



## **Health Savings Accounts: Will they work for low income families?**

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Several of the current legislative proposals in the Missouri General Assembly would insure low income individuals through the use of Health Savings Accounts and high deductible health insurance plans. This plan is modeled after the Healthy Indiana plan, which was implemented in January, 2008. While the designers of the Healthy Indiana plan are enthusiastic about their experience over the past 3 months, we believe that more time is needed to do a thorough evaluation of the effectiveness of the plan over time.

Other research and surveys indicate that Health Savings Accounts (HSAs) with high deductible plans would not be the best approach to insuring low income families. This brief outlines what we know about HSAs with high deductible plans and some concerns about this approach.

### **What Is A Health Savings Account (HSA) and a Consumer Directed Health Plan?**

In 2003, Congress authorized the creation of HSAs to help consumers pay for out-of-pocket health care costs. Individuals fund an HSA with their own funds to pay for medical expenses in conjunction with a High Deductible Health Plan, which have higher yearly deductibles than traditional health plans.<sup>i</sup>

The U.S. Department of the Treasury defines a High Deductible Health Plan as having a:

- Minimum deductible of \$1,100 for individuals and \$2,200 for families;
- Maximum out-of-pocket limits of \$5,500 for individuals and \$11,000 for families.<sup>ii</sup>

HSAs are a form of Consumer Directed Health Plans (CDHPs) that encourage individuals to take more responsibility for their personal health care spending.<sup>iii</sup> Another popular form of CDHPs is Health Reimbursement Accounts (HRAs), which are funded by employers only.<sup>iv</sup> *For the purposes of discussion in this brief, “Consumer Directed Health Plan” refers to a plan that has a Health Savings Account in conjunction with a high deductible health plan.*

### **HSA Contribution Rules**

Both employees and employers may make contributions to an HSA account. The employee does not pay tax on contributions made by an employer. Employees may claim a federal income tax deduction for their contributions to an HSA, and their distributions for payment of medical expenses are tax free.<sup>v</sup>

### **Low income families do not fit the profile of individuals who utilize CDHPS, including HSAs**

Adults enrolled in CDHPs are significantly more likely to have high incomes than those enrolled in other health plans.<sup>vi</sup>

In 2007, 31 percent were in households with incomes of \$100,000 or higher, up from 22 percent in 2005. Just 19 percent lived in households with incomes under \$50,000, down from 33 percent in 2005.<sup>vii</sup>

From 2005 to 2007, people enrolled in CDHPs became significantly more likely to be employed in large firms (increasing from 36 to 40 percent), and less likely to be sole proprietors or employees of small companies with fewer than 50 employees (decreasing from 47 to 34 percent).<sup>viii</sup>

Those enrolled in CDHPs were more likely to be single, white, male, a college graduate, and have an advanced degree.<sup>ix</sup>

### **Why do individuals choose a CDHP?**

Most participants choose a CDHP because their individual plan had a lower premium than other alternatives, and because of the tax savings.<sup>x</sup>

Given the low income of those who will be covered under the current proposals, there will be little, if any, tax advantage for them. HSAs tend to offer greater tax savings for higher-income families. A 2006 report from The Kaiser Commission on Medicaid and the Uninsured noted that a family of four earning \$20,000 would not receive any tax savings from opening an HSA, while a family earning \$120,000 would save \$620 in taxes for contributing \$2,000 to an HSA.<sup>xi</sup>

Since over two-thirds of the non-elderly uninsured has no tax liability, HSAs offer no tax incentives for this group.<sup>xii</sup>

The EBRI survey confirms that CDHPs are most appealing to those who will benefit from tax incentives for their contribution. About 64 percent of those with incomes over \$50,000 contributed \$1000 or more to their Health Savings Account, while 31 percent of those with incomes under \$50,000 contributed that amount. Sixteen percent of those with incomes under \$50,000 contributed less than \$500, and 24 percent of this population contributed nothing.<sup>xiii</sup>

### **CDHP participants are more likely to face health access barriers**

While people reported using health services at similar rates across all health plans, surveys show that those insured by a CDHP were significantly more likely to report they had avoided, skipped or delayed health care because of costs, with problems particularly pronounced among those with health problems and lower incomes.<sup>xiv</sup>

Twenty six percent of CDHP participants in the Kaiser Survey reported not filling a prescription due to cost compared to only 15 percent of those enrolled in traditional plans.<sup>xv</sup> The EBRI survey reports that about one third of all individuals insured by a CDHP who reported being in fair or poor health or having at least one chronic health condition had not filled a prescription because of cost.<sup>xvi</sup>

### **Are Consumer Directed Health Plans with HSAs an affordable option for low income uninsured individuals?**

It appears that CDHPs will not be affordable for many low income individuals. While premiums for CDHPs tend to be lower, the average deductible was about six times higher than traditional plans in 2005.<sup>xvii</sup>

According to the Kaiser Family Foundation survey, for a family earning about \$25,000 yearly, the overall costs of a CDHP would be about 15 percent of the entire family budget.<sup>xviii</sup>

The proposed plans for Insure Missouri require individuals to make contributions to their HSAs. Many low income individuals are already challenged with medical debt, making it less likely that they will be able to afford required contributions to a HSA and/or pay high deductibles. The Kaiser Family Foundation survey, as well as a 2005 survey by the Commonwealth Fund, shows that alarming numbers of low income individuals have medical debt. The Commonwealth survey reports that sixty percent of uninsured adults under the age of 65 report having problems with medical bills.<sup>xix</sup>

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<sup>i</sup> United States Department of the Treasury. (2007). *All About HSAs*. Retrieved February 17, 2008, from [http://www.ustreas.gov/offices/public-affairs/hsa/pdf/all-about-HSAs\\_051807.pdf](http://www.ustreas.gov/offices/public-affairs/hsa/pdf/all-about-HSAs_051807.pdf)

<sup>ii</sup> Ibid.

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- <sup>iii</sup> The Kaiser Family Foundation. (2006). *National Survey of Enrollees in Consumer Directed Health Plans*. Retrieved February 17, 2008, from <http://www.kff.org/kaiserpolls/upload/7594.pdf>
- <sup>iv</sup> Ibid.
- <sup>v</sup> Ibid at 1.
- <sup>vii</sup> *Findings from the Employee Benefit Research Institute/Commonwealth Fund Consumerism in Health Care Survey, Brief No. 315*, March 2008 at [www.ebri.org](http://www.ebri.org)
- <sup>vii</sup> Ibid
- <sup>viii</sup> Ibid
- <sup>ix</sup> Ibid
- <sup>x</sup> Ibid at 3
- <sup>xi</sup> Ibid.
- <sup>xii</sup> Ibid.
- <sup>xiii</sup> *Findings from the Employee Benefit Research Institute/Commonwealth Fund Consumerism in Health Care Survey, Brief No. 315*, March 2008 at [www.ebri.org](http://www.ebri.org)
- <sup>xiv</sup> Ibid
- <sup>xv</sup> Ibid at 3
- <sup>xvi</sup> Ibid at 13
- <sup>xvii</sup> The Kaiser Family Foundation. (2006). *Health Savings Accounts and High Deductible Health Plans: Are They An Option for Low-Income Families?* Retrieved February 17, 2008, from <http://www.kff.org/uninsured/7568.cfm>
- <sup>xviii</sup> Ibid.
- <sup>xix</sup> Michelle Doty, Jennifer Edwards, and Alyssa Holmgren, *Seeing Red: Americans Driven into Debt by Medical Bills, Results from a National Survey*. The Commonwealth Fund, August 2005.