Actual Explanation of Benefits (EOB) for Primary Care Consultation Costing \$125.00 at Point of Service

Procedure No.	Billed Amt.	Allowed Amt.	Not Allowed	Deductible Amt.	Co-Pay	Claims Payment
99204	\$210.00	\$159.63	\$50.37	\$159.63		\$0.00
90718	\$30.00	\$20.00	\$10.00		\$4.00	\$16.00
90471	\$29.00	\$11.32	\$17.68		\$2.26	\$9.06
Total	\$269.00	\$190.95	\$78.05	\$159.63	\$6.26	\$25.06

Source: Anonymous personal communication.

John R. Graham is Director of Health Care Studies at the Pacific Research Institute. He can be reached via email at jgraham@pacificresearch.org or 415-955-6104.

Endnotes

- John R. Graham, "2006: The Year of the Health Savings Account," *Health Policy Prescriptions*, Vol. 4, No. 1 (January 2006).
- For information on this topic see, *inter alia*, the Cato Institute's Project on Social Security Reform, www.socialsecurity.org.
- 401(k) participant numbers from Employee Benefits Research Institute, *History of 401(k) Plans: An Update*, Facts from EBRI #FS-187 (Washington, DC: Employee Benefits Research Institute, February 2005); Employment numbers from Bureau of Labor Statistics, Current Employment Statistics: Employment, Hours, and Earnings from the *Current Employment Statistics survey (National): Total Private Employment - Seasonally Adjusted - CES0500000001* (Washington, DC: Bureau of Labor Statistics, December 1984 to December 2003). Available at <http://data.bls.gov/cgi-bin/surveymost?ce>.
- David E. Rosenbaum, "3 Changes in Tax Bill Are Proposed by Treasury," *New York Times* (September 4, 1985), p. D2.
- Eric N. Berg, "Re-examining Your Benefits," *New York Times* (September 29, 1985), sec. 12, p. 42.
- AHIP, *HSAs and Account-Based Health Plans: An Overview of Preliminary Research* (Washington, DC: America's Health Insurance Plans, June 2006).
- Blue Cross Blue Shield Association, *Blue Cross and Blue Shield Association Survey Shows HSAs Are Popular Among A Wide Cross Section of Americans*, Press Release (Chicago, IL: Blue Cross and Blue Shield Association, September 15, 2006); and Blue Cross Blue Shield Association, *Market Experience With CDHPs: Transformation or Transition?*, PowerPoint® Presentation (Chicago, IL: Blue Cross and Blue Shield Association, September 15, 2006), p. 3. Available at <http://bcbshealthissues.com/events/consumerdriven2006>. Actually, the report describes the growth in HSAs, not HSA eligible plans, so my statement assumes constant HSA uptake by those in eligible plans.
- Cited by Paul Fronstin & Sara R. Collins, *The 2nd Annual EBRI/Commonwealth Fund Consumerism in Health Care Survey, 2006*, Issue Brief No. 300 (Washington, DC: Employee Benefits Research Institute, December 2006), p. 47, fn. 8.

- Cited by Greg Scandlen, "Enrollment More than Doubles," *Consumer Power Report*, No. 58 (Hagerstown, MD: Consumers for Health Care Choices, November 30, 2006).
- All those not eligible for government programs: 257.4 million non-elderly less 41.2 million on Medicaid/other public programs less 11.6 million uninsured eligible for Medicaid/other public programs. Sources: Kaiser Family Foundation, *The Uninsured: A Primer*, Pub. No. 7451-02 (Menlo Park, CA: The Henry J. Kaiser Family Foundation, October 19, 2006), p. 1; Lisa Dubai, et al., "The Uninsured and the Affordability of Health Care Coverage," *Health Affairs*, Vol. 26, No. 1 (January/February 2007), Web Exclusive (published online November 30, 2006), pp. W20-W33.
- Jon Gabel, et al., *Behind the Slow Enrollment Growth of Employer-Based Consumer-Directed Health Plans*, Issue Brief No. 107 (Washington, DC: Center for Studying Health System Change, December 2006); using data from Gary Claxton, et al., "Health Benefits In 2006: Premium Increases Moderate, Enrollment In Consumer-Directed Health Plans Remains Modest," *Health Affairs*, Vol. 25, No. 6 (November/December 2006) Web Exclusive (published online September 26, 2006), p. W481. A major employee-benefits consultant, who surveyed 428 corporate clients last June, supports the trend that HSA-eligible plans are growing in popularity versus HRA-eligible ones. In 2006, 48 percent of its clients used HSAs versus only 15 percent in 2005. See Paul E. Sullivan Jr., and C. William Sharon, *Aon Consulting/ISCEBS Survey: Consumer-Driven Health Plans Gaining Stronger Presence* (Chicago, IL: AON Consulting Inc., June 2006). For the critical role of HSA-eligible plans in the individual market, see: AHIP, *HSAs and Account-Based Health Plans: An Overview of Preliminary Research* (Washington, DC: America's Health Insurance Plans, June 2006).
- Paul Fronstin & Sara R. Collins, *The 2nd Annual EBRI/Commonwealth Fund Consumerism in Health Care Survey, 2006*, Issue Brief No. 300 (Washington, DC: Employee Benefits Research Institute, December 2006), p. 21, fig. 21. Furthermore, EBRI has a very odd sample: of 1.5 million candidates, only 95,000 were between ages 21 to 64 and privately health insured. If only 6 percent of the sample is privately insured, the 1.5 million is certainly not representative of the U.S. population. See: Greg Scandlen, "A Tale of Two Studies - Garbage In, Garbage Out," *Consumer Power Report*, No. 59 (Hagerstown, MD: Consumers for Health Care Choices, December 7, 2006).
- Information Strategies, Inc., *HSAs Growing Apace to Reach 3.6 Million Accounts By January, 2007*, Press Release (Ridgefield, NJ: Information Strategies, Inc., August 17, 2006); GAO, *Consumer-Directed Health Plans: Early Enrollee Experiences with Health Savings Accounts and Eligible Health Plans*, GAO-06-798 (Washington, DC: U.S. Government Accountability Office, August 2006).
- Gary Claxton, et al., "Health Benefits In 2006: Premium Increases Moderate, Enrollment In Consumer-Directed Health Plans Remains Modest," *Health Affairs*, Vol. 25, No. 6 (November/December 2006) Web Exclusive (published online September 26, 2006), p. W481.
- CBO, *Consumer-Directed Health Plans: Potential Effects on Health Care Spending and Outcomes*, Pub. No. 2585 (Washington, DC: Congress of the United States, Congressional Budget Office, December 2006), p. xiii.
- Jon Gabel, et al., *Behind the Slow Enrollment Growth of Employer-Based Consumer-Directed Health Plans*, Issue Brief No. 107 (Washington, DC: Center for Studying Health System Change, December 2006); Kaiser Family Foundation, *National Survey of Enrollees in Consumer Directed Health Plans*, Pub. No. 7594 (Menlo Park, CA: The Henry J. Kaiser Family Foundation, November 2006); Paul Fronstin & Sara R. Collins, *The 2nd Annual EBRI/Commonwealth Fund Consumerism in Health Care Survey, 2006*, Issue Brief No. 300 (Washington, DC: Employee Benefits Research Institute, December 2006), pp. 13-17. For an alternate view, see: Blue Cross Blue Shield Association, *Blue Cross and Blue Shield Association Survey Shows HSAs Are Popular Among A Wide Cross Section of Americans*, Press Release (Chicago, IL: Blue Cross and Blue Shield Association, September 15, 2006); and Blue Cross Blue Shield Association, *Market Experience With CDHPs: Transformation or Transition?*, PowerPoint® Presentation (Chicago, IL: Blue Cross and Blue Shield Association, September 15, 2006). Available at <http://bcbshealthissues.com/events/consumerdriven2006>.
- Paul Fronstin & Sara R. Collins, *The 2nd Annual EBRI/Commonwealth Fund Consumerism in Health Care Survey, 2006*, Issue Brief No. 300 (Washington, DC: Employee Benefits Research Institute, December 2006), p. 10, fig. 10.
- Paul Fronstin & Sara R. Collins, *The 2nd Annual EBRI/Commonwealth Fund Consumerism in Health Care Survey, 2006*, Issue Brief No. 300 (Washington, DC: Employee Benefits Research Institute, December 2006), p. 10, fig. 11.