Consumer-Driven Health Care

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THE ISSUE

"Consumer-driven health care" has become an often-heard term that generally describes a personal health account, such as a Flexible Spending Account (FSA), Health Reimbursement Arrangement (HRA), or a Health Savings Account (HSA).

As the popularity of these accounts has grown, however, so have issues that affect the ability of individuals to make decisions about their health care. Issues like price transparency and an emphasis on measuring quality have emerged 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 then, HSA use has grown rapidly as these instruments offer greater patient control and even more flexible features than similar accounts.

An HSA combines a high deductible health plan (HDHP) with a savings account used to pay for health care with pre-tax dollars. An HDHP requires participants to meet their deductibles by paying medical bills out-of-pocket (presumably with funds in the HSA) rather than with co-payments and co-insurance. Cost savings average 12-20 percent in the first year with an inflation rate of 3-4 percent thereafter.

In September 2004, there were 438,000 people enrolled in an HSA-qualified HDHP; in January 2009 there were 8 million. The overall growth in HSAs increased 21.5 percent from 2008-09, after growth of 35.5 percent in 2007-08 and 40.6 percent from 2006-07. Total HSA deposits—$9.1 billion in 2009—were projected to reach $16 billion in 2010. Recent studies show that about 40 percent of those purchasing an HSA-qualified HDHP in the individual market were previously uninsured, perhaps attracted by the low price and tax benefits.

HSAs are frequently criticized as being only for the healthy and wealthy, but this simply is not the case. 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 the per-person deductible found in other plans. In addition, the opportunity to save for health care with pre-tax dollars is at least as appealing as the premium savings.

Critics claim that individuals with HSAs will forego needed care in order to save money. However, studies have generally concluded that not to be the case. Overall, HSAs provide individuals with greater control over both health care decisions and the way health care services are paid.

Health Reimbursement Arrangement

Another consumer-driven plan is the 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 pre-tax dollars. Employers also have 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 these funds to be used 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 that are not price inflated by many of the costly regulations imposed on small group health plans, such as the guaranteed issue mandate.

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However, Agency interpretation of the Texas Insurance Code qualifies reimbursements for premium payments as de facto small group policies 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, coworkers are forced to share in the cost of insuring fellow employees enrolled in the same plan by enforcing the costly guaranteed issue mandate on individual HRA plans. Additionally, this interpretation strips employers of one of their most economical options for providing health care coverage.

THE FACTS

- ★ In September 2004, 438,000 people had an HSA-qualified HDHP; in January 2009, there were 8 million. In 2009, combined account balances in HSAs reached $9.2 billion. They are projected to reach $16 billion in 2010.
- ★ In 2008, 358,000 Texans were enrolled in an HSA/HDHP, the fourth highest number in the nation.

RECOMMENDATIONS

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

RESOURCES

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.

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.

HSAs for State Employees by Mary Katherine Stout, Texas Public Policy Foundation (Aug./Sept. 2006) http://www.texaspolicy.com/pdf/2006-09-PP-HSAsforstate-mks.pdf.

American Academy of Actuaries, *Emerging Data on Consumer Driven Health Plans* (May 2009).

Healthy Competition: What's Holding Back Health Care and How to Free It by Michael Cannon and Michael Tanner, CATO Institute (2007). ★

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