



SOCIETY OF ACTUARIES

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# **HSAs and Account-Based Health Plans**

## **An Overview of Preliminary Research**

by the AHIP Center for Policy and Research

*Editor's Note: This article contains excerpts from AHIP's June 2006 research report, "HSAs and Account-Based Health Plans," and is reprinted with permission of AHIP. The report is available in its entirety on the AHIP Web site at [www.ahipresearch.org](http://www.ahipresearch.org).*

**H**ealth 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.<sup>1</sup> 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**

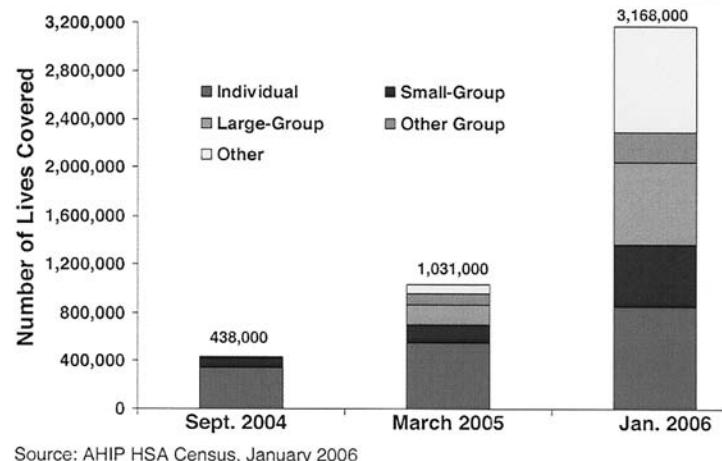
- ▶ Participation in HSA-qualified highdeductible health plans tripled from March 2005 to January 2006, with nearly 3.2 million individuals now enrolled (see **Figure 1**). (*AHIP HSA Census, January 2006*)
- ▶ The number of firms offering HSA-qualifiedplans is doubling annually, and growth is spread 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*)

### **Health Status**

- ▶ A recent study found that the self-reported health status of individuals with HSA-qualified plans parallels the

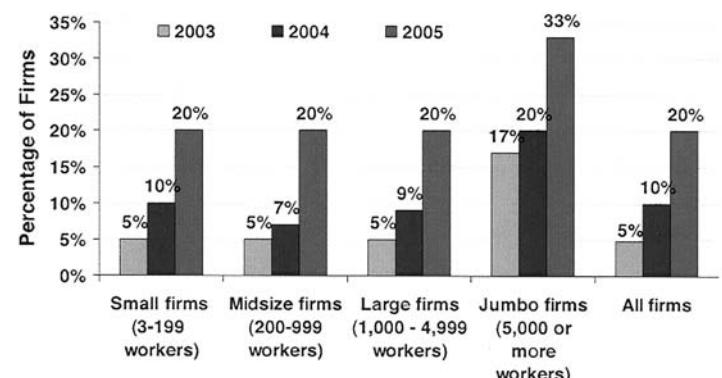
**Figure 1.**

#### **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**



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

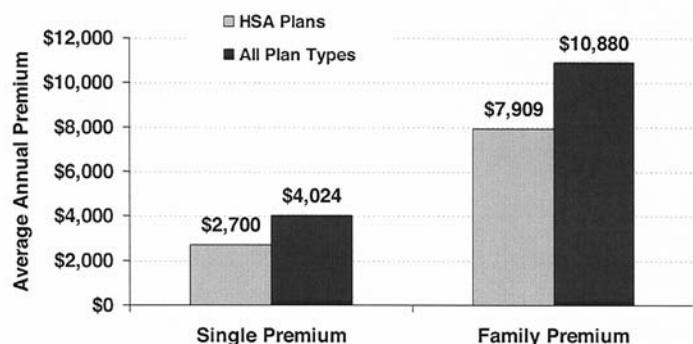
- Average premiums for HSA-qualified plans are approximately 20-30 percent lower than average premiums in the overall employer market.
  - Average annual premiums for all employer group health plans as reported in a 2005 Kaiser Family Foundation Survey were \$4,024 for single and \$10,880 for family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

## Account Information

- Data on HSA and HRA accounts are limited. A recent GAO overview of the CDHP market contains a rough

**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.

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*)

*AHIP is the national association representing nearly 1,300 member companies providing health insurance coverage to more than 200 million Americans. AHIP can be reached at 202-778-3200 or through their Web site at [www.ahip.org](http://www.ahip.org).*

## Footnotes

<sup>1</sup> Funds not withdrawn for "qualifying" health expenses can remain in the account and be rolled over annually to build savings.

<sup>4</sup> 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.