CHAPTER THREE

Reform #2: Establish and Liberalize Universal Health Savings Accounts

Principal Features of Reform #2: Establish and Liberalize Universal Health Savings Accounts

- Open health savings accounts automatically for every citizen with a social security number (or at birth)
- Allow each individual to own a health savings account immediately
- Make all accounts fully portable, fully controlled by the individual
- Permit employer to still serve as center for sign ups and automated contributions to accounts
- Eliminate the requirement for specific deductibles in accompanying insurance coverage
- Allow higher contribution maximums to equal those of total annual out-of-pocket limits
- Permit broader uses for spending (health care products and services and use by family members)
- Ease limits on employer-provided financial incentives for wellness programs
- Allow tax-free rollovers of all health savings accounts to surviving family members

Independent health savings accounts allow individuals to set aside money tax free for *uncovered expenses*, including routine care. Both contributions and disbursements from the HSA are tax free as long as they are spent on health care. The tax incentives of HSAs are different from those in a policy of simply allowing a tax deduction for all out-of-pocket health spending. If all out-of-pocket spending was tax deductible, overall health spending would pay

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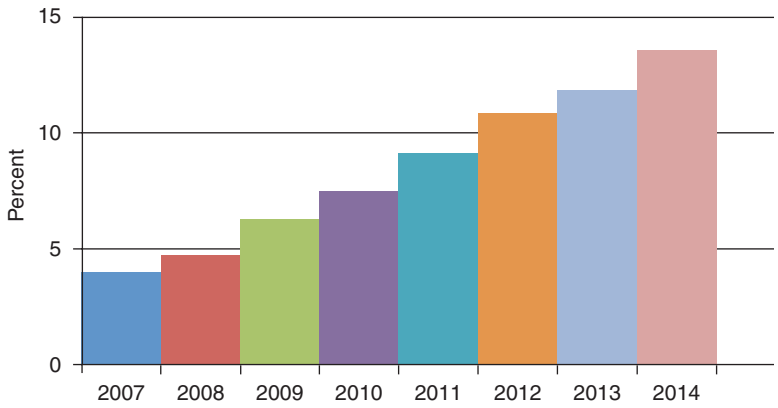

FIGURE 3.1. Enrollment into HSAs among Privately Insured, by Number of Accounts, for Adults under Sixty-Five, by Year.
Enrollment into HSAs has steadily increased since their introduction.
Source: CDC/National Health Care Surveys, National Health Interview Surveys, 2007–2014, Family Core component.

roughly seventy cents for each dollar of health care consumed. On the other hand, HSAs lower the cost of saving. They counter the tax bias against high-deductible plans in a unique way. Instead of simply introducing incentives that subsidize health care spending relative to other spending, they also incentivize saving.

Despite the ACA's restrictions, HSAs continue to grow. Indeed, by increasingly choosing HSAs when given the opportunity, American consumers are approving their value (Figure 3.1). HSAs have grown rapidly over the past decade, with a one-year jump of 29 percent as of the end of 2014, reaching a record high of 14.5 million as of mid-2015.[1] Nearly one-third of all employers (31 percent) now offer some type of HSA, up from just 4 percent in 2005. HSA account holders deposited $21 billion in 2014, and investment assets increased by 40 percent since the previous year, to an estimated $3.2 billion by year end. By the end of 2017, the HSA market will surpass $46 billion in assets held in almost twenty-five million accounts.

Beyond increasing the options for affordable private insurance, these consumer-empowering shifts pairing HSAs with high-deductible coverage reduces costs—the main goal of health system

reforms in the first place. Adding HSAs to high-deductible plans provides more incentive to save than other arrangements; in Haviland's 2011 study, adding HSAs to high-deductible plans correlated to an increased savings of from 5.5 percent to 14.1 percent, or 50 percent to more than double the savings of high-deductible plans alone.[2] System-wide health expenditures would fall by an estimated $57 billion per year if only half of Americans with employer-sponsored insurance enrolled in plans combining HSAs with high deductibles.[3] Savings would increase further if deductibles were truly high, for example, $4,000–$5,000, and if these plans were freed from the added costly mandates of the ACA. Total savings from these reforms could approach $2 trillion over the decade.

The fundamental point is that HSAs, especially with high-deductible coverage, incentivize and leverage the power of consumers. This consumer power is crucial to making health care more affordable while maintaining health care excellence, access, and innovation. The issue is not whether these accounts are effective; it is how to maximize their adoption and eliminate the government rules that serve as obstacles to their use. The first step is to make HSAs available to all Americans, automatically opened for every citizen with a social security number or at birth. All HSAs should be owned by individuals, eliminating more restrictive variants that are tied to specific employers. We should immediately liberalize maximum contributions to the level of total annual out-of-pocket expenses under the ACA (for 2016, $6,850 for individuals and $13,700 for families), ease restrictions on their uses to extend to family members regardless of tax dependency, and allow rollovers to surviving family members. These changes would lower the after-tax burden to high spenders, that is, those with chronic diseases, making HSAs more useful to them. We should also eliminate the counterproductive requirement of owning coverage with government-specified deductibles in order to open an HSA. Removing this rule would introduce more consumer power and incentivize more families to save for out-of-pocket expenses.

TABLE 3.1. Key Changes in Proposed Health Savings Accounts

Topic	Current HSA	New HSA
General eligibility	Must meet many specific requirements (see below and text)	Universal for all citizens; automatically opened at birth
Insurance requirement to contribute to HSA	Government-specified high-deductible coverage	No specified deductible range of coverage
Limits on maximum contribution per year	$3,350 (individual) $6,750 (family)	$6,850 (individual) $13,700 (family)
Uses of HSA funds	Not for nonprescription drugs other than insulin; for self, spouse, and tax dependents only	Over-the-counter drugs are eligible without need for doctor's prescription; for self, spouse, children, parents, and siblings, regardless of tax dependency
Tax deductibility	Contributions and withdrawals deductible	Contributions and withdrawals deductible
Eligibility if enrolled in Medicaid	Not eligible without exemption	Eligible
Eligibility if enrolled in Medicare	Not eligible	Eligible
Eligibility if receiving Social Security	Not eligible	Eligible

Clearly, one could argue about the optimal maximum for HSAs or any other specific amount chosen in this reform package. It is important that we all recognize the purpose of health reforms—good health. HSAs are one important vehicle to achieve that ultimate goal. The differences between current regulations on HSAs and the proposed new rules for HSAs are summarized in Table 3.1 (also see "Key Questions and Answers on the Atlas Plan").

A growing number of employers are charging smokers higher insurance premiums while also offering wellness programs and medical screenings for risk factors, including such tests as blood pressure, body mass index, and cholesterol. In 2015, 96.7 percent of employers offered lifestyle programs,[4] increasing from 73 percent

TABLE 3.1. (continued)

Topic	Current HSA	New HSA
Special Medicare Advantage medical savings accounts (MSAs)	List of restrictions limiting contribution levels, contribution sources, others	Full conversion to standard HSA without any special limits or restrictions
Penalty for ineligible withdrawals	20 percent penalty (plus taxation)	50 percent penalty (plus taxation)
Use for insurance premiums (seniors only)	At age sixty-five, can reimburse yourself for the money that Social Security withholds from your benefits to pay Medicare Part B (which will be $104.90 per month for most people in 2015), and you can make tax-free HSA withdrawals to pay Medicare Part D and Medicare Advantage premiums (but not Medigap premiums)	Allowed for all premiums only if coverage is limited-mandate catastrophic plan
Seniors and ineligible withdrawals	After sixty-five, no penalty (just taxation)	After seventy (new Medicare eligibility age), 20 percent penalty (plus taxation)
Transfers into HSAs from retirement accounts	Not allowed	Allowed without penalty for seniors
Tax treatment to beneficiary on death of HSA holder	If spouse, tax-free rollover into HSA; otherwise, taxable income	If spouse or other family member, tax-free rollover into HSA

in 2011 and 57 percent in 2009. More than one-third of firms with wellness programs include financial incentives to participants, including lower insurance premiums, reduced cost sharing, and higher employer contributions to individual HSAs.[5] Consumers have demonstrated the efficacy of smoking cessation and obesity interventions, including cash financial incentives. Significant gains in productivity, marked reductions in health claims, improvement of chronic illnesses, and major cost savings have resulted and have benefited both participant employees and their employers.[6] Medical costs and absentee day costs fall by about three to six dollars for every dollar spent on wellness programs.[7] The ACA limits the

financial incentives from employers, including cash deposits into employee HSAs, to 30 percent of the cost of that employee's health coverage—we should eliminate this unnecessary, arbitrary limit. Abolishing that limit would expand these powerful motivators for employees, encouraging employees to participate in more wellness programs already proved to improve health and reduce health costs.