

## 2008: Next Steps for Health Savings Accounts

By Diana M. Ernst

- Health Savings Accounts (HSAs) are a tax-advantaged way to give Americans more control of their health dollars.
- 2007 has proven another successful year for HSAs, which are becoming increasingly popular and saving costs for Americans everywhere.
- Existing regulations inhibit HSAs and must be reformed to ensure the success of the consumer-driven movement to improve U.S. health care.

HSAs are still young, but they are part of a burgeoning reform movement called consumer-driven health care (CDHC), which is proving to lower costs and encourage responsible behavior among Americans seeking to save more money for health care. Our previous briefing on consumer choice insurance anticipated that 2008 would be a special year for HSAs.<sup>1</sup> Indeed, reliable reports indicate that HSAs are becoming increasingly popular.

HSAs are a fundamental part of the effort to give Americans greater ownership of health care. The tax-free accounts provide a new incentive to save money for health-care expenses, and they restore choice and control of our health services to us. Americans with low-premium, high-deductible policies can open HSAs, which are offered through financial institutions. Employers, employees, and individuals can deposit pre-tax dollars into their accounts, and all health expenses drawn from HSAs are absolutely tax free. After age 65, HSA owners can use the accounts for non-health purposes without penalty, although these expenses do count toward taxable income.

Steve Davis, editor of *Inside Consumer-Directed Health Care*, offers the highest enrollment growth estimate of HSA-eligible plans, from 200,000 Americans in 2002 to more than 6.5 million before the end of 2006.<sup>2</sup> The health insurers' trade association, America's Health Insurance Plans (AHIP), reported 3.2 million people with HSA-eligible plans in January 2006, and 4.5 million one year later.<sup>3</sup> Other reports point to not only a dramatic increase in HSA-eligible accounts, but also comparative cost savings with these accounts than with traditional health insurance plans.

An annual report by Blue Cross and Blue Shield Association (BCBSA) showed that Blue plans have more than 3 million consumer-directed health plan-eligible enrollees; at least 1.7 million members have HSA-eligible products, up from 620,000 in 2005. Total HSA-eligible plan numbers are probably higher since some Blue plans did not have enrollment data available during the study.<sup>4</sup>

A nationwide study by Aon Consulting and the International Society of Certified Employee Benefit Specialists of 470 employers found the number of employers offering HSA-eligible plans is on the rise, with 37 percent offering them, up from 28 percent in 2006 and 22 percent in 2005.<sup>5</sup>

The 2007 United Benefits Advisors (UBA) health-plan survey, the largest survey of health plans in the country, recently reviewed more than 16,000 health plans sponsored by almost 12,000 employers nationwide. UBA found that consumer plans with a health reimbursement account (HRA) or HSA now make up almost 9 percent of all employer plans, versus 6 percent last year.<sup>6</sup> The survey shows that consumer plan premiums grew less than 3 percent in 2006, compared to all other plans, with a premium increase of more than 7 percent.<sup>7</sup>

CIGNA HealthCare conducted a two-year study of 430,000 of its members with consumer-driven and HMO/PPO plans. For the first year of the study, medical costs for members with consumer plans were more than 12-percent lower than those for HMO and PPO members.<sup>8</sup> Members with HSA-eligible plans also increased their preventive care and use of maintenance medications for chronic conditions, and their expenses still decreased.<sup>9</sup>

Interestingly, after surveying its insurance plans that offer HSAs and corresponding high-deductible plans, AHIP found that 84 percent of those plans purchased in group and individual markets provide first-dollar coverage for preventive care, meaning they do not require enrollees to meet their deductibles before obtaining insurance for preventive services.<sup>10</sup>

Among consumer-directed policies that offer first-dollar coverage for preventive care outside deductibles, “100 percent cover adult and child immunizations; well-baby and well-child care; mammography; Pap tests; and annual physical exams. Nearly 90 percent of policies purchased provide first-dollar coverage for prostate-cancer screenings and more than 80 percent offered this coverage for colonoscopies.”<sup>11</sup>

So what does the future hold for HSAs? William Boyles of the Consumer Driven Market Report says there is significant underreporting of HSA-eligible plans, but he estimates that they will serve 10 million Americans by the end of 2008. Almost 207 million Americans are eligible for HSA plans today.<sup>12</sup> Accounting for the increase in eligible HSA owners since last year, and considering Steve Davis’ estimate of 6.5 million HSA-eligible plans adopted by 2006, this implies market penetration of about 3.1 percent at the beginning of 2007. Boyles’ estimated 10 million HSA enrollees implies about 5-percent penetration by the end of this year. While the annualized growth rate of HSAs is starting to level off, it is stabilizing at a notable 50 percent.

According to Information Strategies, Inc. (ISI), the actual number of HSAs (not HSA-eligible health plans) was still on target to reach 8 million by the end of the year, a dramatic increase since their inception in 2005, when there were only 300,000 accounts.

Despite positive evidence of growth and savings, critics of HSA-eligible health plans allege that they create victims who either cannot afford to fund the accounts or cannot know enough to make their own health-care choices. Drs. Steffie Woolhandler and David Himmelstein, long-standing advocates of government-monopoly health care, view them with disdain, ignoring the fact that between one third and one half of HSA owners were previously uninsured.

Among those who own HSA-eligible plans, patient behavior is changing. Consumers are exercising prudence about health-care overuse, closely observing their treatment procedures, demanding more information and transparent prices, and, finally, experiencing a decreasing growth rate in health-care costs.<sup>13</sup>

It is a legitimate fear that those who can’t afford care put off important services to avoid out-of-pocket payments. Here, we welcome localized government aid. Cities and states can introduce health-tax credits and vouchers for these more vulnerable patients, which subsidize their health care and also preserve their valued choice to select private care if they want it.

Emotional pleas, however, especially for those who are poor and chronically ill, are not productive if they result in tax hikes to support inefficient government

programs. The federally-funded Medicaid provides relatively second-rate care and underpays so many physicians that increasingly fewer accept Medicaid patients. More Medicaid and SCHIP beneficiaries are going to emergency rooms for non-emergencies, and the uninsured are actually paying a higher proportion of their ER fees than Medicaid is reimbursing emergency departments, according to a study recently published in *The Annals of Emergency Medicine*.<sup>14</sup>

Furthermore, critical reviews of HSA-eligible plans, according to Greg Scandlen of Consumers for Health Care Choices, are often unrepresentative of those who really own them and may even ignore what health-plan choices patients had previously. Reports from employers, on the other hand, are far more cogent. Employers know whether an individual is enrolled in an HSA-eligible plan and can account for the services used before and after enrollment. Employers can compare the experiences of enrollees in consumer-driven plans with groups that have traditional HMOs and PPOs. They can also adjust for differences in demographics and health status.<sup>15</sup>

We won’t go without saying, however, that HSAs could be improved. It is still challenging for people to make informed choices as they shop for price-specific information and quality ratings. The BCBS report noted that most people who had already opened HSAs or were planning to open them were not as familiar with the accounts as they wanted to be.<sup>16</sup>

Unfortunately, the government has also overregulated HSAs. The government requires HSA holders to purchase a high-deductible health plan, which covers serious illness or injury, but account holders should be able to pair them with any health plan they choose and currently they cannot.<sup>17</sup>

We have reason to believe that the adoption of HSAs will only increase with the passage of pending federal bills to make them more flexible and feasible for all Americans. Legislation in 2006 increased the acceptable amount of account contributions for employees and employers, and allowed account holders to make a one-time transfer of money from an HRA or flexible spending account (FSA) into an HSA.<sup>18</sup>

Representative Eric Cantor’s H.R.3234, currently in committee, would amend the Internal Revenue Code to allow HSAs to incorporate FSAs and HRAs, increase the HSA contribution limit, permit the use of the accounts to purchase health insurance, and allow veterans to establish an HSA, among other changes.

Similar proposals include Representative Timothy Walberg’s H.R.2948, Representative Charles W. Boustany Jr.’s, H.R.2639, and Representative Ron Paul’s H.R.3343.

Senator Mel Martinez's S.397 would also amend the Internal Revenue Code to allow individuals a refundable credit against income tax for the purchase of private health insurance. Representative Cliff Stearns' H.R.227 would amend the Internal Revenue Code to allow individuals a tax deduction from gross income for health insurance premiums and un-reimbursed prescription drug expenses.

HSA proponents acknowledge that HSAs are only a part of reducing our dependence on third parties for health care. They are by no means the universal remedy to our health-care problems, but neither are most designs for "universal" health care, which would impose ever-increasing taxes and government control.

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## Endnotes

- <sup>1</sup> John R. Graham, "Bulletproof? Health Savings Accounts in 2007 and 2008," *Health Policy Prescriptions*, Vol. 5, No. 1 (January 2007).
- <sup>2</sup> Steve Davis, "Insurers, Employers and Banks will determine the Future of Account-Based Plans, Forecast 2007, (Alpharetta, Georgia: CDHC Solutions), 2007.
- <sup>3</sup> America's Health Insurance Plans, "January Census Shows 4.5 Millions People Covered by HSA/High Deductible Health Plans," (Washington, D.C.: America's Health Insurance Plans, April, 2007).
- <sup>4</sup> Jennifer Vachon, Executive Director, Marketing & Business Strategy, Blue Cross and Blue Shield Association Presentation, Consumer Driven Healthcare Summit, Washington, D.C., September 28, 2007; "CDH Enrollment Now Tops 3 Million Among Nation's Blues Plans, ICDC Survey Finds," *Inside Consumer-Directed Care*, (Washington, D.C.: Atlantic Information Services, Inc.) August 10, 2007.
- <sup>5</sup> "National Survey Shows Employee Fears About Consumer-Driven Health Plans on Decline: CDH plans continue to grow in popularity among employers and employee," PR Newswire-FirstCall, Chicago, September 12, 2007.
- <sup>6</sup> "United Benefit Advisors: Annual Benchmark Survey Shows Average Annual Health Plan Cost is \$6,881 Per Employee; Largest Percentage of CDHP Adopters Comes from Employers with 25-100 Employees," (Indianapolis, Indiana: United Benefit Advisors), August 28, 2007.
- <sup>7</sup> "Benefits survey shows CDHP growth," Employee Benefit Adviser (Washington, D.C.: Employee Benefit News and SourceMedia, Inc.), August 29, 2007.
- <sup>8</sup> "CIGNA Choice Fund Experience Study," Summary of Findings, (Philadelphia: CIGNA) October 2007.
- <sup>9</sup> "CIGNA Choice Fund Experience Study," Summary of Findings, (Philadelphia: CIGNA) October 2007.
- <sup>10</sup> "A Survey of Preventive Benefits in Health Savings Account (HSA) Plans, July 2007," (Washington, D.C.: America's Health Insurance Plans), November 2007.
- <sup>11</sup> Ibid.
- <sup>12</sup> Take 260 million non-elderly Americans, minus 41.6 million on Medicaid and other public programs (16 percent of the 260 million non-elderly insured), minus 11.5 uninsured *eligible* for Medicaid and other public programs (25 percent of the 46.1 million uninsured who are eligible for Medicaid or the State Children's Health Insurance Program, SCHIP). Sources: John Holahan, Allison Cook, and Lisa Dubay of the Urban Institute, "Characteristics of the Uninsured: Who is Eligible for Public Coverage and Who Needs Help Affording Coverage?" Kaiser Commission on Medicaid and the Uninsured, (Menlo Park, California: Kaiser Family Foundation), February 2007; The Uninsured: A Primer, Key Facts about Americans without Health Insurance, (Menlo Park, California: Kaiser Family Foundation), October 2007.
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- <sup>14</sup> Renee Y. Hsia, Donna Maclsaac, and Laurence C. Baker, "Decreasing Reimbursements for Outpatient Emergency Department Visits Across Payer Groups From 1996 to 2004," *Annals of Emergency Medicine*, November 2007.
- <sup>15</sup> Greg Scandlen, "Working as Intended."
- <sup>16</sup> Jennifer Vachon, Executive Director, Marketing & Business Strategy, Blue Cross and Blue Shield Association Presentation, Consumer Driven Healthcare Summit, Washington, D.C., September 28, 2007.
- <sup>17</sup> "2007 HSA Indexed Amounts," (Washington, D.C.: US Department of Treasury) January 4, 2007; Diana Ernst, "California Focus: Californians at a Disadvantage with HSAs," *Orange County Register*, December 7, 2006; "State Legislation and Actions on Health Savings Accounts and Consumer-Directed Health Plans, 2004-2007," (Washington, D.C.: National Conference of State Legislators), October 19, 2007.
- <sup>18</sup> Chris Silva, "Year in Review: A look back at consumer-driven health," *Employee Benefit News*, December 1, 2007.