

Background on Health Savings Accounts

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Figure 1

Health Savings Accounts

- Health Savings Accounts (HSAs) authorized by Medicare Modernization Act of 2003
- Goal: to make consumers more accountable for health expenses and treatment decisions through HSAs coupled with high deductible health plans (HDHPs)
- Latest attempt by employers and federal government to stem rate of rising health costs

Figure 2

Basics of Health Savings Accounts

- Permit tax-preferred contributions by employers or individuals to be used for out-of-pocket health costs
- Can only be created in conjunction with a high deductible health plan; minimum annual deductible and limit on out-of-pocket expenditures for covered benefits
- Preventive care allowed outside of deductible
- Withdrawals used to pay for medical expenses exempt from federal income tax
- Created and owned by individuals; not tied to employment
- Annual contributions capped

Figure 3

HSA-Eligible High Deductible Health Plan Requirements, 2006

	Single	Family
HDHP Minimum Annual Deductible	\$1,050	\$2,100
HDHP Maximum Out-of-Pocket Spending Limit	\$5,250	\$10,500
Maximum HSA Contribution: the lesser of deductible or	\$2,700	\$5,450

Figure 4

Example: High Deductible Plan and HSA

Plan

- Family Plan
- \$2,500 Deductible
- 20% coinsurance
- \$10,500 out-of-pocket maximum
- Employer Contributes \$1000 to HSA

Healthy Family – Under \$1,000 in Medical Bills

- All medical bills get paid out of HSA
- Potentially some remaining to carry over into the next year

One or More Family Members is Sick – \$15,000 in Medical Bills

- Family pays first \$1,000 in bills out of the HSA
- Next \$1,500 in bills (up to deductible) is paid out of pocket
- 20% of remaining \$12,500 is paid out of pocket (\$2,500)
- **Total cost for family is \$4,000**

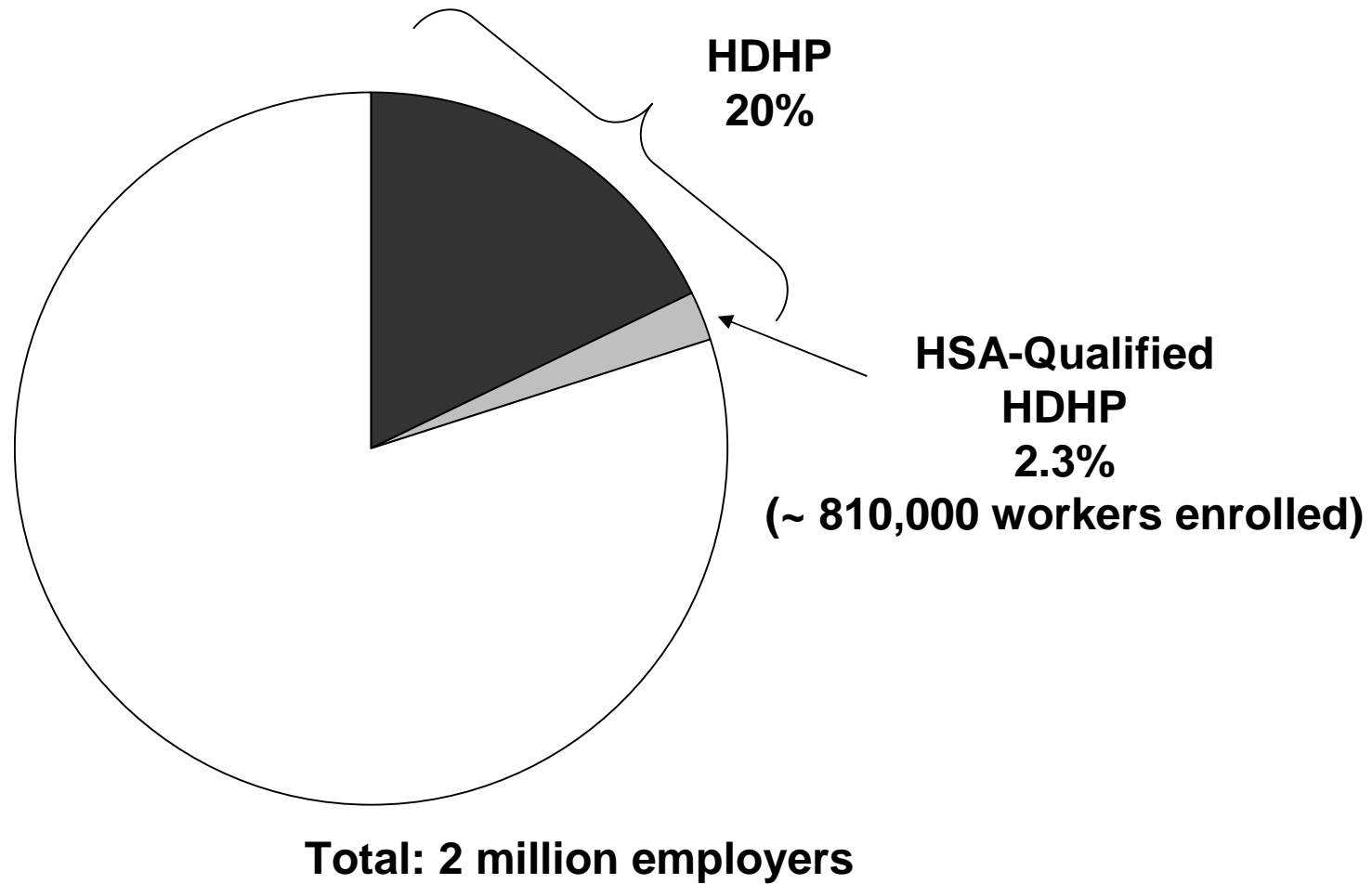
Figure 5

How Many Are Enrolled?

- One-fifth of employers offer a high deductible plan (only 12% are HSA-eligible)
- 15% of workers with access to HSA-eligible plan participate (810,000 workers = 1.2% overall)
- 1.6 million workers are in high deductible plans with Health Reimbursement Accounts

Figure 6

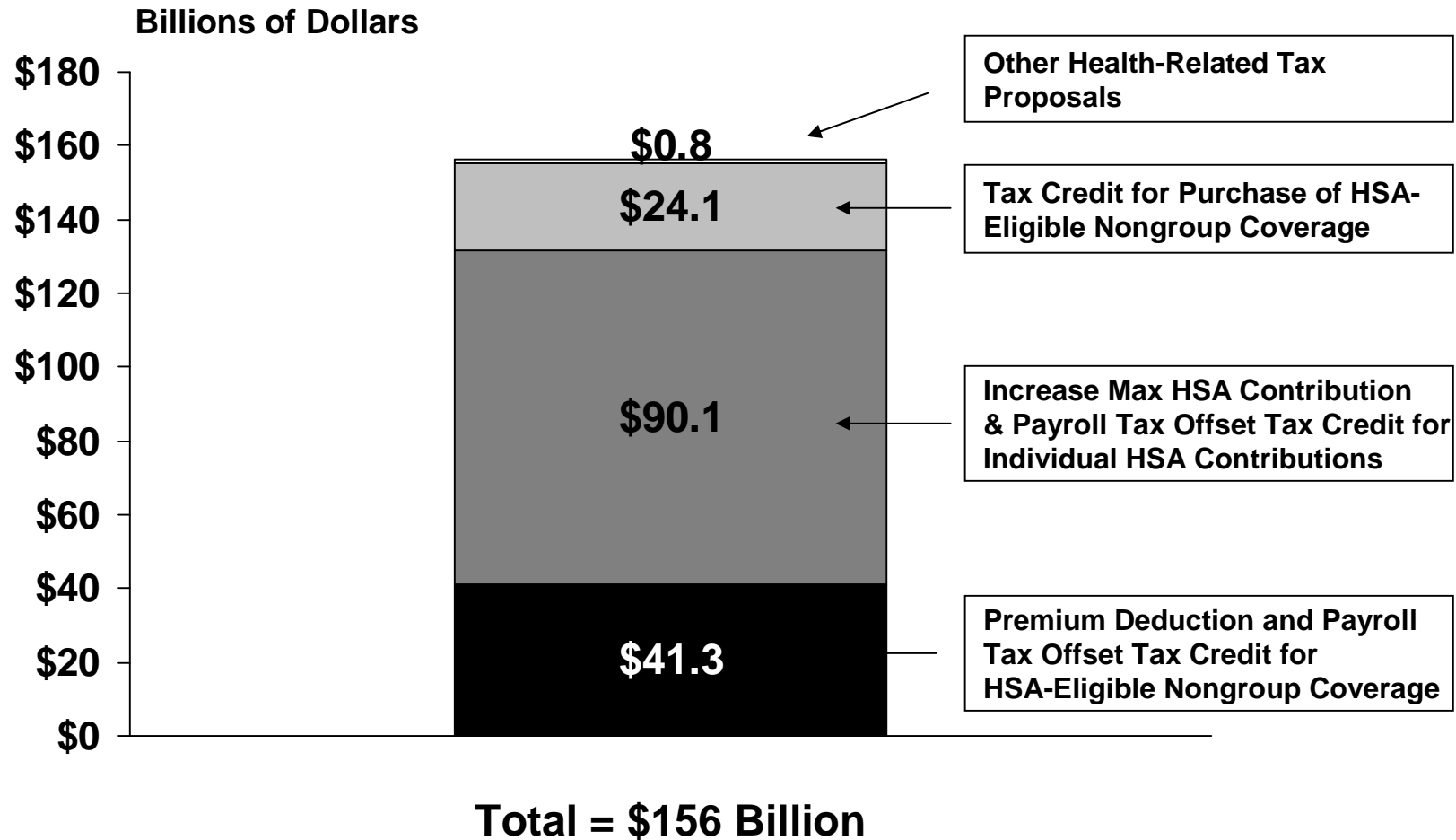
Among Businesses Offering Health Benefits, Percent Offering High Deductible Health Plans, 2005



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

Figure 7

The President's Health Care-Related Tax Proposals, FY 2007 – FY 2016



SOURCE: Department of the Treasury, "2006 Blue Book" General Explanations of the Administration's Fiscal Year 2007 Revenue Proposals, February 2006.

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