



Health Care Reform - Health Savings Accounts

On May 4, 2017, the U.S. House of Representatives passed the American Health Care Act (AHCA) by a vote of 217-213 to repeal and replace the Patient Protection and Affordable Care Act (ACA). The AHCA makes significant changes to current law affecting health insurance coverage, costs, and the stability of the health insurance marketplace. The bill also proposes modifications to rules governing health savings accounts (HSAs) beginning in 2018. The provisions of the bill represent some of the more prominent ideas in health care reform. It is possible that some or all of the proposed changes may resurface in a future reform measure.

What is a health savings account?

HSAs are savings accounts used to set aside money to cover future health care expenses. Money placed in and taken from the account is tax-free. Potential enrollees are encouraged to use the tax benefits to save for health care needs. HSAs are a market-driven approach to creating better cost transparency in health care. Unlike other consumer goods, patients do not understand the costs of health care services because they ordinarily rely on insurance coverage to pay for the bulk. As a result, consumers seeking care do not routinely factor cost into their decisions, which can ultimately raise overall spending. The intent of HSAs is to promote awareness of costs. If consumers understand the costs associated with different kinds of health care, they will be more inclined to make informed decisions on utilization. Giving consumers an opportunity to have a bigger financial stake in health care decision-making theoretically leads reduced health care spending.

HSAs are dictated by various federal regulations. These rules require individuals using HSAs to be covered simultaneously under a high-deductible health plan (HDHP). HDHPs are those that have higher than average deductibles (typically two to three times the amount of average health plans). For a plan to be considered a HDHP, the deductible amounts for individual and family coverage must fall within a specified range. The deductible ranges are set on an annual basis. The rates for 2017 are:

- Individual coverage - \$1,300 minimum and \$6,550 maximum for individual coverage, and
- Family coverage - \$2,600 minimum and \$13,100 maximum for family coverage.

Not all care is subject to the deductible payment. For example, HDHPs must still cover free preventative care prior to meeting the deductible. This includes services such as blood pressure screenings, cancer screenings, contraception, and well-woman visits. HDHPs generally have smaller premiums but still require patients to pay for health services out of their own pocket through coinsurance and co-payments, as well as deductibles. Money from an HSA can be used for any of this cost-sharing.

HSAs have predetermined contribution limits that are adjusted on an annual basis. For 2017, the individual contributions are limited to \$3,400 and the contribution for a family plan is limited to \$6,750.¹ If an enrollee is over age 55, they have the ability to contribute an additional \$1,000 towards their HSA. The funds in an HSA are intended to be used for medical expenses only. This includes payment for treatment and diagnosis services, as well as some expenses not traditionally covered by insurance such as prescription drugs, eye care, and dental care. If a beneficiary were to use the funds toward non-medical expenses, they would be penalized with a fee in addition to owing federal income tax on the expended amounts. The ACA changed HSA rules, including a revision that hiked the penalty for non-medical expenditures from 10 to 20 percent.

The AHCA increases the annual contribution limit to meet the maximum deductible amounts for HDHPs beginning in 2018 (\$6,500 for individual; \$13,100 for family). It would also decrease the tax penalty for withdrawals for non-medical expenses back to the pre-ACA amount of 10 percent.

Additionally, the AHCA expands the definition of medical expenses to include the purchase of over-the-counter medications. Finally, it allows expenses to be covered if they were incurred up to 60 days prior to the creation of the HSA.

Considerations for health savings accounts

As of January 2016, over 211,000 people in Missouri were enrolled in a HDHP and eligible to use an HSA.ⁱⁱ The average monthly premium for these plans was \$415 per individual plan and \$1,016 for a family plan. These plans were offered in both the individual and group (employer) markets. It is unknown whether people enrolled in these plans actually used the qualifying HSAs to pay for associated health costs. These enrollment rates represent a steady increase in HDHPs, with over 20 million people enrolled nationwide in 2016 compared to around 13 million in 2012. America's Health Insurance Plans (AHIP), the national trade association for health insurance carriers, believes enrollment in HSA-eligible plans will continue to grow and supports efforts to expand their use. The changes proposed at the federal level to relax certain requirements for HSAs may contribute to increased enrollment in HDHPs in Missouri and across the country. Nevertheless, increased enrollment does not necessarily equate to intended outcomes, such as expected benefits to consumers or reductions in overall health spending.

Although HSAs are used to pay for health care costs, HSAs tend to benefit healthy individuals and those with higher incomes. HDHPs must have deductibles that meet the pre-defined range; however, a patient does not have to begin paying the deductible until care is needed. If an enrollee has a chronic condition that requires them to seek regular care, they may have to pay off their deductible before insurance coverage begins. Alternatively, patients who are relatively healthy and do not require frequent care will not be forced to pay deductibles as often.

Additionally, those with higher incomes are more likely to have savings for an HSA to cover health care costs. Even if the contribution limits were increased to account for the entire deductible cost, the success of the HSA would still rely on the ability of the enrollee to save \$6,500 over the course of the year. Lower-income populations likely do not have sufficient resources to cover the deductible costs or to benefit from the tax advantages of the account. A 2015 [Kaiser Family Foundation Survey](#) found that 62 percent of households between 250-400 percent of the federal poverty level (FPL) had assets to cover \$1,200 deductibles, whereas only 32 percent of those between 100-250 percent of FPL had enough accessible assets. Patient advocates and consumer groups fear that expanding the use of HDHPs and HSAs will benefit only healthy and high-income populations and will reduce health insurance access.

Industry groups, such as AHIP, believe HSAs help to bend the health care cost curve by encouraging consumers to take financial factors into consideration. Yet, the ability for consumers to make informed health-related financial decisions is hindered by the lack of cost transparency in health care. Consumers often do not have access to advance notice of costs prior to receiving care. As a result, making decisions on the value of health care is limited to the services and providers offered in the plan's network. The costs associated with in-network health services are set rates negotiated by the insurance plan and providers.ⁱⁱⁱ The consumer will receive the benefit of the negotiated rate but will not have the full picture of cost prior to receiving care. In the absence of clarity on cost, it is unclear how HSAs will promote better financial decisions in health care. States looking to promote HSAs should examine different mechanisms for increasing cost transparency.

Policymakers and other stakeholders looking to encourage the use of HDHPs and HSAs should consider issues relating to tax incentives, affordability, and cost transparency. Addressing these challenges will increase the likelihood that HSA adoption will produce the intended benefit of reduced spending.

Endnotes available upon request.