

F L O R I D A H O S P I T A L

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# Health Issues Brief

*December 2006*

## Health Savings Accounts

With health costs rising 7% each year, employers across America are facing tough decisions about employee health insurance. Many CEOs are considering cutting back on benefits, or even eliminating health benefits altogether. Small businesses – over half of whom already do not offer coverage – see no way to add it in the future. The number of Americans who lack health insurance hit 46 million last year and continues to grow.

*39% of companies offer no medical benefits to their employees.*

*60% of companies who do offer coverage expect it to decrease.*

Among other options, employers and uninsured consumers are looking at Health Saving Accounts as a way to add or maintain insurance benefits. This *Health Issues Brief* examines the pros and cons of HSAs, and points out that the cost savings are not as great as some believe.

### What is a Health Savings Account?

Health Savings Accounts (HSAs) were created in 2004 as an alternative to traditional health insurance. Their intent is to provide lower health insurance premiums by encouraging consumers to pay higher deductibles – and therefore take more responsibility for their health spending.

HSAs are tax-free savings accounts for medical expenses. Workers can save pre-tax dollars up to \$5,650 a year for a family of four. (Singles can save up to \$2,850.) These savings can be used for future medical bills and health-related expenses including dental services, vision, alternative medicine, long-term care services, prescription drug and certain over-the-counter drugs.

Employers can set up HSAs for their employees. In addition, consumers can sign up independently for HSAs with banks, credit unions, and insurance companies. The consumer then decides the types of investments that will help the money grow in the HSA.

### What is a High Deductible Health Plan?

To set up an HSA, the consumer must enroll in a high-deductible health plan (HDHP). Sometimes referred to as “catastrophic” health insurance, an HDHP is a less expensive health plan that generally does not pay the first several thousand dollars of health care expenses. These plans have lower premiums but the annual family deductible must be at least \$2,100. Nationally, HDHP deductibles average \$3,000 for a family of four.<sup>i</sup>

#### ***Key Questions to ask before selecting an HSA:***

*“What is my chance of staying healthy over the next 12 months?”*

*“I have a chronic condition. Will I be able to save enough to cover my medical expenses?”*

During the year, the consumers meet their deductibles by drawing from their health savings or paying out-of-pocket. When patients meet their deductible, the health plan kicks in. Again, any post-deductible costs not covered by the plan are paid from the HSA or out-of-pocket.

### **Cost comparison<sup>ii</sup>**

The annual health insurance premium for a family of four averages \$11,380 per year. Depending on the size of the employer, employers pay 38-54% of the costs (larger employers generally pay more). In turn, the insurance companies negotiate discounts with medical providers. Patient co-pays generally run \$20 to \$40 for office visits and \$10 to \$50 for prescription coverage (if offered). Inpatient stays are covered at 80-90%.

With an HDHP, the annual family premium averages \$9,484 per year. As above, employers can pay all or part of the premium, or the consumer can purchase the plan outright. Enrollees then pay full price for physician, hospital and prescription services until they reach their annual deductible. With a \$3,000 deductible, the average annual cost of a HDHP is \$12,484.

### **The Pros and Cons of HSAs**

Proponents say that HSAs allow consumers to pay for current health expenses and save for future costs on a tax-free basis, and that their investments will grow to keep up with inflation. They also say that saving for medical needs will encourage people to become better consumers when shopping for health care. Many are pushing for more transparency in pricing and quality ratings among hospitals and other providers in order to help consumers with these choices.

Critics worry that people with high-deductible plans will forgo preventive care, tests and prescriptions because of the high deductible – and that this could lead to serious health issues and expenses later on. They are also concerned that consumers will not have adequate coverage in the case of a major illness or accident.<sup>iii</sup>

### **A new category of uninsured?**

HSA proponents say that high-deductible coverage is far better than no coverage at all, but critics question whether HSAs are simply creating a new category of underinsured. They worry that those with lower incomes may not be able or willing to meet the deductibles, or contribute regularly to the HSA – and will not have an adequate cushion for their health costs.

In Orange County, where the median household income is \$44,236, the average family would struggle to maintain an adequate HSA and high-deductible plan. If the family saved the maximum \$5,650 allowed by the HSA, the combined deductible (figured conservatively at \$2,100) and savings account would add up to \$7,750. That amount equals 17.5% of family's annual income. In contrast, the average national rate of consumer savings is just 0.9%.

### **More cost-shifting?**

Critics also fear that a growth in the underinsured will impact employers and insured patients. In today's health system, much of the unpaid costs of under- and uninsured patients (as well as shortfalls from Medicare and Medicaid) are shifted to employers and to consumers who have commercial health insurance. This is called "cost-shifting."

If patients cannot or do not pay their high deductibles or if they run out of coverage, the burden of cost-shifting may worsen. This will be compounded by the health plans refusing to pay providers until patients meet their deductibles.

HSA proponents argue that cost-shifting is fundamentally wrong – that providers need to simply lower their charges.

### **Insurance Risk Pools**

A recent Kaiser Family Foundation<sup>iv</sup> study noted that even a small shift in enrollees can have a meaningful impact on health insurance costs. If healthier people choose HSAs and sicker people stayed in the traditional insurance pool, the "risk" in the traditional pool could shift.

The reason? Taking people in relatively good health out of the insurance pool would leave a disproportionate number of people who are in poor health. Even a small shift of this type would increase premiums for employers and patients with traditional plans.

### **Customer satisfaction**

Approximately 1.4 million people – roughly 4% of those with health coverage – are now enrolled in high-deductible health plans.<sup>v</sup> Yet, a study conducted by the benefits consulting firm of Hewitt Associates<sup>vi</sup> found that only 30% of employees using the plans said they understood and were satisfied with their selection. More than half said they wouldn't enroll next year.

"The jury is still out on the real value of health savings accounts," said Rich Morrison, corporate vice president. "The risks are very real, and the costs savings haven't been proven.

"While Florida Hospital strongly encourages personal responsibility in health and health care, we are not convinced that high-deductible plans are the best choice for our patients," said Morrison.

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<sup>i</sup> Benefit Plans Alternatives, Inc., Sylvania Township, Ohio.

<sup>ii</sup> *Employer Health Benefits: 2006 Annual Survey*, The Kaiser Foundation and the Health Research and Educational Trust.

<sup>iii</sup> *Consumer Directed Health Plan Study*, September 2005, Rand Corporation.

<sup>iv</sup> *Impacts of Adverse Selection on Health Insurance Costs in Consumer Choice Models*, Henry J. Kaiser Family Foundation, 2006

<sup>v</sup> Henry J. Kaiser Family Foundation, 2006.

<sup>vi</sup> Hewitt Associates, January 10, 2005.