The HSA Coalition

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Testimony before the U.S. House Small Business Committee

Subcommittee on Workforce, Empowerment
and Government Programs

on Health Savings Accounts

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Mr. Chairman and members of the Committee, on behalf of the members of the HSA Coalition, I thank you for the opportunity to address you today, and ask that my comments appear in the Committee record as if read.

People often ask, "What is an HSA? How do I explain them?" Here is what I told Congresswoman Julia Carson (D-IN), who wanted to know the same thing.

"Congresswoman, lets say you had a savings account with $2,500 in it for your health care costs each year. You keep what you do not spend, and if you spend the entire $2,500, then your health insurance kicks in. That's an HSA."

No slouch, Congresswoman Carson asked, "Where did the $2,500 come from?"

"It came from cutting the cost of your health insurance premium by at least $2,500. That savings goes into your account."

When Health Savings Accounts passed, Congress was not thinking: health care costs are rising and becoming more unaffordable to the average employer and worker, so we are going to ask employers and individuals to pay what they are paying now for insurance, plus, we expect folks to come up with another several thousand dollars to put in their HSA on top of the already high cost of health care.

The reason HSA qualified plans have a higher deductible, is to free up the funds to be deposited into the HSA. Think of HSAs as re-financing your health care.

Congress intentionally mandated the higher deductibles to free up funds to go into the HSA, funds that used to be going to the insurance company.

Exhibit A contains an example of how an employer or an individual can freeze their annual health care costs at last year's levels, decrease the funds going to the health insurer, and provide better coverage to their employees or themselves.

The HSA Marketplace

Mr. Chairman, after six years of the Medical Savings Account pilot, and two years of HSAs, we know the following:

HSAs are working to increase the number of insured and contain health care costs – two long-term goals of both Republicans and Democrats.

In that regard, here are some key HSA facts (contained in Exhibit B, the HSA Coalition fact sheet):

- More than 95% of health insurers in the U.S. sell HSA qualified health plans
- More than 400 banks offer Health Savings Accounts

- More than 200 credit unions offer Health Savings Accounts
- 9 out of the top 10 investment firms (like Vanguard and Fidelity) offer mutual funds that HSA funds can be invested in
- More than 200 different individual mutual funds accept HSA dollars

My own estimates have been that in the first two years of HSAs, their rate of growth has been doubling every six months.

From the end of the first quarter of 2005 to early 2006, America's Health Insurance Plans said the number of HSA qualified health plans grew from 1 million sold to 3.2 million sold – tripling in a roughly 10 month period.

The U.S. Treasury estimates that there will be 14 to 21 million HSAs in four years.

Further, nearly a third of those Americans who have purchased an HSA were previously uninsured. No other type of health insurance attracts such a high a percentage of the previously uninsured.

Mr. Chairman, since the uninsured have expressed their own, existing preference for an HSA – then it follows that helping the uninsured become insured with an HSA would simply reinforce an existing marketplace trend already in place.

Mellon Financial estimates that 32% of employers either will offer HSAs in 2006, or already offer HSAs now to their employees.

Fidelity Investments surveyed its jumbo employer clients, those with more than 10,000 employees, and found that 28% were going to offer HSAs in 2006, or do so now.

Year-Over-Year Cost Increases

In the largest employer study done ever, United Benefit Advisors surveyed more than 8,700 employers and reviewed actual plan data from more than 12,000 health plans last year. The results will likely surprise you: the year-to-year cost increase for an HSA qualified health plan was 3.4%, compared to a 9.6% price increase for traditional health plans.

Deloitte's Center for Health Solutions, found that HSA qualified health plans had a year-to-year cost increase of only 2.8%, compared to 8.0% for traditional health plans.

Finally, ehealthinsurance found that the premiums for insurers on its site selling HSAs to individuals (those without employer provided health insurance) dropped 15% between 2004 and 2005.

When is the last time you heard of health insurance premiums dropping in price, in double digit figures?

Is it magic? Is the HSA Coalition coming before this Committee and "spinning?"

Mr. Chairman, let me relay a story that you may find illuminating with regard to the low year-to-year increases in HSA premiums, experienced thus far.

I had the pleasure of taking my five children to one of those amusement parks where you pay a large up-front ticket price, and then the rides and Water Park is free, but food, games and souvenirs and other amusements cost more.

So my four older children wanted to go off on their own, while I took my four year old son to the kiddy-rides. So I gave my children $40 each – to buy food, play games and what ever else – and told them that this money was to last until we drove home in the early evening.

About three hours later, my two middle children came to find me. "Dad, do you have any more money?" (They arrived without a souvenir hat or T-shirt or large stuffed animal won playing a game, and did not have any other obvious thing that they had spent their money on.)

"What did you spend the money I gave you on?" I asked. Well, there was this coin operated telescope that took a lot of the money, and we spent a lot of time in the arcade, plus we bought our lunch – "No, I don't have any more money," I said and took them to the Water Park.

About three weeks later my wife told me that our cousins were coming to visit (three teenager girls) and I was elected to take all the children to the amusement park.

So, when we arrived, I handed out their $40 each, and told them that what they did not spend, they got to keep.

Well, first of all they thought they had hit the jackpot and some of them actually started to jump up and down.

Second, I noticed strange new behavior. At one point my son told me that the arcades and games were out because they were too expensive.

Really? I wonder why they weren't too expensive the first time we were here?

My daughter skipped lunch and had an ice cream cone to save some of her money. I actually saw one of my children argue with a cashier over the amount of the change. The teenage girls thought that the 20 SPF sun screen was too weak and wanted to buy 40 SPF, but took more than 15 minutes of discussion to decide how to break up the cost to pay for it.

Finally, when we about to leave, the children wanted to buy some candy for the ride, and they all bought Tootsie Rolls, the least expensive thing in the store.

When an employer funds their employees' HSA with employer money, they are really setting up a financial incentive for the employee not to spend all the money in their account. And if the employee does not spend all the money in their account, the employee will not breech their deductible and get into their insurance coverage.

The net result is that fewer employees get into 100% insurance coverage, simply by providing employees a financial incentive not to waste health care.

A five hundred dollar deductible, for example, does not provide the same incentive.

When someone else was paying, my kids loaded up on wasteful spending. But when the money they were spending was their own, they were far more judicious with it. In fact, discreet inquiries during the ride home found that most of the children had saved 40% of the money I had given them.

My daughter allowed as how that was "pretty amazing" because, as she put it, she is "genetically incapable of saving money."

Most people think my children were acting in an economically rational manner during both visits.

In fact, Mr. Chairman, if members of the committee turn to Exhibit C, the graph done by the Joint Committee on Taxation shows exact what the amusement park vignette illustrates.

As the out-of-pocket payments by Americans decreased, the health costs increased. Very simply put, when people are spending someone else's money – like an employer's or an insurer's – they spend it ways they would never spend their own.

The Less Healthy

Some people believe, however, that what this story really proves is that less healthy will not spend their own money to seek treatment or care.

In order for this story to illustrate that fact, one or more of my children would have to be in pain or discomfort throughout the course of the day, and further, they would have had to not spend any money they had to make themselves feel better.

Further, study after study of those with an HSA qualified plan, and who are less healthy, shows quite clearly that the less healthy are more compliant with their treatment regime and are more involved in their own care, than those less healthy who do not have an HSA.

Why? The reason is really quite straight-forward. These folks have a financial incentive (as well as a personal incentive) to be as well as possible. Those with an HSA know they will be paying the first dollars for their care from their own pocket.

One insurer, Assurant, showed that those with an HSA spent more than 30% more on preventative care than those without an HSA. In general, the financial incentive of taking-care-of-yourself-because-if-you-don't-you-pay is stronger than the minimal incentive to participate in preventive care if you are in traditional health care.

Finally, Mr. Chairman, it is clear that the current manner of health care financing and design is simply not working.

Traditional health insurance design causes massive year-to-year cost increases that is steadily eroding the number of employers who offer health insurance and is, quite simply, unsustainable.

Unsustainable means that the health insurance will become unaffordable to the middle class, and most employers will not be able offer their employees health insurance.

HSAs not only offer a way out of the current health insurance mess, but they give people the opportunity to build up funds during their working years so that when they show up at the gates of Medicare, they have cash in their pockets; since we all know that Medicare simply cannot offer the baby boomers the same level of benefits that Medicare now offers their parents.

It is likely that Medicare will (like many employers and individuals are doing today) have to move to a higher deductible to be able to sustain the cost of seniors' health care coverage. HSAs help prepare people, and give them the opportunity to build up funds for this possibility.

Mr. Chairman, Exhibit D gives examples of what amount of savings could build up, over time, in an HSA for both individuals and families.

Defined Contribution Plans

Containing costs is clearly a major factor in employers and individuals (especially the uninsured) switching to an HSA. However, one interesting finding of the previously cited UBA Employer study was that a majority of employers predicted that health benefits would become a defined contribution benefit, over the next five years.

Under an HSA the employee gets the cash over the course of the year in their account, which they own and control. Under a traditional health plan, the employee benefit occurs if and when they become ill, or have health costs that move them into 100% coverage.

An HSA works particularly well in a defined contribution world, since the employee gets cash deposited into their HSA, instead of the employers' contribution being sent to the insurer. Employees, when faced with a choice of how to allocate their employers' set dollar amount for their health benefit every year, will likely choose to take that benefit in cash, in their HSA.

Therefore, it is likely that defined contribution health plans will be predominately Health Savings Accounts, as employers move to this type of plan over the course of the next five years.

There are many different reasons that the growth of HSAs will continue to be rapid, but the move to a defined contribution design among employers, will likely be one of the most significant driver of HSA expansion.

Mr. Chairman, HSAs have moved from a novelty, and now are becoming part of the mainstream of health benefits in the United States. They have grown faster than 401 (k)s or IRAs did in their first two years of existence, and I expect that the growth rates of HSAs will continue to surprise most observers.

Thank you, Mr. Chairman, and members of the Committee for the opportunity to address you today on this important issue and am ready to answer any questions you may have.

Exhibit A

Comparing Current Health Insurance Costs to Current Health Savings Accounts

$927:	Average monthly premium for average 2005 family health insurance[1]
$11,124:	Annual 2005 cost of family health insurance in the U.S.

Family Health Savings Account Offered By an HSA Insurer

$458:	Average monthly premium for a $4,000 deductible family health insurance policy, head of household age 49[2]
$5,496:	Annual premium for a $4,000 deductible family health insurance policy[3]
$4,000:	100% of the family deductible is deposited in the HSA[4]
$9,496:	Total cost of premium and 100% funded HSA

Compare Costs:

$11,124:	Annual 2005 cost of family health insurance in the U.S.
$9,496:	Total cost of HSA qualified health plan premium and 100% funded HSA
$1,628	**Savings a Year with a Fully Funded HSA**

[1] "2005 UBA/Ingenix Employer Opinion Survey," which is the largest private survey done of employer provided plans, surveying 8,700 employers and reviewing data from more than 12,000 health plans.
[2] HSA Coalition estimate, 2005
[3] 100% coverage above the deductible is recommended because it is easier for employees to understand and until funds build up in the HSA, it has a lower out-of-pocket cost. In other words, the out-of-pocket cost should equal the maximum out-of-pocket cost during the first years of moving to an HSA.
[4] AHIP reports that the average family deductible for the individual (non-employer provided insurance) market in 2005 was $4,760.

Exhibit B

The HSA Market Today

- More than 95% of all health insurers sell HSA Qualified Health Plans
- More than 400 banks now offer HSAs
- More than 200 credit unions now offer HSAs
- Nine out of the ten top mutual fund companies offer investments that accept HSA funds
- More than 200 different mutual funds accept HSA dollars

How Many HSAs?

- U.S. Treasury: By 2010, 14 to 21 million HSAs
- AHIP: HSA qualified health plan sales grew from one million to 3.2 million in 10 months (tripling from the end of the first quarter of 2005 to early 2006)
- At the same growth rate, there will be 9 million HSA qualified health plans by early 2007
- Mellon Financial: 32% of all employers will or are now offering HSAs in 2006
- Fidelity Investments: 28% of its jumbo employer clients will offer HSAs in 2006

Rate of HSA Premium Growth

- Deloitte Study – 2.8% year over year premium increase
- United Benefit Advisors (largest employer study ever) – 3.4% year over year premium increase

Low Income Earners

- 32.8% of individuals (those without employer provided insurance) who purchased an HSA qualified health plan in 2005 were previously uninsured (ehealthinsurance.com)
- HSA qualified health plan premiums (for individuals) decreased in cost 15% from 2004 to 2005
- The low cost premium makes HSA qualified insurance affordable
- Hospital riders mitigate first year risk as funds build up in the account

The Less Healthy and HSAs

- Health care consumers with a chronic condition are experienced consumers and control of their health care is a big motivator for them to choose an HSA – so they can pick their own doctor, drugs and treatment
- Some less healthy will be financially better off with an HSA than with a traditional low deductible, high premium plan, once premium costs and co-pay costs of a traditional plan are compared
- In 99% of HSA plans, prescription drug expenditures counts towards the deductible

Exhibit C

http://jec.senate.gov/_files/HSAWebChart02252004WIY.pdf

(See attached file or link above.)

<u>Exhibit D</u>

Possible Savings For Individuals With An HSA				
Under Different Time and Medical Expense Scenarios				
Account Balance After X Years	**Age of Individual Starting at 25**	**After Individual Medical Expenses of $1,000 Each Yr**	**After Individual Medical Expenses of $500 Each Yr**	**Zero Individual Medical Expenses**
5 Years	30	$5,802	$8,703	$11,604
10 Years	35	$13,207	$19,810	$26,414
15 Years	40	$22,657	$33,986	$45,315
20 Years	45	$34,719	$52,079	$69,439
25 Years	50	$50,113	$75,170	$100,227
30 Years	55	$69,761	$104,641	$139,522
35 Years	60	$94,836	$142,254	$189,673
40 Years	65	$126,840	$190,260	$253,680
Assumes 5% interest per year, and 100% of a $2,000 deductible is deposited each year. One HSA insurer has paid 5% interest on balances in their HSAs and MSAs (during the MSA pilot) since 1/97. Source: The HSA Coalition				

Possible Build-Up of Savings For Families With An HSA				
Under Different Time and Medical Expense Scenarios				
Account Balance After X Years	**Age of Head of Household Starting at 30**	**After Family Medical Expenses of $1,000 Each Yr**	**After Family Medical Expenses of $500 Each Yr**	**Zero Family Medical Expenses**
5 Years	35	$17,406	$20,307	$23,208
10 Years	40	$39,620	$46,224	$52,827
15 Years	45	$67,972	$79,301	$90,630
20 Years	50	$104,158	$121,517	$138,877
25 Years	55	$150,340	$175,397	$200,454
30 Years	60	$209,282	$244,163	$279,043
35 Years	65	$284,509	$331,927	$379,345
Assumes 5% interest per year, and 100% of a $4,000 deductible is deposited each year. One HSA insurer has paid 5% interest on balances in their HSAs and MSAs (during the MSA pilot) since 1/97. Source: The HSA Coalition				