MISSOURI FOUNDATION FOR HEALTH

FACT SHEET

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Cover Missouri Project: Report 10

High-Deductible Health Plans with Health Savings Accounts: Emerging Evidence and Outstanding Issues

This fact sheet presents excerpts from a research study by the same name that focuses on high-deductible health care plans (HDHPs) with Health Savings Accounts (HSA). The purpose of this study is to discuss how these plans are likely to affect health care costs, risk segmentation, and overall levels of health insurance coverage.

Health Savings Accounts

HSAs are part of a grouping of health insurance products commonly referred to as "consumer-driven health plans." Established in 2003 under the Medicare Prescription Drug, Improvement, and Modernization Act (MMA), HSAs allow consumers who have selected a HDHP to establish a portable tax-free health savings account that can be used to pay for the higher out-of-pocket costs associated with high-deductible health plans.

Emerging Trends

- According to a national association representing 1,300 member companies providing health insurance coverage to more than 200 million workers, HSA enrollment increased by 135 percent to 1,031,000 enrollees in March 2005 from 438,000 enrollees in September 2004.
- A recent study reports that in 2003 only 5 percent of firms offering health benefits did so in the form of an HDHP. This figure increased to 10 percent in 2004 and to 20 percent in 2005.

An HSA, like an Individual Retirement Account (IRA), is owned by the individual and can be used to pay for medical services as well as cost-sharing requirements (e.g., premiums, deductibles, and copayments). Funds not used in a given year can rollover from year to year. Contributions to HSAs are tax-deductible and can be made by both individuals and their employers. In 2005, the maximum annual contribution amounts were $2,700 for single coverage and $5,450 for family coverage. Individuals age 55 and older, not enrolled in Medicare, are allowed to make additional "catch-up" contributions. In 2005, these catch-up contributions were limited to $600 but will increase by $100 each year until 2009, after which the limit will be set at $1,000. Upon reaching age 65, the HSA can be used for non-health related expenses.

High-Deductible Health Plans

HDHPs have higher annual deductibles than other traditional health plans. In 2005, an HDHP was defined as a health care plan having a deductible of at least $1,000 for single coverage and $2,000 for family coverage. The lower premiums associated with HDHPs are possible because of savings generated through decreased spending (individuals are responsible for paying more of their health care costs before the insurance protection starts) and healthier enrollees (HDHPs appeal to healthier individuals who do not expect to have high medical expenses).

High-Deductible Health Plans with Health Savings Accounts

Proponents of HSAs coupled with HDHPs contend that this combination will promote savings through cost-conscious behavior and that the availability of lower-premium insurance plans will reduce uninsurance rates. However, critics counter that the migration of individuals with lower health risks into high-deductible plans could raise premiums for individuals with higher health risks who will be more likely to stay with traditional health plans that have a lower deductible. Thus, such migration will result in the cost of health care shifting to the chronically ill.

Potential Impacts on Costs, Service Use, Risk Segmentation, and the Uninsured

Preliminary empirical evidence of the impact of HSAs on health care spending and services is ambiguous. The best available evidence suggests the following:

- HSA-qualifying plans offer more incentives to decrease spending compared to traditional insurance plans. These plans are likely to have only a small effect on aggregate health care expenditures because most health care spending is concentrated above the deductible.
- With their lower premiums and higher deductibles, HSA-qualifying plans are likely to lead to greater risk segmentation and benefit those who are healthy, thus shifting spending burdens to those who are sick. To the extent that greater risk segmentation occurs, it could become even more difficult for individuals with greater health care needs to obtain coverage since they are likely to face higher premiums and less employer-sponsored insurance (ESI).
- It is unlikely that the presence of HSA-qualifying plans will reduce the number of uninsured to any significant degree. However, it is possible that they will disrupt ESI coverage sufficiently to raise uninsurance rates. As the uninsured are concentrated in low-income households, they are less likely to be able to meet the cost-sharing requirements of these plans or to benefit from the potential tax advantages. Therefore, HSA-qualified plans are unlikely to attract many of the uninsured.
- The proliferation of HSAs will likely reduce federal tax revenues while providing investment benefits to higher-income families. Individuals who stand to gain the most from the tax treatment of HSAs already have very high rates of health insurance coverage.

Many analysts are skeptical that HSAs will be able to address the problems of rising health care costs and high insurance rates. Although it is too early to gauge the full effects of HDHPs coupled with HSAs, the data suggest the trend toward this type of insurance plan will continue.

About This Fact Sheet

The information presented here is taken from *Cover Missouri Project: Report 10: High-Deductible Health Plans with Health Savings Accounts: Emerging Evidence and Outstanding Issues,* written by Lisa Clemans-Cope, PhD, Health Economist; Fredric Blavin, BA, Research Associate; and Genevieve M. Kenney, PhD, Principal Research Associate and Health Economist, at The Urban Institute's Health Policy Research Center in Washington, DC. Report 10 is part of a series of research papers about the uninsured in Missouri prepared by The Urban Institute and published by the Missouri Foundation for Health.

The complete report is available online at www.mffh.org. Printed copies of this Fact Sheet are available upon request while supplies last. Please contact the MFH Health Policy staff at info@mffh.org or toll-free at 1-800-655-5560.

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