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HSAs vs. HSSAs: Two Steps Forward, One Step Back

The Medicare Prescription Drug and Modernization Act of 2003 (H.R. 1) includes two new options for paying health care expenses: Health Savings Accounts (HSAs) and Health Savings Security Accounts (HSSAs). Both provisions are similar to the current Medical Savings Account (MSA) option in that they allow people to set aside tax-free money in a personally owned and directed account to be used for smaller and routine medical expenses. However, there are also significant differences. Health Savings Accounts would be an important new option that would drive down the cost of health insurance, reduce the number of uninsured and encourage consumers to be value-conscious shoppers in the health care marketplace. By contrast, Health Savings Security Accounts could discourage people from buying health insurance and add significant federal cost to the legislation with no improvement in health coverage.

HSAs vs. HSSAs. Neither HSAs nor HSSAs are plagued with some of the restrictions that have limited the use and effectiveness of MSAs, such as the strict limits on the amount of the MSA contribution, a prohibition against both the employer and employee contributing to the MSA, and exclusions of companies with more than 50 employees.

Health Savings Accounts allow employers, employees and individuals to make tax-free contributions up to 100 percent of the deductible of a qualified high-deductible insurance policy. The deductible must be between \$1,000 and \$2,250 for individuals and \$2,000 and \$4,500 for families. In addition, up to \$500 in unused Flexible Spending Account (FSA) funds may be rolled over into an HSA at year's end. Qualified medical withdrawals from the HSA are tax free, and there is no income eligibility requirement to establish an account.

Health Savings Security Accounts are limited to qualified individuals based on income. Tax preferences phase out above incomes of \$75,000 for individuals and \$150,000 for families. Qualifying deductibles (not less than \$500 for individuals and \$1,000 for families) are lower than those required under HSAs. However, unlike HSAs, people may participate without buying any health insurance coverage. Individuals who are either uninsured or participate in a qualified minimum deductible plan may contribute up to \$2,000 annually to an HSSA, and those with dependents may contribute up to \$4,000. Individuals, employers and family members may contribute to an HSSA. In addition, up to \$500 in unused FSA funds may be rolled over into an HSSA. If an individual is not eligible for an HSSA, the FSA funds may be transferred to a pension plan.

HSSAs also have a "catch-up provision" that is not available with HSAs. Specifically, individuals age 55 and older may make additional catch-up contributions of up to \$500 in 2004, gradually increasing to \$1,000 by 2009.

HSAs Are MSAs without the Restrictions. The IRS has noted that 73 percent of those choosing MSAs were previously uninsured. People with MSA plans have health insurance coverage for major health care expenses, and most have MSA funds left over at year's end. And because MSA money belongs to the individual, patients have a reason to talk to their doctor and ask for the most cost-effective therapy, such as a generic drug which would be comparable to a brand name one. Because HSAs are MSAs without the restrictions, even more Americans will be able to benefit from them.

HSSAs Are Savings Accounts, Not Insurance. There is one crucial difference between HSAs and HSSAs: HSSAs do not require people to have any health insurance coverage. The public policy problem is that HSSAs may encourage people to forego health insurance, thinking they can pay for health care out of their HSSA. If a major medical event were to occur, the individual or family would likely see its HSSA funds quickly depleted, leaving the patient exposed to very high medical costs. Since HSSAs have income limits, uninsured participants will likely be the ones least able to pay high health care costs out of pocket. Moreover, most health insurance relies on a managed care network that has negotiated low health care provider fees. The uninsured patient generally must pay the doctor's and hospital's much higher "standard" prices rather than the lower discounted prices.

HSSAs are simply tax-free savings accounts that allow people to receive a tax break for their medical expenses; thus they confuse savings with insurance. Insurance protects people's assets; savings accounts (like HSSAs) are assets.

If Congress wants to encourage Americans to save more money for future needs – whether medical, retirement or something else – it should create tax-preferred programs that would achieve that goal. But savings are not health insurance and should not be relied upon as such.

Conclusion. The intent of both HSAs and HSSAs is to provide Americans with more health insurance options, decrease the number of uninsured and encourage patients to be value-conscious health care consumers. HSAs – which are similar to MSAs, only better -- will achieve those goals; HSSAs won't.

| | Proposed HSAs | Proposed HSSAs |
|--|--|---|
| Who owns the account? | Individual/employee. | Individual/employee. |
| Who funds the account? | Individual and/or employer. | Individual and/or employer. Family members may make after-tax contributions. |
| How is the account funded? | Money is deposited directly into the account. | Money is deposited directly into the account. |
| Is it a personal account? | Yes. | Yes. |
| What type of corresponding health coverage is needed? | Only high deductible between \$1,000 to \$2,250, with total out of pocket of \$3,000 for an individual. Family is \$2,000 to \$4,500, with total out of pocket of \$5,500. | None. Individuals are eligible even if they have no health coverage. If they do have health coverage, the minimum deductible must be \$500 for an individual or \$1,000 for a family. |
| Does interest accrue? | Interest can be accrued tax free in qualified HSAs. | Interest can be accrued tax free in qualified HSSAs. |
| Is the account portable? | Rollover is allowed. Individual owns the HSA and takes it when leaving employment. | Rollover is allowed. Individual owns the HSSA and takes it when leaving employment. |
| Can funds be used for non-medical expenses? | Funds used for non-medical expenses are taxed as income and incur a 15% penalty. After age of Medicare eligibility, there is no penalty. | Funds used for non-medical expenses are taxed as income and incur a 15% penalty. After age of Medicare eligibility, there is no penalty. |
| What is the tax treatment? | Qualified HSAs are tax free as long as funds are spent on medical care defined under §220(d)(2). | Qualified HSSAs are tax free as long as funds are spent on medical care defined under §220(d)(2). |
| Are there time or participation limits? | Permanent program with no participation cap. | Permanent program with no participation cap. |
| Is there a “catch up” contribution provision for older workers? | No. | Yes. Those age 55 and older may make additional contributions to their HSSA – starting at \$500 in 2004 and increasing to \$1,000 by 2009. |
| Are there other income eligibility requirements? | No. | Yes. Contributions phase out above \$75,000 for individuals and \$150,000 for families. |
| How are unused FSA balances treated? | Up to \$500 may be transferred annually from an FSA to an HSA. If there is no HSA, the funds may be transferred to a pension. | Up to \$500 may be transferred annually from an FSA to an HSSA. If there is no HSSA, the funds may be transferred to a pension. |

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