TEXAS PUBLIC POLICY FOUNDATION

2009-2010
LEGISLATORS' GUIDE
TO THE ISSUES

CONSUMER-DRIVEN HEALTH CARE

By Kalese Hammonds
Center for Health Care Policy

✯ NOVEMBER 2008

THE ISSUE

Consumer-driven health care has become a popular term with the creation and wide spread adoption of personal health accounts, such as Flexible Spending Accounts (FSAs), Health Reimbursement Arrangements (HRAs), and Health Savings Accounts (HSAs). However, as the popularity of these accounts has grown, so have issues that impact the ability of individuals to make decisions about their health care. Issues like price transparency and an emphasis on measuring quality have emerged as central issues in the health care debate, driven largely by the growth of these new methods of paying for health care services.

Health Savings Accounts

FSAs and HRAs preceded HSAs which were created by Congress in 2003 and first became available on the market in 2004. Since that time, the use of HSAs has grown rapidly around the country, offering greater patient control and more flexible features than even the other similar accounts offer.

HSAs refer to the savings account portion of the combination between a high deductible health plan (HDHP) and a savings account to pay for health care with pre-tax dollars. An HDHP requires participants to meet their deductible by paying medical bills out-of-pocket (presumably with funds in the HSA), rather than co-payments and co-insurance. Premiums are often lower than traditional health insurance plans that feature high premiums and low—or no—deductibles or cost sharing. The average annual premium for a single person age 30-54 was $2,278 ($189/month).

In September 2004, there were 438,000 people enrolled in HSA-qualified HDHP that number has rapidly increased to cover 6.1 million Americans in January 2008. Nationwide, balances in the accounts reached almost $3.2 billion in 2008, up 60 percent from $2 billion at the beginning of 2007. Recent studies show that roughly one-third of people purchasing an HSA-qualified HDHP in the individual market was previously uninsured, perhaps attracted by the low premiums and tax benefits.

HSAs are frequently criticized as being only for the healthy and wealthy, but much of the experience disputes this. Indeed, individuals with chronic conditions can benefit from the flexibility that an HSA provides, not to mention a fixed out-of-pocket expenditure and a family deductible, rather than a per person deductible found in other traditional health insurance plans. In addition, the opportunity to save for health care with pre-tax dollars is at least as appealing as the premium savings that an individual (or an employer) would realize from purchasing a high deductible plan, rather than a plan with low or no deductible and co-payments.

Critics also claim that individuals with an HSA will forego needed care in an effort to save money, which studies have shown to be true, but only in minor circumstances. In fact, it is more reasonable to expect that individuals responsible for making choices about their health care would receive screenings or adhere to treatment regimens more closely if failure to do so results in higher out-of-pocket costs. Overall, HSAs provide individuals with greater control over both health care decisions and the way in which health care services are paid.

continued on back

900 Congress Avenue
Suite 400
Austin, TX 78701
(512) 472-2700 Phone
(512) 472-2728 Fax
www.TexasPolicy.com

Health Reimbursement Arrangement

Another consumer driven alternative to traditional health insurance is the use of Health Reimbursement Arrangement (HRA) as a means for small organizations to offer health care coverage to their employees. HRAs allow employers to reimburse employees for qualified medical expenses using untaxed dollars and give employers the option of allowing unused funds to accrue from year to year, as an incentive to encourage employees to be price conscious when choosing medical providers and other medical services. A unique feature of HRAs is that the Internal Revenue Code permits funds from an HRA to be used to reimburse employees for health insurance premiums.

These arrangements make health insurance more affordable for employees by subsidizing the cost of premiums and allowing employees to purchase cheaper, individual policies whose prices have not been inflated by many of the costly regulations imposed on small group health plans like the guaranteed issue mandate. These arrangements give employees the option of buying individual policies or using the funds in the HRA to pay for approved medical expenses.

Recent clarification of the Texas Insurance Code qualifies reimbursements for premium payments as de facto small group policies that are subject to all of the rules and regulations created by the *Health Insurance Portability and Accountability Act* (HIPAA). By classifying these reimbursements as small group insurance policies, the Texas Insurance Code forces coworkers to share in the cost of insuring fellow employees enrolled in the same plan by enforcing costly mandates such as guaranteed issue to individual plans purchased with funds from an HRA. Additionally, this interpretation strips employers of one of their most economical options for providing health care coverage and may very likely force many small employers to drop health coverage all together.

THE FACTS

- ★ In September 2004, 438,000 people had an HSA-qualified HDHP and by January of 2008, 6.1 million lives were covered by HSA-qualified HDHPs.
- ★ By February 2006 combined account balances in HSAs reached $1 billion.
- ★ In 2008, 358,000 Texans were enrolled in HSA/HDHP, the fourth highest in the nation.
- ★ Small businesses are strongly embracing HSAs—HSA enrollment in the small group market increased 70 percent over the past year.

RECOMMENDATIONS

- ★ Offer state employees an option to enroll in an HSA/HDHP.
- ★ Clarify existing state statute so that the purchase of individual health insurance, through an HRA, is not subject to small group requirements

RESOURCES

- *Consumer-Driven Price Transparency: Making Health Care Prices Transparent Through the Free Market* by Mary Katherine Stout, Texas Public Policy Foundation (June 2006) http://www.texaspolicy.com/pdf/2006-06-PP-hctransparency-mks.pdf.
- *Individual or Group Coverage: Regulating Health Reimbursement Arrangements in Texas* by Kalese Hammonds and Mary Katherine Stout, Texas Public Policy Foundation (Feb. 2008) http://www.texaspolicy.com/pdf/2008-02-PP06-HRA-kh-mks.pdf.
- *HSAs for State Employees* by Mary Katherine Stout, Texas Public Policy Foundation (Aug./Sep. 2006) http://www.texas-policy.com/pdf/2006-09-PP-HSAsforstate-mks.pdf.
- *Health Savings Accounts: Affordable, Portable, and Accessible Health Insurance* by Mary Katherine Stout, Texas Public Policy Foundation (Mar. 2005) http://www.texaspolicy.com/pdf/2005-03-pp-hsa.pdf.
- *Healthy Competition: What's Holding Back Health Care and How to Free It* by Michael Cannon and Michael Tanner, CATO Institute (2007).
- *Health Savings Accounts: Answering the Critics, Parts I-III* by John Goodman and Devon Herrick, the National Center for Policy Analysis, Brief Analysis Nos. 544, 545, and 546 (Mar. 2006) http://www.ncpa.org/pub/hea.html.

Texas Public Policy FOUNDATION