



America's Health
Insurance Plans

June 2006

HSAs and Account-Based Health Plans

*An Overview of
Preliminary Research*

Health savings accounts (HSAs) were authorized by the 2003 Medicare Modernization Act, and implementing regulations were issued in mid-2004. Consumers with high-deductible health plans (HDHPs) – defined as those with minimum deductibles of \$1,050 for single coverage and \$2,100 for family coverage – can deposit amounts equal to the deductible into a tax-preferred account on an annual basis. These accounts are used in conjunction with an HDHP and can be used for qualified medical expenses.¹ HSA plans and similar health reimbursement arrangement (HRA) plans generally make up the broad category of consumer-directed health plans (CDHPs). (Unlike HSAs, HRAs are held by employers and are not usually portable if an employee leaves the firm.) This report highlights preliminary research and statistics on the market for account-based health plans.

Enrollment

- ▶ Participation in HSA-qualified high-deductible health plans tripled from March 2005 to January 2006, with nearly 3.2 million individuals now enrolled (see Figure 1). *(AHIP HSA Census, January 2006)*
- ▶ The number of firms offering HSA-qualified plans is doubling annually, and growth is spread across firms of all sizes (see Figure 2). *(Kaiser Family Foundation Employer Health Benefits 2005 Annual Survey)*
- ▶ Growth in HSA enrollment is particularly strong in the large-group market; 8 percent of companies with 10,000 to 19,999 workers offered HSA-qualified plans in 2005, compared with 1 percent in 2004. *(Mercer Health & Benefits, Mercer Human Resource Consulting)*
- ▶ Twenty-three percent of new health insurance purchases in the individual market were for HSA-qualified plans; 11 percent of new policies in the small-group market and 7 percent of new policies in the large-group market were HSA-qualified plans. *(AHIP HSA Census, January 2006)*

Figure 1.

Growth of HSA/HDHP Enrollment from September 2004 to January 2006

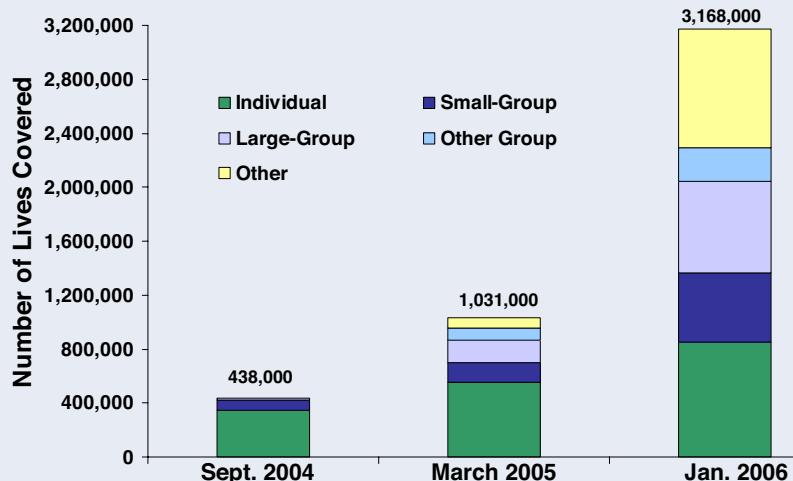
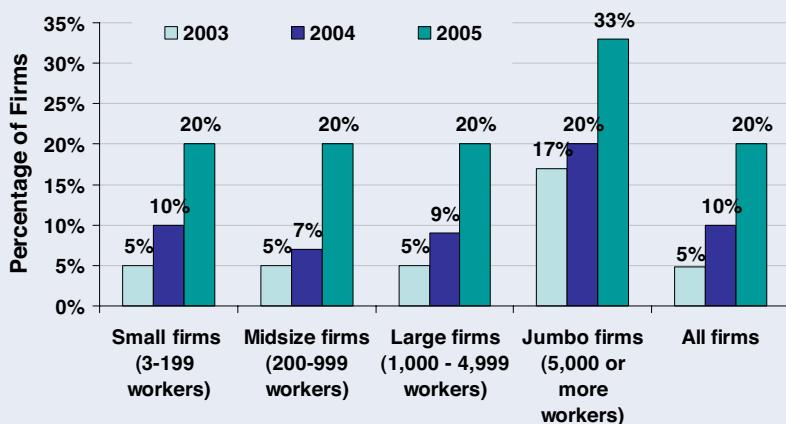


Figure 2.

Percentage of Firms That Offer Employees a High-Deductible Health Plan, By Firm Size



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2003-2005.

Population

► Age distribution among HSA-qualified enrollees in the individual market appears evenly allocated; half of enrollees covered under an HSA-qualified plan are aged 40 and above, and half are below the age of 40 (see Figure 3).

In the individual market:

- 23% of HSA enrollees were younger than 20 years of age;
- 27% were between ages 20 and 39;
- 23% were between ages 40 and 49 years; and
- 27% were ages 50 and over.

In the small-group market:

- 25% of HSA enrollees were younger than 20 years of age;
- 30% were between ages 20 and 39;
- 20% were between ages 40 and 49 years; and
- 25% were ages 50 and over.

In the large-group market:

- 24% of HSA enrollees were younger than 20 years of age;
- 32% were between ages 20 and 39;
- 22% were between ages 40 and 49 years; and
- 22% were ages 50 and over.

(AHIP HSA Census, January 2006)

► Other surveys reported similar age distributions:

- 29% of enrollees in HSA-qualified plans were age 18-34, compared to 27 percent for non-consumer-directed health plans (CDHP).
- 46% of enrollees in HSA-qualified plans were age 45 or older compared to 49 percent for non-CDHPs.

(BlueCross BlueShield Association, September 2005)

► A GAO study of federal employees enrolled in 14 HSA-qualified plans in 2005 found that when excluding retirees, the average age for all enrollees in HSA-qualified plans and a newly offered PPO plan was similar. Specifically, the average age was 44 years for both the HSA-qualified plans and the PPO plan, compared to 47 years for all Federal Employees Health Benefit Program (FEHBP) plans.² (Government Accountability Office, January 2006)

► Data from a large online health insurance broker suggest that the income distribution among people with HSA-qualified plans includes large numbers of moderate-income people:

- 45% had incomes of less than \$50,000 (25 percent had incomes of \$35,000 or less; 20 percent had incomes between \$35,001 and \$50,000);
- 21% had incomes between \$50,001 and \$75,000;
- 14% had incomes between \$75,001 and \$99,999; and
- 20% had incomes of \$100,000 or more.

(ehealthinsurance, May 2006)

► An Internet-based survey reported a significant but lower percentage of moderate-income people with HSA-qualified plans:

- 31% of HSA-qualified plan enrollees had incomes less than \$50,000;
- 10% had incomes less than \$30,000;
- 33% of those who had opened HSA accounts had incomes less than \$50,000.³

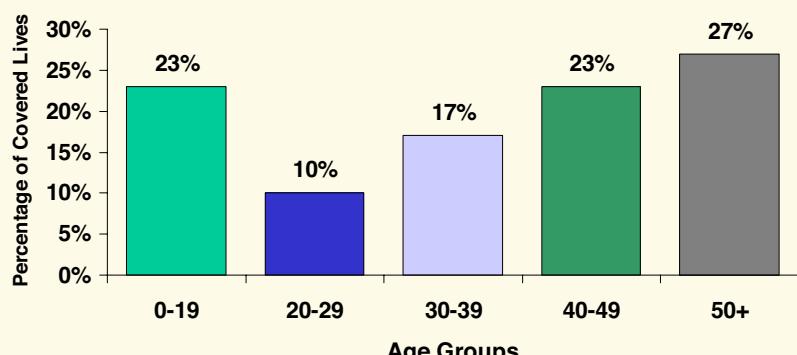
(Employee Benefit Research Institute, December 2005)

► A GAO study of federal employees found that the percentage of enrollees with incomes above \$75,000 was higher in HSA-qualified plans (43%) than in a newly offered PPO plan (14%) and in the FEHBP overall (23%).

(Government Accountability Office, January 2006)

Figure 3.

Age Distribution of People Covered by HSA/HDHPs, Individual Market



Source: AHIP HSA Census, January 2006

Health Status

- A recent study found that the self-reported health status of individuals with HSA-qualified plans parallels the health status of those with non-CDHP coverage:
 - 77 percent of individuals with HSA-qualified plan coverage and 77 percent of people with non-HSA plan coverage reported their health status as very good/good.
 - 11 percent of individuals with HSA-qualified plan coverage and 12 percent of people with non-HSA plan coverage reported their health status as fair/poor.

(BlueCross BlueShield Association, September 2005)

- Other surveys report similar findings:
 - A near equal number of individuals with non-HSA plan coverage (87 percent) and individuals with high-deductible health plan coverage (86 percent) reported their health status as very good/good.

- Similarly, a roughly equal number of individuals with non-HSA plan coverage (13 percent) and those with HDHPs (14 percent) reported their health status as fair/poor.

(Employee Benefit Research Institute (EBRI), December 2005)

- Consumers with health reimbursement arrangement (HRA) plans appear to be more engaged in activities to improve their health than consumers with non-CDHP coverage. A recent study found that consumers in HRA plans were:
 - 25 percent more likely to engage in healthy behaviors, such as preventive care and wellness programs; and
 - 20 percent more likely to follow treatment regimens for chronic conditions very carefully.

(McKinsey & Company, June 2005)

Premiums

- Average premiums for HSA-qualified plans are approximately 20-30 percent lower than average premiums in the overall employer market.
- Average annual premiums for all employer group health plans as reported in a 2005 Kaiser Family Foundation Survey were \$4,024 for single and \$10,880 for family coverage (see Figure 4).

By comparison, the Kaiser survey reported that average premiums for HSA plans were \$2,700 for single coverage and \$7,909 for family coverage.⁴

(Kaiser Family Foundation Employer Health Benefits 2005 Annual Survey)

- The AHIP census on HSA-qualified plans in January 2006 reported average annual premiums of \$2,772 for single coverage and \$6,955 for family coverage in the small group market. *(AHIP HSA Census, January 2006)*

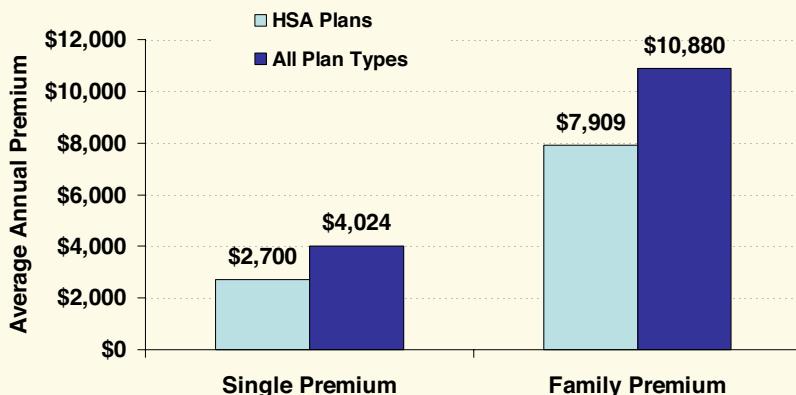
- A study by online health insurance broker Ehealthinsurance.com reported similar findings in the individual market, with average premiums for HSA-eligible family coverage costing 22 percent less than non-HSA coverage (\$261 per month versus \$334 per month) and individual premiums

costing 21 percent less than non-HSA coverage (\$114 per month versus \$144 per month). *(Ehealthinsurance, May 2006)*

- A survey of 152 large companies found that costs for HRA and HSA plans grew by 2.8 percent in 2005, one-third the rate of increase for other plans. *(Deloitte Consulting, 2006 Survey)*

Figure 4.

Average Annual Premium for Employer-Sponsored Health Benefits, HSA Plans Compared to All Plan Types (2005)



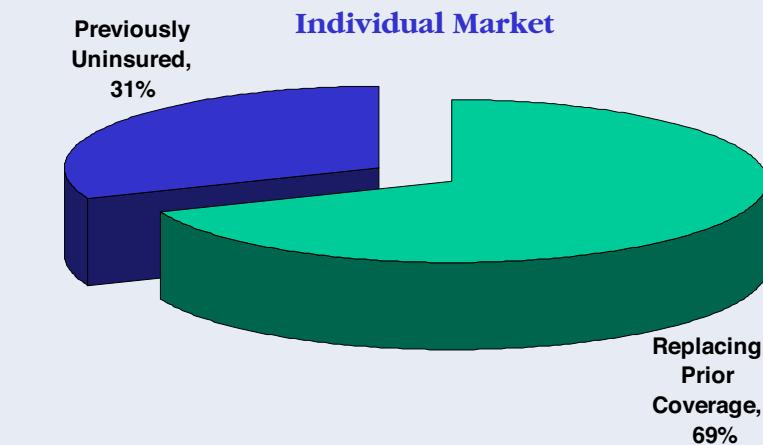
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2005.

Impact on the Uninsured

- ▶ According to AHIP's January 2006 census of HSA plans, 31 percent of individuals purchasing HSA-qualified plans were previously uninsured (see **Figure 5**). Thirty-three percent of policies in the small-group market were sold to firms that previously did not offer health care coverage. (*AHIP HSA Census, January 2006*)
- ▶ Another study reported similar results, finding that 41 percent of HSA-qualified plan purchasers were previously uninsured for at least six months. (*Ehealthinsurance, May 2006*)

Figure 5.

Percentage of HSA/HDHP Policies Purchased by Previously Uninsured



Note -- Companies responding to this question reported HSA/HDHP enrollment of 362,336 lives in the individual market.

Source: AHIP HSA Census, January 2006

Consumer Awareness

- ▶ Consumers with CDHP coverage appear to be more aware of health care costs than consumers with non-CDHP coverage:
 - 33 percent of HSA-qualified enrollees asked for information about the cost of prescription drugs, compared to 18 percent of non-CDHPs enrollees.
 - 20 percent of HSA-qualified enrollees asked for information about the cost of physician visits, compared to 14 percent of non-CDHP enrollees.

(BlueCross BlueShield Association, September 2005)
- ▶ Similarly, the McKinsey study found that HRA enrollees appear more likely than those with non-CDHP coverage to make careful, value-conscious health care decisions. Consumers with

HRA plans were:

- 50 percent more likely to ask about overall health care costs; and
- Twice as likely to inquire about drug costs.

(McKinsey & Company, June 2005)

- ▶ Consumers with all types of health coverage appear equally likely to defer care:
 - 22 percent of enrollees in HSA-qualified plans delayed going to a doctor or seeking a medical procedure, compared to 25 percent of non-CDHP enrollees.
 - 25 percent of HSA plan enrollees decided not to go to a doctor, compared to 23 percent of non-CDHP enrollees.

(BlueCross BlueShield Association, September 2005)

Account Information

- Data on HSA and HRA accounts are limited. A recent GAO overview of the CDHP market contains a rough estimate — based on industry sources and interviews — that between 50 and 60 percent of people with HSA-qualified plans had opened accounts. GAO notes that this range is consistent with IRS data on HSA deductions from 2004 tax returns. (*Government Accountability Office, April 2006*)
- The 2005 Kaiser Family Foundation study of employer-based health benefits found that approximately two-thirds of employers that offered HSAs contributed to their employees' accounts, and that the average employer contribution was \$553 for a single plan and \$1,185 for family coverage. Average employee contributions to HSAs were \$431 for single plans and \$1,664 for family coverage. (*Kaiser Family Foundation Employer Health Benefits 2005 Annual Survey*)
- A survey of HSA plan administrators overseeing 431,000 HSA accounts reported a total of \$585 million in deposits made between January 1, 2004 and December 31, 2005. As of December 2005, new HSA accounts were being created at a rate of 70,000 per month. (*HSA Directory and Resource Guide: 2006, Atlantic Information Services*)

¹ Funds not withdrawn for “qualifying” health expenses can remain in the account and be rolled over annually to build savings.

² Because Medicare beneficiaries are not eligible to enroll in HSA-qualified plans, the GAO analysis that excluded retirees is the most appropriate comparison. GAO did note that the average age of enrollees in all FEHBP plans (including retirees) was considerably higher than the average age of those newly enrolled in HSA-qualified plans (59 years vs. 46 years). However, that is not a meaningful comparison, since most retirees are not able to choose HSA plans.

³ According to this survey, the rate at which enrollees in HSA-qualified plans opened HSA accounts was virtually identical for those with annual incomes below \$50,000 and for those with incomes between \$50,000 and \$150,000. This suggests that in these income ranges, the incentive to open an HSA account is no less attractive for lower income enrollees.

⁴ Note that the Kaiser Survey included HSA-qualified plans in the average for all plans. Accordingly, the difference between the Kaiser overall average premium estimate and the estimate for HSA plans would have been somewhat larger if only premiums for non-HSA plans had been included in the Kaiser analysis.

References

AHIP HSA Census, January 2006

“January 2006 Census Shows 3.2 Million People Covered by HSA Plans”

BlueCross BlueShield Association, September 2005

“Blue Cross And Blue Shield Association Consumer Survey Shows High Rate Of Satisfaction With HSAs, Cites Increased Reliance On Decision-Support Tools”

Deloitte Consulting, 2006 Survey

“Survey: Consumer-Driven Health Plan Cost Growth Significantly Slower than Other Plans”

Ehealthinsurance, May 2006

“Health Savings Accounts: January 2005 – December 2005”

Employee Benefit Research Institute, December 2005

“Early Experience With High-Deductible and Consumer-Driven Health Plans: Findings From the EBRI/Commonwealth Fund Consumerism in Health Care Survey”

Government Accountability Office, January 2006

“Federal Employees Health Benefits Program: First-year Experience with High-Deductible Health Plans and Health Savings Accounts”

Government Accountability Office, April 2006

“Consumer-Directed Health Plans: Small but Growing Enrollment Fueled by Rising Cost of Health Care Coverage”

HSA Directory and Resource Guide: 2006, Atlantic Information Services

“HSA Directory and Resource Guide: 2006”

Kaiser Family Foundation Employer Health Benefits 2005 Annual Survey

“Employer Health Benefits 2005 Annual Survey”

McKinsey & Company, June 2005

“Consumer-Directed Health Plan Report – Early Evidence Is Promising”

Mercer Health & Benefits, Mercer Human Resource Consulting

