

Health Savings Accounts

Lessons Learned from Extant Data

Key Takeaways:

- HSAs are traditionally supported by conservatives, who believe that the market-oriented incentives created by having patients initially spend directly on their healthcare before relying upon insurance will reduce costs, as well as boost individual flexibility.
- On the left, HSAs are sometimes feared as instruments to separate healthier and more well-to-do Americans from the rest of the insurance pool, resulting in higher health insurance premiums for the rest of the population - as well as being poorly understood by the consumer, who may only become aware of their limitations once becoming injured or ill.
- Data on HSAs are sparse. Some analyses have demonstrated that HSAs and their associated high-deductible health plans reduce both the cost and the use of healthcare services, yet there is also evidence that some of these reductions come at the expense of desirable services preventive care or cancer screenings.
- State Medicaid experiments with HSAs show limited results, with one study showing that two-thirds of Medicaid-eligible Indiana residents were either unaware of the program or not making required payments.

Introduction/Background

Health Savings Accounts (HSAs) are tax-advantaged medical savings accounts available to those enrolled in high-deductible health plans (HDHPs). HSAs offer a “triple-tax benefit”: Funds go into an HSA tax-free, grow tax-free, and are withdrawn tax-free if spent on qualified medical expenses. HSAs must be paired with health insurance plans that meet specific criteria, including a high deductible and limits on out-of-pocket maximums.

2019 Contribution and Out-of-Pocket Limits for HSAs and Paired HDHPs

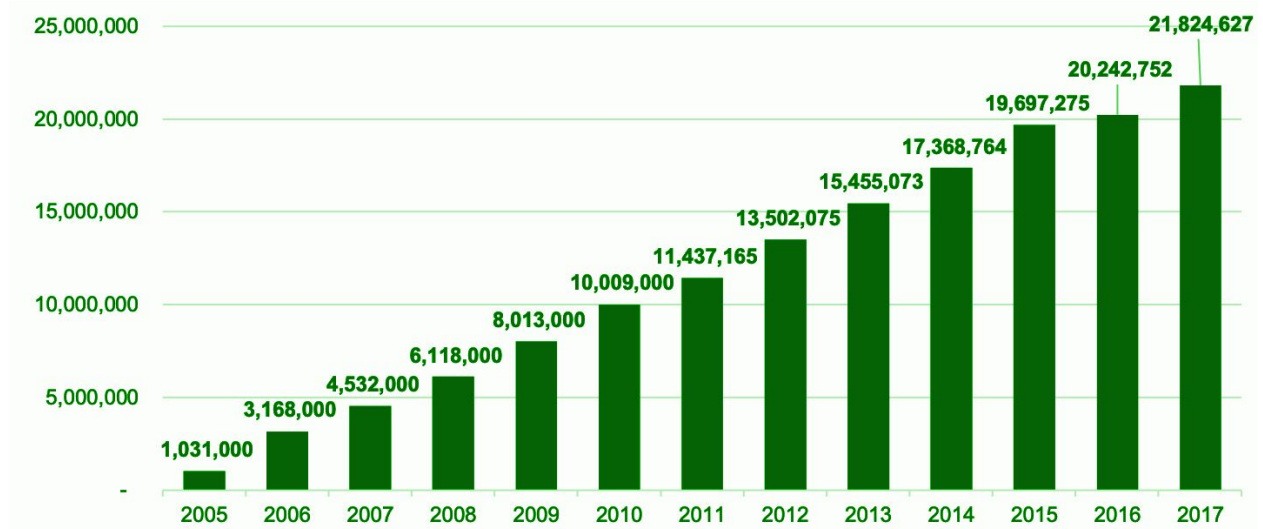
HSA contribution limit (employer + employee)	Individual: \$3,500 Family: \$7,000
HDHP minimum deductibles	Self-only: \$1,350 Family: \$2,700
HDHP maximum out-of-pocket amounts (deductibles,	Individual: \$6,750

co-payments and other amounts, but not premiums)	Family: \$13,500
--	------------------

HSAs are owned by individuals; money in HSAs roll over and accumulate year to year if they are not spent.

HSAs were established as part of the 2003 Medicare Prescription Drug Improvement and Modernization Act. They expanded upon Medical Savings Accounts, which functioned similarly, but were limited to the self-employed and employers with 50 or fewer employees. Currently, 6.7 percent of Americans - some 22 million individuals - are enrolled in HSAs. As a proportion of the population of individuals under age 65 with private health insurance, that amount totals 21.3 percent.

HSA Enrollment in the US, 2005-2017



Support for HSAs

HSAs are traditionally supported by conservatives, who believe that the market-oriented incentives created by having patients initially spend directly on their healthcare before relying upon insurance will reduce costs, as well as boost individual flexibility. The Heritage Foundation has written:

“Health Savings Accounts offer Americans a new coverage option for their healthcare needs. They give them a new choice in coverage design, greater control of their healthcare spending, and the ability to own their own healthcare plans. These are all key features in moving America's healthcare system to a consumer-based system.”

HSAs and their associated high-deductible health plans also economically favor those with lower healthcare costs, which reduces the redistributive element of healthcare insurance - another positive point from the conservative perspective.

HSAs are also supported by America's Health Insurance Plans (AHIP), the national trade association representing the health insurance sector, which describes them as tools that “empower consumers to make affordable healthcare choices that best fit their needs.”

The American Health Care Act of 2017, the unsuccessful bill to repeal and replace the Affordable Care Act, proposed to nearly double the amount of money that could be deposited into an HSA annually.

Fifty years ago, Americans paid nearly half of their health spending out of pocket. Today, they pay just 11%, and only 3% for hospital bills. And because they rely on insurance and government health plans to pay most of their bills, they have no idea what a medical product or procedure actually costs. This lack of price transparency leads to hospitals charging \$19 for an aspirin or \$300 for an ankle brace that costs \$21 at the drugstore. If patients were able to see and compare the real cost of the products and services, the healthcare sector would innovate around things the consumers value: lower costs, more options, and providers who are more responsive to patients' needs than they are to those of bureaucrats.

-Grace-Marie Turner
The Galen Institute

“This is not about health or individual empowerment. It's about cost savings and cost sharing”

- *Anonymous quote from a benefits manager of major corporation*

Criticisms of HSAs

HSAs are less popular amongst progressives. HSAs are seen on the left as favoring the healthy and the wealthy, who have lower healthcare costs, can better afford to set aside part of their earnings in savings, and benefit more substantively from the tax benefits due to their higher income tax rates. Progressives fear that separating

healthier and more well-to-do Americans from the rest of the insurance pool will result in higher health insurance premiums for the rest of the population. Furthermore, they fear that high deductible health plans (often dubbed “catastrophic” plans) are only attractive when one is not sick, and that unsuspecting patients will be shocked to learn the full extent to which they are financially on the hook once they receive their medical bills.

The Evidence

Beyond the ideological debates, HSAs have been available to consumers for more than a decade - a significant amount of time to study their impact upon health behavior and economics. Despite this, the evidence in the peer-reviewed literature is sparser than might be anticipated. Only one systematic review of the data has been conducted, an article published in *Health Affairs* in October 2017 by a team of researchers at Indiana University–Purdue University Indianapolis led by Rajender Agarwal. And even this article, *High-Deductible Health Plans Reduce Health Care Cost And Utilization, Including Use Of Needed Preventive Services*, focused upon high-deductible health plans, a category of plans that includes but is broader than the plans associated with HSAs. The researchers found mixed results.

High-deductible health plans did indeed reduce both the cost and the use of healthcare services. Yet there was also evidence that some of these reductions came at the expense of desirable services such as preventive care or cancer screenings.

Industry publications paint a similar picture. The 2018 Alegeus HSA Participant Profile, published by the financial services firm Alegeus (which offers HSA administration, in addition to other services), found significant economic and health-related differences between enrollees in HSAs and the rest of the population. It is important to note, however,

“The dumbest thing we’ve ever done is to believe that we can change provider behavior by charging the employer and the patient more in high deductible health plans. Patients are not medically trained, but it is now their job to make intelligent medical decisions. This should be the job of the healthcare industry. HSAs are simply the worst way to deliver compensation in the form of a health plan to an employee. Some evidence suggests that because of the delay of services, the intensity of the claims and services needed were higher down the stream. So it’s not really a way to save costs.”

- Anonymous quote from
benefits manager of major
corporation

that these differences are not necessarily causal; it is likely that those who enroll in HSAs go into the market with significantly different characteristics and behaviors.

A portrait of an HSA Participant

HSA participants span an array of demographics; however, they skew to the younger, college-educated, male, married, and middle class.

- 89% claim to be healthy or mostly healthy
- \$72,400 is the average household income
- 40 is the account holder average age
- 63% are college educated with a degree or masters
- 62% are male
- 60% are married
- 52% have children

Compared to their peers not enrolled in an HSA, HSA participants report being:

- 39% more confident that they understand how health insurance works
- 38% more confident that they understand what their plan covers
- 23% more likely to make cost-based decisions
- 50% more confident they are paying the right amount when they pay
- 46% more likely to research & compare costs
- 43% more likely to find out price before receiving service

In addition to the private sector, there have also been state Medicaid experiments in HSAs. Indiana's "Healthy Indiana Plan" (HIP and HIP 2.0) established HSAs for Medicaid recipients. The model has achieved mixed results, with one analysis (see text box below) showing that 40 percent of Medicaid beneficiaries were unaware of the existence of the plan in which they were enrolled, and another 26 percent failed to make required payments into their HSAs.

HealthAffairs

By Benjamin D. Sommers, Carrie E. Fry, Robert J. Blandon, and Arnold M. Epstein

New Approaches In Medicaid: Work Requirements, Health Savings Accounts, And Health Care Access

The Healthy Indiana Plan (HIP) was implemented under the leadership of Vice President Mike Pence and CMS administrator Seema Verma (then both Indiana state officials). Featuring premiums, health savings accounts (called Personal Wellness and Responsibility [POWER] accounts), and a lockout period for failure to make required payments, the plan's focus on consumer-oriented provisions has been cited by Trump administration officials as a potential exemplar for other states...

Three years into the implementation of the consumer-based Healthy Indiana Plan, HIP 2.0, we found that nearly 40 percent of beneficiaries likely eligible for the program were unaware of the existence of the required POWER accounts that are one of the state's key innovations. Given that another 26 percent of respondents were not making regular payments to their accounts, **we estimate that as many as two-thirds of recipients could be at risk for losing benefits such as vision and dental care or being temporarily locked out of the program...**

While only a minority of Indiana residents with Medicaid knew about and were making regular payments to POWER accounts, many in this subgroup had favorable opinions of the accounts. Fifty-seven percent of respondents familiar with the accounts reported that the program helped them think about which health care services they needed. Increasing cost-based awareness and consumerism in health care was one of the chief arguments the program's creators put forward in favor of Indiana's waiver approach, and that goal was met for the minority of beneficiaries who understood and paid into the program. However, taking into account the substantial confusion about Indiana's program and its costsharing requirements, it is perhaps not surprising that difficulties affording care were higher in Indiana than in Ohio, which implemented a traditional Medicaid expansion with minimal cost sharing. While we found similar overall coverage rates in Indiana and Ohio, a recent study using a larger national data set found that Indiana's coverage gains lagged behind those of its Midwestern neighbors, perhaps in part because of HIP 2.0's cost-sharing requirements.

Administrative costs are another question raised by this type of model, with some hypothesizing that the price of overseeing these innovative programs outweigh any potential savings.

Conclusion

Despite their 15-year history, the data on HSAs are both sparse and mixed. HSA participants typically are younger and healthier than the non-HSA population. This dynamic could increase premiums for non-owners, while leaving the HSA-owner population at a higher financial risk following medical emergencies. While some evidence shows that HSAs increase individual flexibility and reduce healthcare costs and utilization, concerns remain that these reductions in utilization may come from valuable health services such as preventive care and screenings. The results of state innovations that mandate HSA participation as a part of the Medicaid program show similar mixed results, with a small proportion of recipients benefiting, but many being left out, either due to lack of awareness of or participation in the program.