

The President's Health Savings Account Proposals

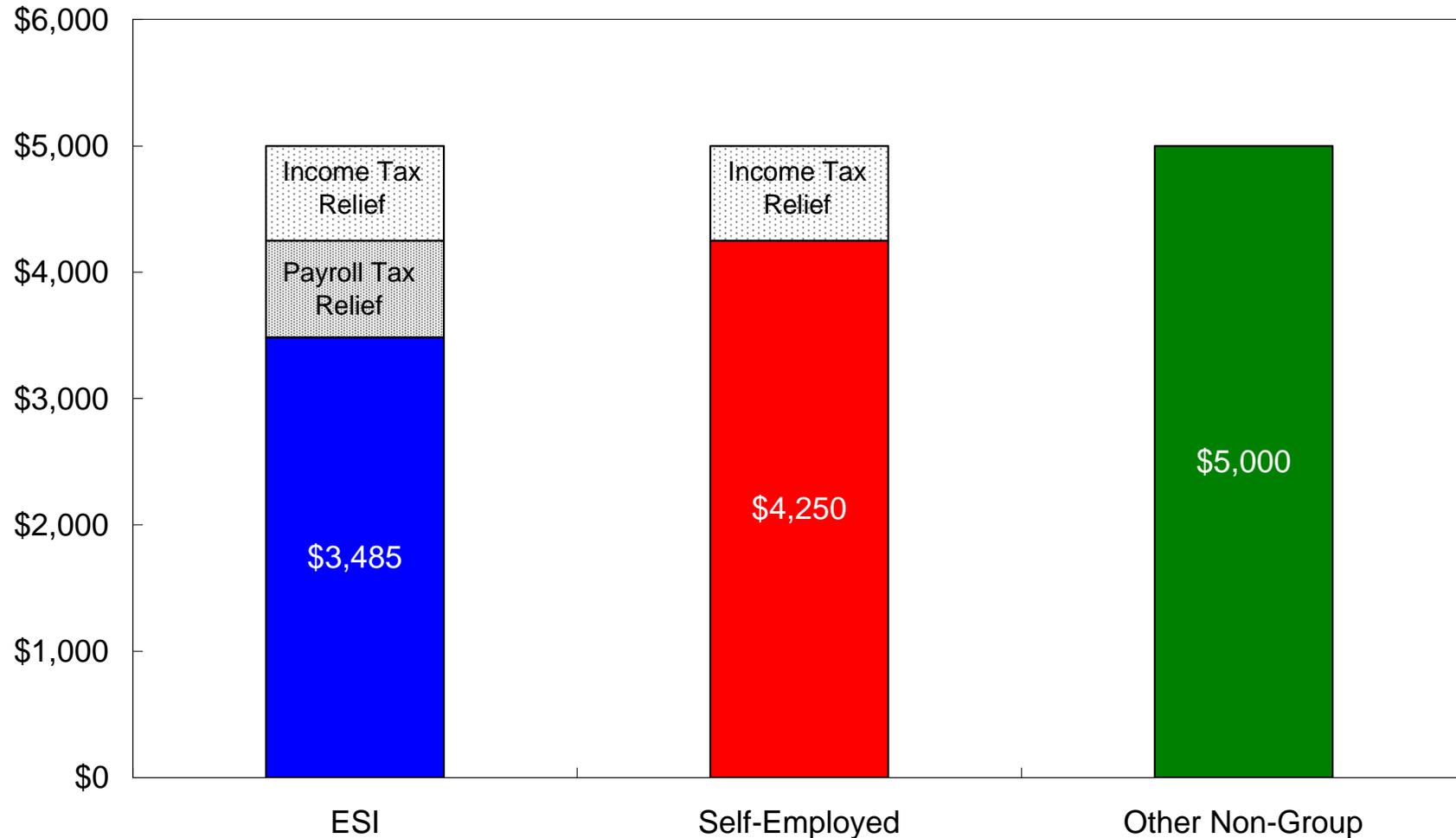
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Broader Policy Goals

- Create a system where spending decisions are made based on an evaluation of costs versus benefits, not what is covered by insurance, so that we get the best value from resources
- Level the playing field for individuals who don't have access to employer-sponsored health insurance
- Level the playing field between health care purchased by insurance and out-of-pocket spending

Current Cost of \$5,000 Premium Health Insurance Policy

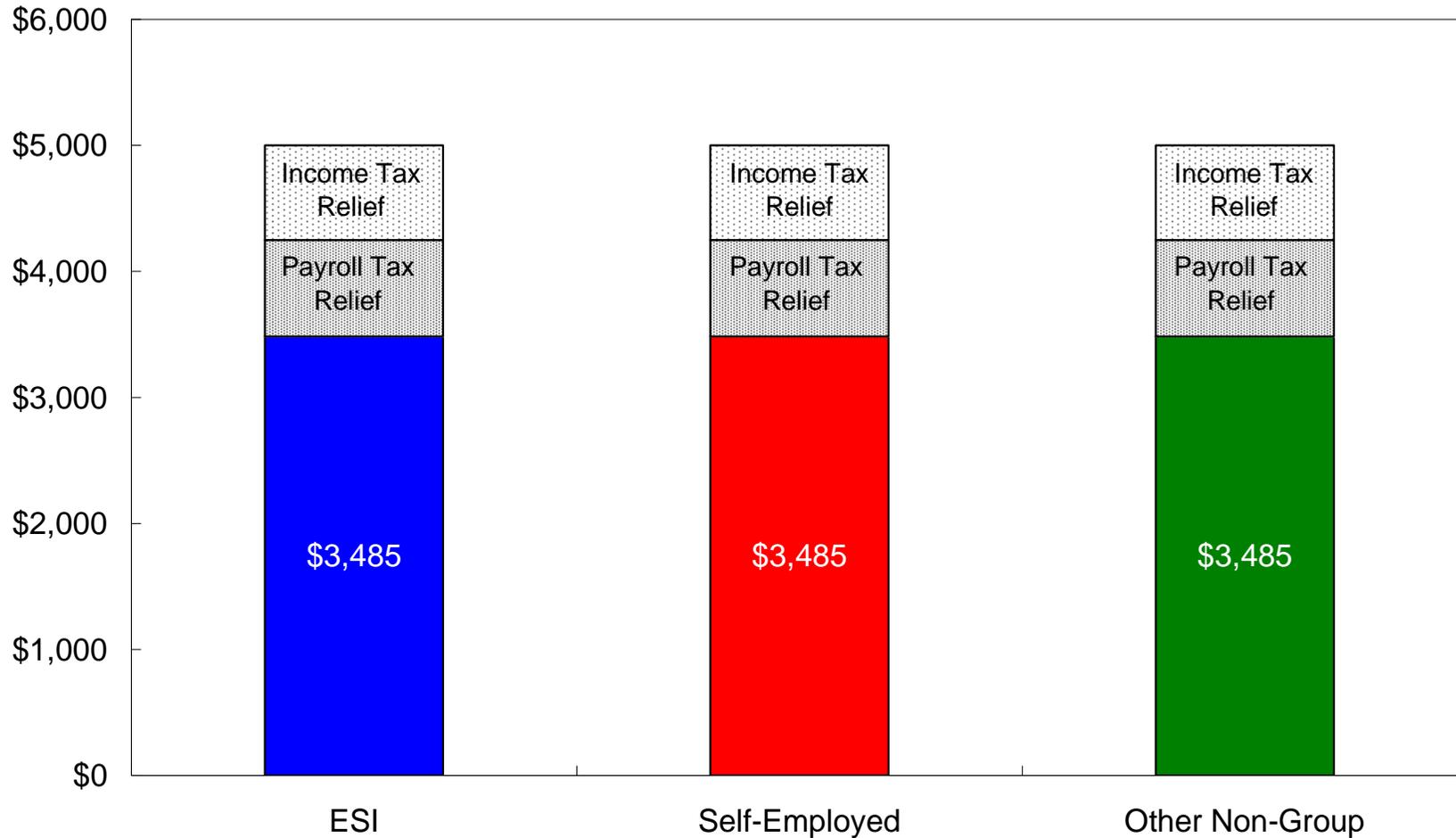


Note: ESI is employer-sponsored insurance: Premium exempt from income and payroll taxes.

Self-employed: Currently receive deduction against income tax only, not payroll taxes.

Other Non-group includes employees in 40% of firms not offering ESI: Currently receive no tax exclusion for premiums.

Proposed Cost of \$5,000 Premium Health Insurance Policy



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Equalize Tax Treatment of Out-of-Pocket Spending vs. Insurance

- **New Proposal**

- Make all HSA contributions tax-free
 - Provide an income tax credit equivalent to the amount of payroll taxes paid on HSA contributions made by individuals outside of employment (this is equivalent to a payroll tax deduction for the amount of premiums)
 - $15.3\% \times \$1,000 \text{ HSA contribution} = \$153 \text{ payroll tax credit}$
- Allows out-of-pocket spending to be tax-free when made through an HSA, when combined with change in contribution limits

Raise HSA Contribution Limits

	HDHP Policy Features		Annual Contribution Limit	
	Deductible	OOP Max	Current Law	Proposed
Single	\$1,050	\$1,050	\$1,050	\$1,050
	\$1,500	\$3,000	\$1,500	\$3,000
	\$3,000	\$5,250	\$2,700	\$5,250
Family	\$2,100	\$2,100	\$2,100	\$2,100
	\$3,000	\$6,000	\$3,000	\$6,000
	\$6,000	\$10,500	\$5,450	\$10,500

Other HSA Proposals

- Allow employers to make higher contributions to the HSAs of chronically ill employees than of other employees
- Allow employers to “convert” existing HRA balances into cash deposits to the HSAs of eligible employees

Other HSA Proposals

- Allow premiums for HSA-qualified policies bought outside of employment to be reimbursed from an HSA, regardless of circumstances
- Any qualified medical expense incurred on or after the first day of HSA-eligible coverage for the year could be reimbursed from the HSA as long as the HSA is established no later than April 15 of the following tax year

Other HSA Proposals

- Provide a refundable tax credit to low- and moderate-income Americans that could be used for HSA-compatible insurance
 - Americans who did not purchase an HSA-compatible policy would not be eligible for the credit
 - Credit equals 90% of insurance premium cost up to a maximum of \$1,000 (singles) / \$3,000 (families)
 - Up to one-third of the credit can be deposited into an HSA

Potential Issues with HSAs

- Effect on overall spending
- Affordability for poor or sick
- Effect on number of uninsured
- Effect on risk-pooling
- Ability of patients to make informed decisions

HSAs Can Rein in Overall Health Spending

- Although people with high expenditures account for majority of health spending, around half of spending is by people spending less than \$12,000, who would likely still face some cost-sharing under a typical plan
- HSAs are complementary to disease management and to supply-side cost controls
- Preliminary evidence suggests that HDHP premiums and spending are rising more slowly than in other plans

HSAs Can Encourage Cost-Effective Health Spending

- HSAs do not discourage use of preventive care: Direct evidence limited, but study of Federal health plans found HDHPs at least as likely to cover preventive care as PPOs, often with lower copays
- Some preliminary evidence from private health plans

HSA's Can Make Health Care More Affordable for Low-Income and Uninsured

- Policies more affordable than typical PPOs
 - Higher deductibles largely offset by lower premiums
 - Typical premium is \$1,000 - \$3,000 lower than traditional policy
 - Typical deductible is \$1,500 - \$4,000 higher than traditional policy
 - Out of pocket limit often comparable
 - Average employer contribution to HSA is around \$550/\$1,200
- New enrollees representative of wide pool
- Expansion proposals have provisions that target lower-income enrollees
 - Tax credit
 - Payroll credit
 - Tax preference for individual purchase benefits those without access to employer insurance

Sample Family

- Family of 4 in Columbus, OH earning \$50,000 gets quotes for 2 family policies from same insurer:
 - Traditional PPO plan:
 - \$5,800 premium
 - \$1,000 deductible
 - 10% copay up to \$2,000 out-of-pocket max
 - HSA:
 - \$3,750 premium
 - \$3,000 deductible
 - 20% copay up to \$5,000 out-of-pocket max
- How much family would save by choosing the HSA:
 - If they had \$1,000 in medical bills:
 - save \$1,900 under current law, and \$3,200 under proposed expansions
 - If they had \$5,000 in medical bills:
 - save \$100 under current law, and \$1,800 under proposed expansions
 - If they had \$10,000 in medical bills:
 - \$400 worse under current law, but save \$1,600 under proposed expansions

Lower Costs Will Make Insurance More Affordable for Individuals and Employers

- Firms more likely to continue offering insurance if cost growth contained
 - Firm offering decreased from 69% in 2000 to 60% in 2005, driven by rising premiums
- New proposals would allow employers to contribute more for chronically ill, and provide seed money for innovative state programs

Better Information is Crucial

- Patients can make choices that are best for them in consultation with physicians
- Physicians can be more effective patient advocates
- Federal government can lead the way

Towards Efficient Use of Health Care Resources

Price-sensitive consumers armed with information are likely to increase competition, promote development of cost-effective technology, and make health care dollars go further