

Health Savings Accounts: The First Year In Review...

February 15, 2005



health savings accounts

eHealthInsurance

Introduction:

- On January 1, 2004, Health Savings Accounts became available to Americans as a way to help people get affordable health insurance, experience flexibility in the use of their healthcare dollars today, and save for their future medical needs tax-free. As the largest source of health insurance for individuals and families, eHealthInsurance immediately began offering, nationwide, health insurance plans that are Health Savings Account-eligible (HSA-eligible plans) for consumers to use with Health Savings Account (HSA) banking options.
- In April of 2004, eHealthInsurance released “Health Savings Accounts: The First Three Months,” the first overview of individual and family adoption of HSA-eligible plans. This preliminary report provided some insights into the market and generated additional questions. In August of 2004, we responded with an updated report, “Health Savings Accounts: The First Six Months.”
- This report, “Health Savings Accounts: The First Year in Review,” provides a snapshot of the HSA market as defined by HSA-eligible plans sold by eHealthInsurance to individuals and families in their first year, January 1 through December 31, 2004. The report’s focus is on the continued adoption of HSA-eligible health insurance plans and highlights key trends between the first six months and the full year of HSA-eligible health plan purchases. For the first time in this report, we also provide comparable data on the purchase of Non HSA-eligible plans with data on the traditional individual and family health insurance market derived from our semi-annual “Cost and Benefits of Individual and Family Health Insurance Report” (September, 2004).
- This report will:
 - Identify and compare key demographics of purchasers of HSA-eligible health insurance plans purchased through eHealthInsurance in 2004;
 - Show the premiums paid by purchasers of HSA-eligible health insurance for all of 2004 and compare them with Non HSA-eligible plan premiums paid; and
 - Outline the health insurance benefit levels included in the HSA-eligible plans purchased by consumers in 2004.
- eHealthInsurance is the largest source of health insurance in the United States for individuals and families and represents over 140 of the leading health insurance carriers across all 50 states. Our nationwide coverage enables us to provide a unique analysis of consumer purchasing.

Methodology:

- The “Health Savings Accounts: The First Year in Review” report is based on a sample of thousands of HSA-eligible plans sold between January 1 and December 31, 2004 through eHealthInsurance.com to individuals and families across the U.S. In previous reports on the HSA market, our samples were based on submitted applications rather than sold policies. To provide a consistent data set upon which to draw comparisons, we recast the data for the first six months of the year to include data on sold policies in that time period.
- In this report we also present comparable data on Non HSA-eligible plans. Non HSA-eligible plan data is derived from our semi-annual “Cost and Benefits on Individual and Family Health Insurance Report” (September, 2004) which analyzes a sample of 82,000 health insurance policies purchased from all health insurance sales through www.eHealthInsurance.com from March to August 2004.
- This report does not address consumers’ banking participation in the Health Savings Account portion of a HSA program. This will be a subject of future reports issued by eHealthInsurance.
- “HSA-eligible health insurance plans” is defined as those health insurance plans designated by health insurance companies to be in agreement with U.S. Department of the Treasury HSA guidelines. These include deductibles* of a minimum of \$1,000 for individuals and \$2,000 for families, and out-of-pocket limits** of \$5,000 for individuals and \$10,000 for families per year. “Non HSA-eligible health insurance plans” is defined as all other health insurance plans that are not designated specifically as meeting the U.S. Department of the Treasury guidelines for HSAs.

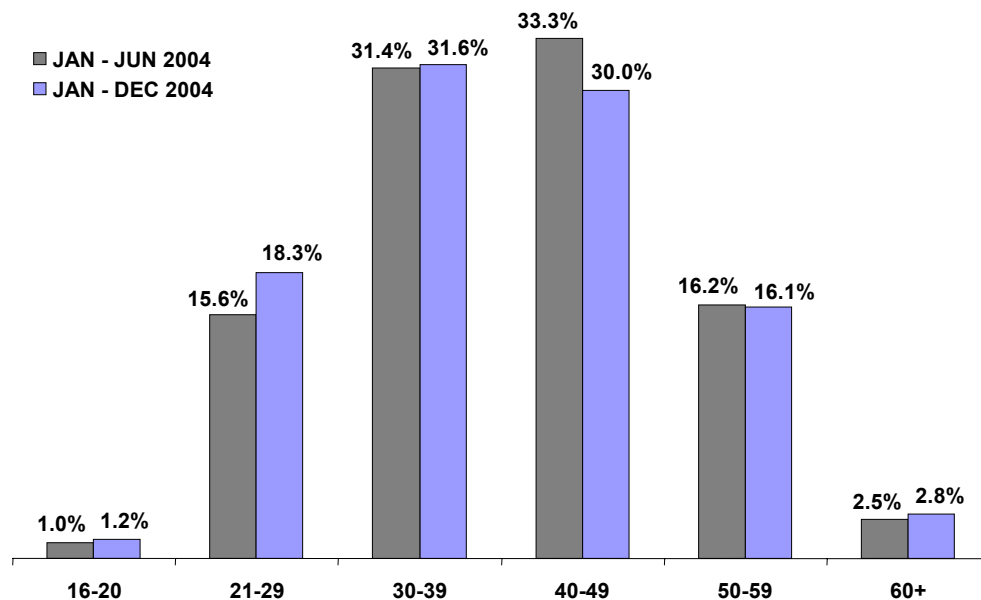
* “Deductible” is the amount of money you must pay each year to cover your medical care expenses before your insurance policy starts paying. Higher deductibles usually result in lower monthly premiums.

** “Out-of-pocket limit” is the dollar amount set by an insurance company that limits the amount a member has to pay out of his or her own pocket for particular health care services during a particular time period.

Highlights on HSA-eligible plan adoption in 2004:

- Nearly half of the people who purchased HSA-eligible plans were 40 years old or above.
- The average age of purchasers of HSA-eligible plans is 40, whereas the average age for purchasers of Non HSA-eligible plans is 35.
- HSA-eligible plans are equally attractive to both individuals and families. 51% of purchasers are individuals and 49% are families (37% of purchasers are families with children, 12% are couples without children).
- HSA-eligible plans are being adopted by all income levels; 40% of HSA-eligible plans were purchased by people with incomes of \$50,000 or below.
- HSAs may play a role in helping uninsured people to get health insurance. More than two-thirds of HSA-eligible plan purchasers who were previously uninsured for more than six months had incomes of \$50,000 or less.
- HSA-eligible plans are affordable. 89% of HSA-eligible plan purchasers paid \$200 or less per person per month.
- 85.4% of HSA-eligible plans purchased in 2004 paid 100% of Office Visits, Surgery, Hospitalization, and Lab/X-Ray services after the plan deductible was met.
- 99.4% of HSA-eligible plans purchased in 2004 included prescription drug benefits.

HSA-eligible Health Plan Purchasers by Age



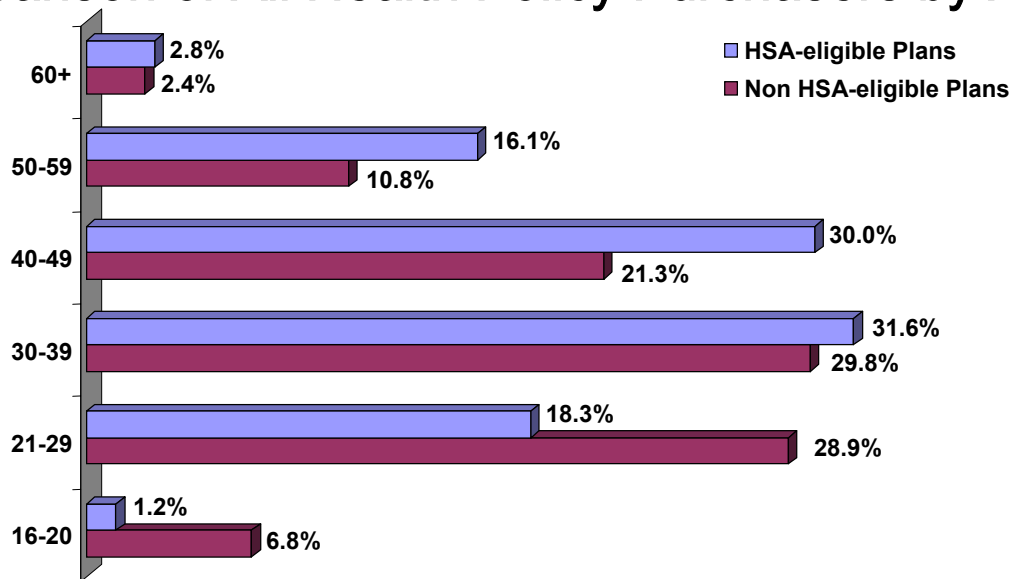
Source: [eHealthInsurance](#)

Figure 1

Nearly half of the people who purchased HSA-eligible plans were 40 years old or above.

- The age of purchasers of HSA-eligible plans remained consistent throughout 2004.
- Small changes can be seen in two age groups. For the full year, people in the 21-29 year age bracket comprised approximately 3 percentage points more and people in the 40-49 year age group comprised 3 percentage points less of HSA-eligible plans purchased than in the first half of the year.
- Since the beginning of the year, we observed the 40+ market leading the early adoption of HSAs. These consumers may be pre-disposed to understanding the benefits of the premium savings and tax advantages of HSA programs. This group may also be more likely to receive guidance from an accountant or financial planner who may be informing them of the availability of HSAs.

Comparison of All Health Policy Purchasers by Age



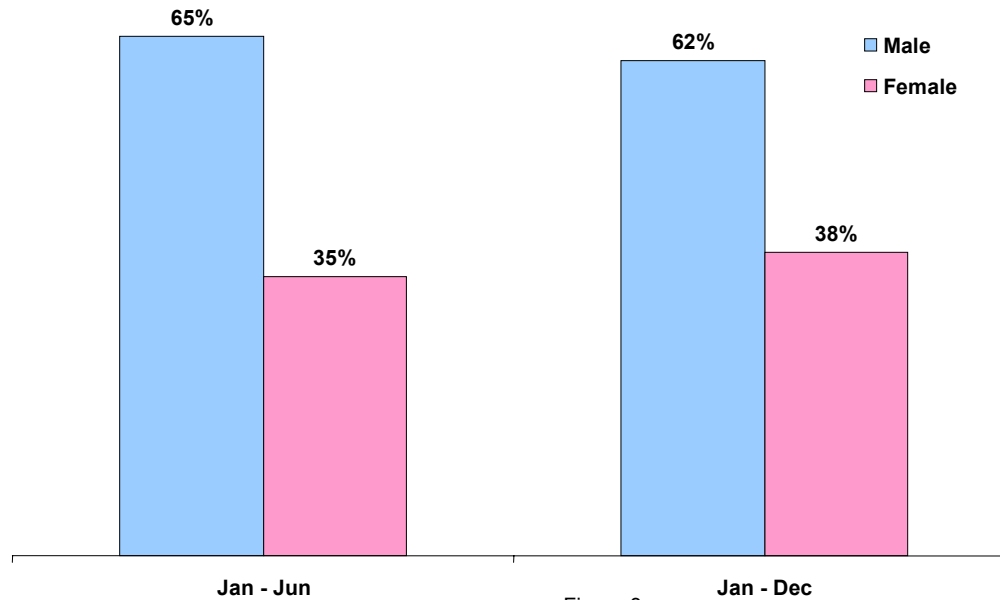
Source: **eHealthInsurance**

Figure 2

- HSA-eligible plan purchasers skew older than Non HSA-eligible plan purchasers.
- 49% of HSA-eligible plan purchasers are represented by the over 40 age groups, while 51% are represented by the under 40 age groups.
- On the other hand, 34% of Non HSA-eligible purchasers are represented by the over 40 age group while nearly 66% are represented by the under 40 age group.
- We believe these gaps may represent the level of understanding and interest in tax planning and long-term savings of many people further along in their careers. These differences may indicate the desire of the older segments to empower themselves to make their own healthcare decisions and to remain in control of more of their own money.
- This may call for more education to younger Americans on both the short-term savings and the long-term benefits of HSAs. This will increase their understanding of the opportunity to reap the most positive effects of HSAs and build their health savings for the future.

The average age of purchasers of HSA-eligible plans is 40, whereas the average age for purchasers of Non HSA-eligible plans is 35.

HSA-eligible Plan Purchasers by Gender



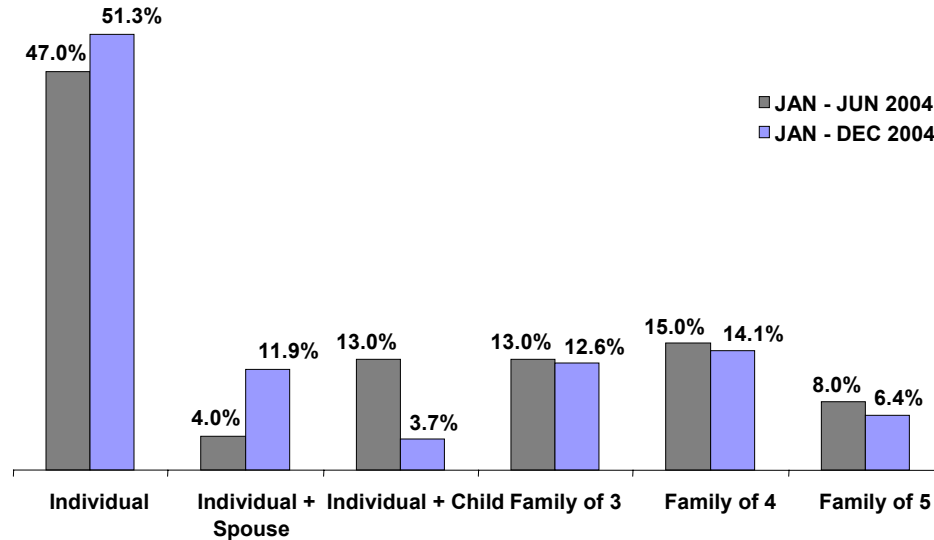
Source: **eHealthInsurance**

Figure 3

- More men continue to purchase HSA-eligible plans than women, although the gap closed slightly. For the full year versus the first half of the year, women made up three percentage points in purchases of HSA-eligible plans by gender.
- Although these statistics would lead us to believe that men are prominent purchasers of health insurance, studies have shown that women are significant influencers in their family insurance decisions.

Men predominate in the purchase transaction of HSA-eligible plans by two-to-one over women.

Family Size of HSA Policies Purchased



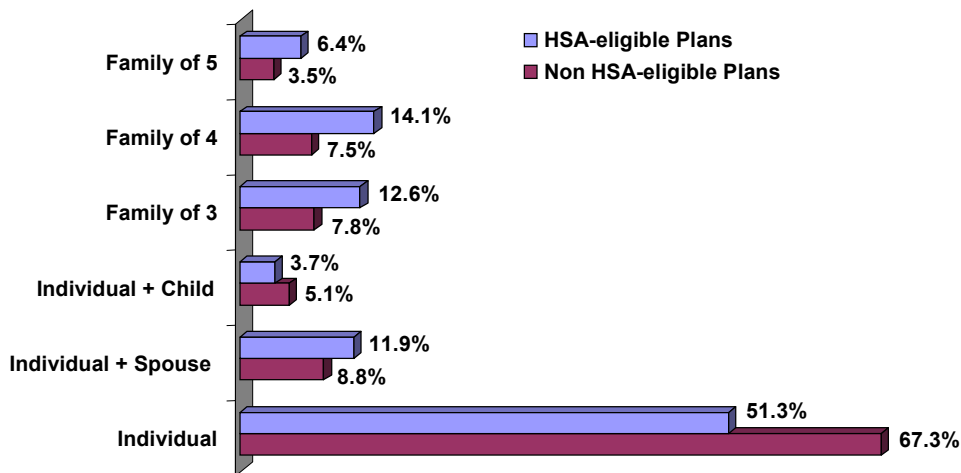
Source: [eHealthInsurance](#)

Figure 4

- HSA-eligible plans are equally attractive to individuals and families. 51% of purchasers are individuals and 49% are families (37% are families with children, 12% are couples without children) .
- Couples without children who purchased HSA-eligible plans increased their share of total HSA-eligible purchases by almost eight percentage points in the full year report over the first half of the year. Single parents went down in this period by 9.3 percentage points and individuals buying HSA-eligible plans went up by 4.3 percentage points.
- Many industry-watchers expected that HSA-eligible plans would not be attractive to families. This data shows that nearly half of purchasers are families, and 37% are families with children. By choosing the right HSA-eligible health insurance plan and funding a HSA with pre-tax dollars, families can use that money to pay for medical expenses that may or may not be typically covered by health insurance companies and save money.

37% of purchasers of HSA-eligible plans are families with children.

Family Size of All Policies Purchased



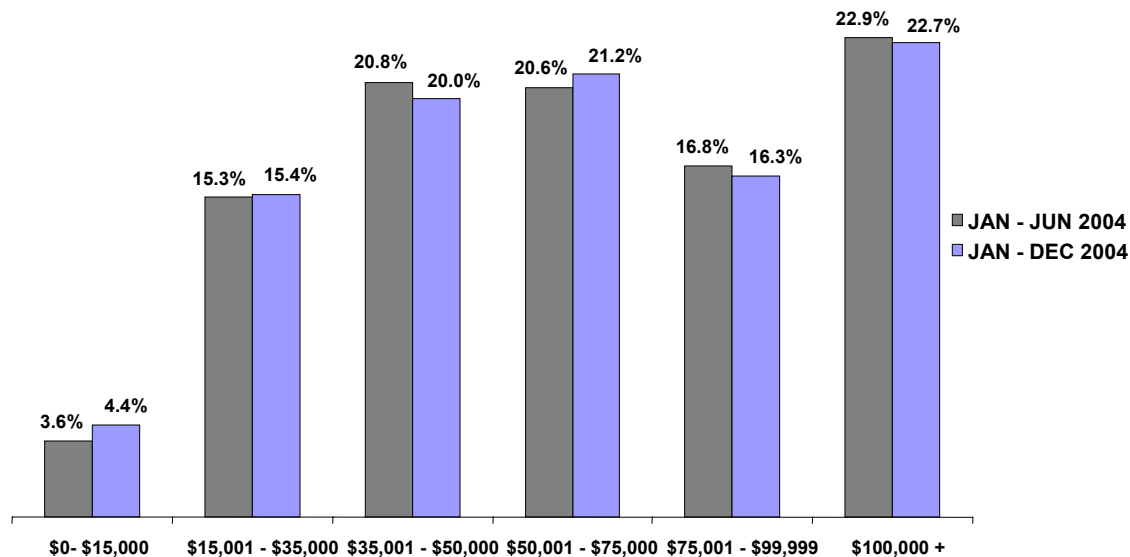
Source: **eHealthInsurance**

Figure 5

- Of those who purchase HSA-eligible plans there is a larger percentage of families as compared with those who purchase Non HSA-eligible plans. On the other hand, of those who purchase Non HSA-eligible plans, a larger percentage are individuals.
- Of those who purchase HSA-eligible plans, 51.3% are individuals and 48.7% are families.
- Of those who purchase Non HSA-eligible plans, 67.3% are individuals and 32.7% are families.
- Families tell us that the key reasons for choosing HSA-eligible plans are a combination of cost savings, good benefits after the deductible is met, and the flexibility and control of spending on medical services and products.

Of families with children, more than 35% purchased HSA-eligible plans versus nearly 24% that purchased Non HSA-eligible plans in 2004.

HSA Purchasers by Income Level



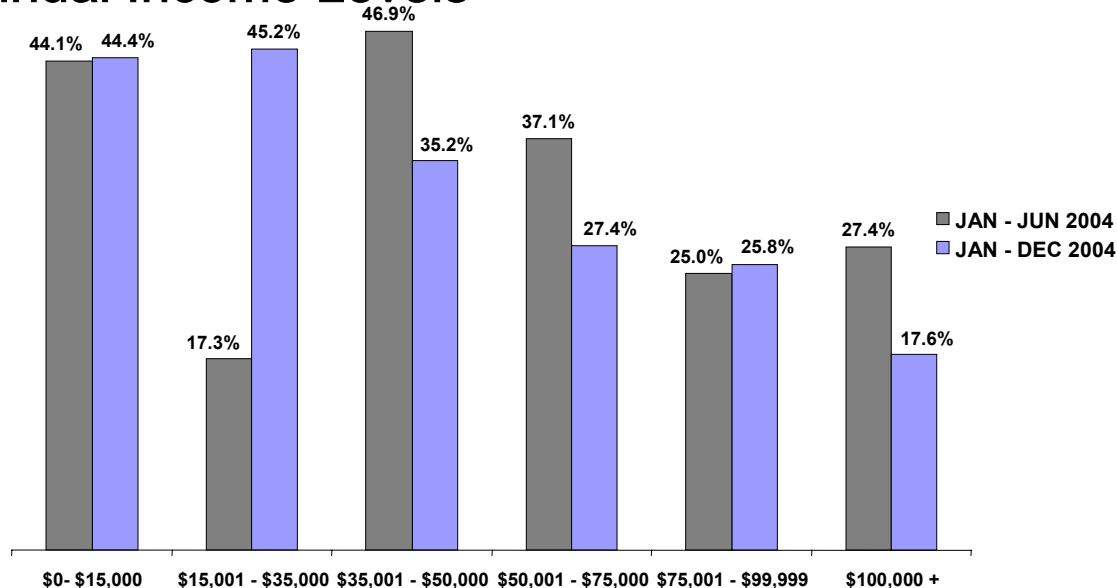
Source: **eHealthInsurance**

Figure 6

- The relative distribution of HSA-eligible health plan purchases by income level remained consistent throughout the year.
- This includes the 40% of people with lower incomes (\$50,000 or below) who bought HSA-eligible plans between January and June 2004 and January and December 2004, with the most significant increase in the \$0 - \$15,000 income group.
- For the 60% of people with higher incomes (over \$50,000) who bought HSA-eligible plans between January and June 2004 and January and December 2004, there was little change.

In 2004, 40% of HSA-eligible plans were purchased by people with incomes of \$50,000 or below.

Percent of Previously Uninsured HSA Purchasers by Annual Income Levels



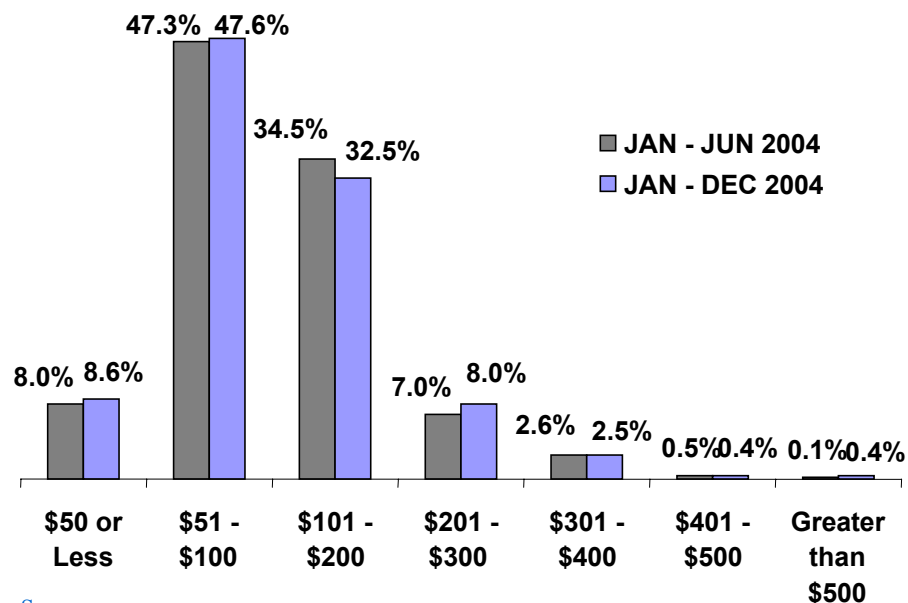
Source: **eHealthInsurance**

Figure 7

- More HSA-eligible plan purchasers at lower income levels in 2004 were previously uninsured for at least six months before purchasing health insurance through www.eHealthInsurance.com.
- Nearly one-third of HSA purchasers for all income levels were previously uninsured for at least six months.
- The relative percentage of HSA-eligible plan purchasers that reported being previously uninsured and with incomes in the \$15,000 – \$35,000 range increased by 161% between the first half and full year reports.
- The distribution of HSAs purchased by the previously uninsured in the higher income brackets (\$50,000+) is less as compared to the lower income brackets, and declined between the first half and full year reports in all but the \$75,000 – \$99,999 range.

More than two-thirds of HSA-eligible plan purchasers who were previously uninsured for more than six months had incomes of \$50,000 or less.

Monthly Premiums of HSA-Eligible Plans (per person per month*)



Source: [eHealthInsurance](#)

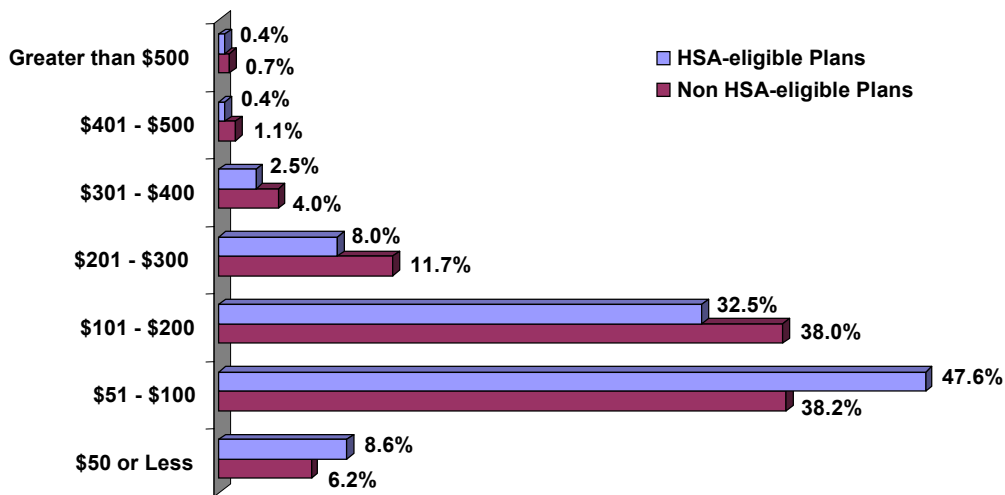
Figure 8

- The prices paid by HSA-eligible plan purchasers in 2004 remained consistent throughout the first year.
- 56% of HSA-eligible plan purchasers paid \$100 or less per month.
- The percentage of people purchasing HSA-eligible plans with monthly premiums of \$101-200 per person per month went down by two percentage points between the first half and the full year reports.

* Note: these numbers are for individuals and families combined, reflecting the costs paid per person per month.

89% of HSA-eligible plan purchasers paid \$200 or less per person per month.

Purchased Health Plans by Monthly Premiums



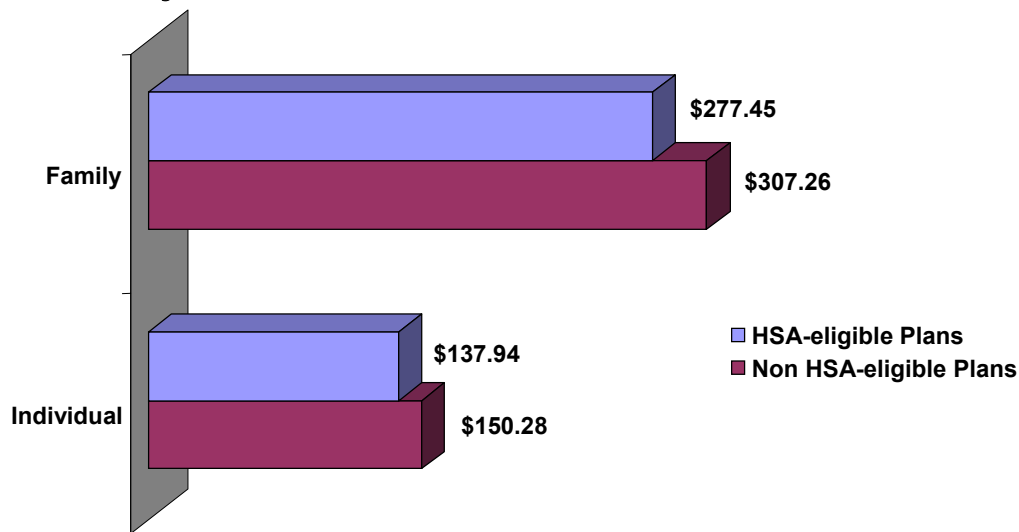
Source: **eHealthInsurance**

Figure 9

- 56% of HSA-eligible plans purchased in 2004 cost purchasers \$100 or less per person per month, vs. 44% of Non HSA-eligible plans.

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Average Monthly Premium Price for Individual and Family Policies



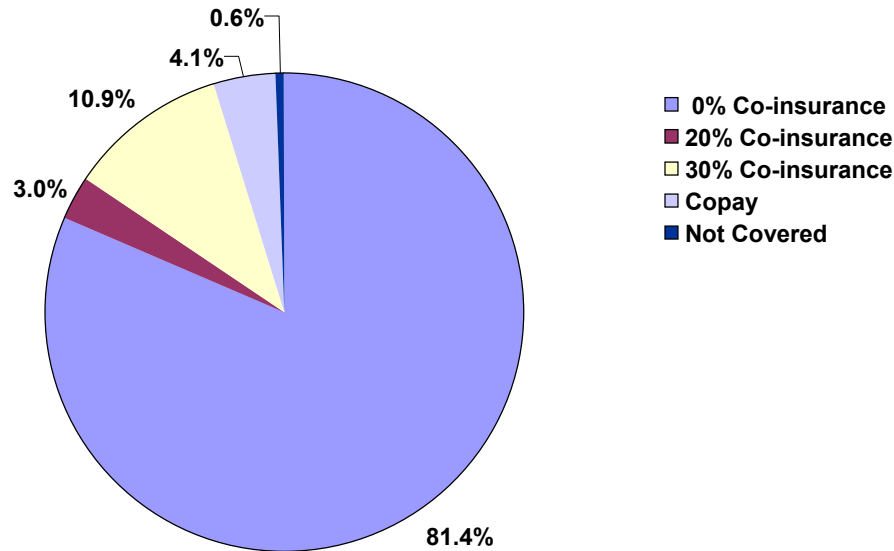
Source: **eHealthInsurance**

Figure 10

- The average price of HSA-eligible plans versus Non HSA-eligible plans show a cost difference for both families and individuals. Family purchasers experienced a greater cost difference than single purchasers of HSA-eligible plans.
- We expect to see the gap widen on the cost differences between HSA-eligible and Non HSA-eligible plans in 2005. Once health insurance companies understand the needs of HSA buyers, we expect that plans will be introduced that better meet their needs -- and through increased adoption, they may be priced even more competitively versus Non HSA-eligible plans.

Families saved the most overall between HSA-eligible plans and Non HSA-eligible plans, with an average cost differential of 9.7%.

HSA Prescription Drug Benefits by Level of Co-insurance



Source: **eHealthInsurance**

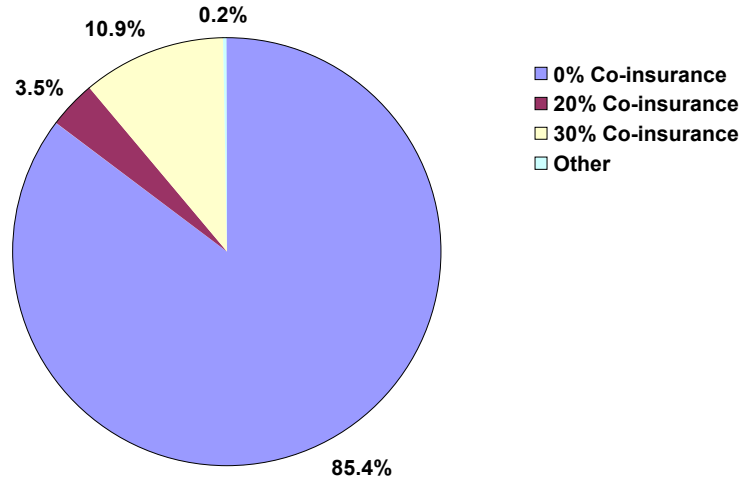
Figure 11

- Nearly all HSA-eligible plans provide some level of coverage for prescription drugs after the plan deductible is met.
- The prescription drug benefit is provided by plans across the country in various ways, but 81% of HSA-eligible plans pay 100% of the costs after the plan deductible is met.

99.4% of HSA-eligible plans purchased in 2004 had prescription drug benefits included.

HSA Benefits Available with Co-insurance:

Office Visits, Surgery, Hospitalization, Lab/X-Ray



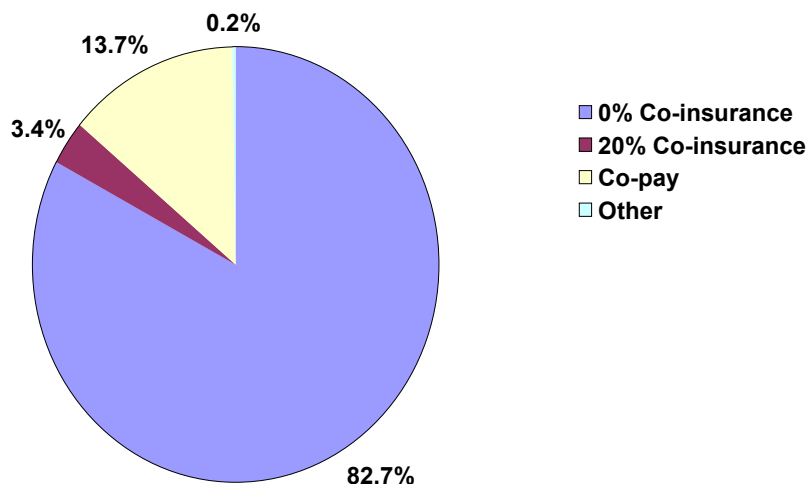
Source: **eHealthInsurance**

Figure 12

- HSA-eligible plans usually provide reasonable levels of co-insurance for Office Visits, Surgery, Hospitalization, and Lab/X-Ray benefits after the plan deductibles are met.

85.4% of HSA-eligible plans purchased in 2004 paid 100% of Office Visits, Surgery, Hospitalization, and Lab/X-Ray services after the plan deductible was met.

HSA Coverage for Emergency Room Visits by Level of Co-insurance



Source: **eHealthInsurance**

Figure 13

- Nearly 83% of all HSA-eligible plans purchased in 2004 covered 100% of emergency room costs once the purchaser's deductible was met.
- With more HSA-eligible plan supply coming into the market in the last six months of the year, there is more diversity in the plan offerings. This includes optional levels of co-insurance and co-pays. Some of these plans also credit the purchaser for the up-front co-pays if they are admitted to the hospital.

Nearly 83% of HSA-eligible plans purchased in 2004 paid 100% of emergency room services after the plan deductible was met.