Expanding and Improving Health Savings Accounts

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The United State House of Representatives soon will be taking up legislation that aims to dramatically expand and improve Health Savings Accounts. Properly designed, HSAs will be at the core of our move to a 21st Century Intelligent Health System. Legalized on January 1, 2004, HSAs are a dramatic step in the right direction but more must be done, and it must be done now. This paper will outline five specific steps that are needed to maximize the potential of HSAs.

Laws and regulations matter. Insurers, employers, and other health service vendors can only operate businesses within the allowed parameters set in Washington, D.C. Millions, if not billions, of dollars are poised to create products and services to address the healthcare cost, quality, and access problems we face as a nation.

Real change requires real change. Tinkering and tweaking the current system will not do. Transformation to a new approach is the only solution. Healthcare consumerism is the developing basis of a 21st Century Intelligent Health System. We are in the 3rd to 4th year of a dramatic transformation that began June 26, 2002 when Health Reimbursement Accounts (HRAs) were created by new Treasury guidelines. Health Savings Accounts (HSAs), part of the 2003 Medicare Modernization Act, are the fastest growing new health product designs. They offer affordable coverage by engaging employees in their own health and healthcare purchasing. Both HRAs and HSAs are a part of a broader movement to Healthcare Consumerism.

It is difficult to see the forest for the trees. Who knew when the Renaissance was starting or when Communism began to fail? It is only in retrospect that we can see major transformations. We believe the future of Healthcare Consumerism has four developing

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generations. Current HSA laws support the foundational 1st generation that impacts mainly discretionary expenses of office visits, emergency room use, prescription drugs and some diagnostic tests. While these costs are generated by 80% of the covered members, they represent only 20% of the costs of healthcare. If we stop at this point, the transformation will stall. We must develop a system that works for and addresses the sickest population with chronic and persistent conditions – the 20% of the population that generate 80% of the cost.

Many saw the initial 2003 HSA legislation as a vehicle to move away from employer-based healthcare and support a transformation to individually-owned portable health insurance. That was, and is, a laudable goal. Most sales of HSAs have been to individuals and small groups. Many also now see the real value of HSAs as creating ownership that empowers employees to control their demand for services. Ownership can occur in both individually-based and employer-based policies. If a viable individual market of insurance was developed, employers could more easily move to a defined-contribution funding of healthcare.

Insurance should consist of three parts – budgeting, risk sharing, and savings. For the first time in history, healthcare has a savings element. With proper HSA flexibility, plans can use both the carrot and the stick in order to change behavior. Ultimately, consumerism will affect patient behavior change, which is the key to better health outcomes at lower cost. Without behavior change that benefits the health of the individual, the use of high-deductible plan designs will only create more cost-shifting.

If healthcare consumerism is to be truly transformational, it must address our country's most difficult health problems. It must work for individuals in government-run programs such as Medicaid and Medicare. Most importantly, consumerism must work best for the sickest among us.

HSAs are a critical part of a "Healthcare Consumerism" transformation to a 21st Century Intelligent Health System. While a consumerism strategy may start with implementing high-deductible healthcare plans with attached Health Saving Accounts, ultimately future of healthcare is about empowering individuals with information and financial responsibility to support a position of ownership. It's about supporting and rewarding healthy behaviors. It's about engaging employees, providers, carriers, and other stakeholders in a new relationship that deals with health rather than sickness and disease. It's about transforming health insurance from a "benefit" into an "accumulating asset" where employees have a real sense of ownership through a "shared savings" model of HSAs.

To achieve this future, the Center for Health Transformation supports legislative and regulatory changes that will create greater flexibility, choice, and access to HSAs. We need the next generation of "Flexible HSAs" to support the growing movement to HSAs. We believe this can best be achieved with the following improvements to HSAs:

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1. Allow HSA "shared savings" contributions as rewards & incentives for healthy activities and disease management programs.

Healthcare Consumerism includes opportunities to increase HSAs through "shared-savings." That is, plan members can be financially rewarded for doing the right activities that improve their health and saves money. HSA rewards can be for activities such as, participation in a wellness assessment, compliance with a disease management program (e.g. taking medications, diet, exercise, office visits), and maintenance of good health characteristics (e.g. blood pressure, cholesterol, nicotine use, body mass index). There are no HIPAA issues involved here because a third party vendor maintains access to employee health status, not the employer. Concerns about the legality and privacy of offering and paying rewards and incentives have been addressed under the HRA model.

2. Allow HSA contributions up to the high-deductible health plan's (HDHPs) maximum out-of-pocket exposure (MOOP).

In order to provide capacity for the "shared-savings" incentives and rewards, the potential contributions to HSAs need to be raised above the current maximum that equals the annual HDHP deductible amount. Without increasing the HSA contribution limits, the potential use of the shared-savings model of HSAs will be limited and may be non-existent if initial employer and employee contributions are made that equal the deductible. The proposal to increase in HSAs to the MOOP will allow the development of Flexible HSAs as a complete solution that supports personal responsibility, treatment compliance, and rewards health and behavior change.

3. Allow employers to limit the use employer funded HSAs to healthcare while employed.

Because healthcare has a direct impact on productivity, absenteeism, turnover, disability, impaired presenteeism, and workers compensation, employers need to know that while employed HSA monies allocated and funded for healthcare go to the healthcare of employees and family members. Currently, employer funded HSAs can be cashed out by employees to be used for other purposes. While this cash option "employee choice" is important to true ownership and portability, we favor a voluntary agreement between an employer and its employees to use HSA funds only for healthcare expenses as defined by Treasury while employed.

4. Allow HSA dollars to be used to pay for health insurance premiums.

A powerful incentive to accumulate HSA dollars is the potential use those "shared-savings" to cover retiree health costs. According to Fidelity Investments, an average couple retiring in 2006 will need $200,000 to cover their healthcare costs for 20 years in retirement. Currently, HSAs can not be used to purchase health insurance in early or post-

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65 retirement. HSAs can be used to pay for healthcare costs, but can not by legislation be used to pay for the protection and security of purchasing a health insurance policy.

5. Allow greater HSA contributions to low-income employees.

Allow employers to make larger dollar HSA contributions to lower-paid employees. Lower-income employees receiving bigger HSA contributions should be excluded from the definition of "comparable participating employees." Larger HSA contributions for low-income employees can mitigate the concern that a high-deductible health plan design disadvantages low-income employees. Higher employer contributions to lower-paid employees have the advantage of being tax-free compensation for both the employer and employee.

In conclusion, Congress must act quickly to introduce and pass the next generation of HSAs that include the changes outlined about. Over the long run, Congress will not be able to address long-term structural budget deficits without addressing healthcare. HSAs have proven themselves to lower trends and the cost of healthcare. By lowering the increases in healthcare by just 2 percent, the federal government would increase revenue and lower health-related expenditures by tens of billions of dollars each year. The time for action is now. This is why we elect members of Congress – to make REAL CHANGE.

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