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Executive summary: Health Savings Accounts and High-Deductible Health Plans

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Health care in America becomes more and more expensive every year. The cost of health insurance has increased at over twice the rate of inflation every year since 2000,¹ leaving hundreds of thousands of Coloradans unable to afford health care coverage. More than 770,000 people in Colorado have no health insurance, including 180,000 kids.²

Public institutions can play a crucial role in making the health care system more accessible and affordable for all Coloradans. The state's Medicaid and Child Health Plan Plus programs, in addition to the federal Medicare program, help provide health care coverage for some of the state's most vulnerable people. But many are still left without coverage or with insurance that is not sufficient to protect them from financial catastrophe if they have a serious health problem.

At the state and federal levels, policymakers have looked at ways to reform the health care system that would slow the rising cost of health care and allow more people to have meaningful health care coverage. One proposed option for reform is through Health Savings Accounts, which encourage people to pay more of their health care costs out of pocket, instead of having a health insurance company pay for all or most health care costs.

To achieve this goal, President Bush and the Congress passed legislation in 2003 that gives Health Savings Accounts (HSAs) a tax advantage when they are used to pay for health care. An HSA is a special savings account that can be invested like any other tax-advantaged savings account (such as an IRA), but which can only be used to pay for health care. HSAs have favorable tax treatment when paired with a high-deductible health insurance plan.

Proponents have touted these plans as a way to lower health care costs. Critics say HSAs are a tax shelter for the wealthy that could increase health insurance premiums for those with traditional coverage.

This analysis looks at the evidence regarding the adoption of HSAs, their effect on health care costs, their contribution to savings and their impact on the number of people without health insurance. While HSA plans have grown rapidly in the last few years, they have missed their mark, attracting enrollees with high incomes who are more likely than low-income people to already have coverage. Furthermore, the plans do not appear to be making system-wide changes toward lowering costs, as some proponents expected.

The preferential federal tax treatment for HSAs didn't take effect until 2004, so it is too early to draw definitive conclusions regarding its popularity and effects. Current evidence coupled with previous research, however, can provide a good picture of how HSAs and associated high-deductible health plans are affecting the health insurance market. Research indicates:

Enrollment in HSA-eligible plans is rapidly expanding, but growth is limited.

- Nationally, there were about 800,000 people with HSA-eligible plans in 2005 and 1.4 million in 2006. In Colorado's small-group market, there were 26,025 people covered by HSA-eligible plans in 2005 (8 percent of the people covered by the small-group market) and 33,196 in 2006 (9 percent of people covered by the small-group market).
- Studies show that when given a choice of plans, about one in five workers chose a high-deductible plan with a tax-advantaged savings account.

HSAs coupled with high-deductible health plans increase cost-consciousness among enrollees, but have little effect on overall health care costs.

- People enrolled in HSA-eligible health plans are more likely than people in other types of insurance plans to check on the cost of their prescription drugs, and more likely to use the quality and price information provided by their insurers.



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- The RAND Health Insurance Experiment found that when people paid a greater portion of their health care bills, they used less health care. Recent surveys, however, have found that HSA-eligible enrollees use about as much health care as people with other types of health insurance.
- Specific price and quality information is not available to people with HSA-eligible health plans, making it difficult for them to find the best deals on health care.

HSAs subsidize high-income families that save for future health costs more than low-income families that save.

- The HSA tax advantage increases with income.
- Nationally, the average income for taxpayers claiming an HSA deduction was \$133,000 in 2004. The average income for all tax filers in the same year was \$51,000.

HSAs do not appear to be lowering the number of uninsured people in Colorado.

- People enrolled in HSA-eligible health plans were more likely to have had health insurance before enrolling in their plan than were people with other types of health plans, according to a large national survey conducted in 2006.
- The 175,000 uninsured Coloradans living below the federal poverty level could not benefit from the current HSA tax deduction. The primary incentive to open an HSA is not available to these people.

In 1965, Americans paid out of pocket for nearly half of their health care. Today, Americans pay directly for only one-eighth of their health care.³ The RAND Health Insurance Experiment indicates that it may be possible to lower health care spending without affecting people's health by increasing the portion of health care people pay for directly.

But tax-advantaged Health Savings Accounts coupled with high-deductible health plans are not the most effective way to do this, and leave many lower-income families exposed to high out-of-pocket expenses they may not be able to afford.

End notes

¹ [“Employer Health Benefits 2006 Annual Survey,”](#) Kaiser Family Foundation and HRET.

² [“Profile of the Uninsured in Colorado, An Update for 2005,”](#) Colorado Health Institute, Nov. 2006.

³ Furman, Jason, [“The Promise of Progressive Cost Consciousness in Health-care Reform,”](#) The Brookings Institution, April 2007.