



# The Council for Affordable Health Insurance's ISSUES & ANSWERS

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## *What's Next for HSAs?*

Health Savings Accounts (HSAs) became available in January 2004 as part of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. Since then, hundreds of thousands of Americans, many of them uninsured, have opted for an HSA plan.

- America's Health Insurance Plans (AHIP) surveyed its members selling HSA plans and found that as of March 2005, 1,031,000 people were covered by the HSA/HDHP (high-deductible health plan). This figure is more than double the figure reported by AHIP members in September 2004.<sup>1</sup>
- And a new survey of 555 large employers by Watson Wyatt and the National Business Group on Health found that 8 percent currently offer HSAs, and 18 percent plan on offering them in 2006.<sup>2</sup>

But what about the public sector? Can the public sector benefit from consumer driven options like HSAs?

**Public Sector Programs.** Millions of Americans get their health insurance through some type of public sector program. For example, in 2003:

- 8.1 million people participated in the Federal Employee Health Benefits Program (FEHBP), the health insurance program for federal workers and their dependents;<sup>3</sup>
- 15.7 million worked for state or local governments;<sup>4</sup>
- About 39 million low-income Americans participated in Medicaid's acute care health insurance (i.e., excluding long term care and the disabled beneficiaries);<sup>5</sup>
- Finally, as of June 2004, the last data made available, 181,441 Americans were in one of the 33 state high-risk pools because they were unable to buy private health insurance because of a pre-existing medical condition.

All of the above could have an HSA option if states allowed it. Indeed, former director of the federal Office of Personnel Management Kay Cole James courageously decided in 2004 — in the face of heavy criticism from people who know little or nothing about health insurance or HSAs — to allow federal employees participating in the FEHBP to have access to an HSA. [See the website reproduction.] The question now is will the states do the same?

**HSAs for State and Municipal Employees?** State and local governments are employers, too. Since they offer health insurance coverage to their employees — and many are seeing premium increases in the double digits — they should consider consumer driven health care models which

have a proven track record for stabilizing health care costs.

An HSA plan combines a high-deductible health insurance policy that covers catastrophic medical costs with a savings account. The account is controlled by the insured person and used to pay for smaller and routine health care expenses below the deductible. Because money in the HSA belongs to the individuals, they have a financial incentive to be value-conscious shoppers in the health care marketplace, which reduces utilization, lowering the growth of health care costs and therefore premiums.

Several states, including Alaska, Iowa, Minnesota, Montana, New Hampshire, Texas and Washington, are looking at Health Savings Accounts as a state-employee option, although some are facing significant opposition, especially from unions.<sup>6</sup> If the experience of insurers offering HSAs in the private sector provides any indication, states will see significant savings by moving to HSA plans.

*Issues for states to consider:*

- Can the governor authorize an HSA option by executive order, or are the insurance plans governed by a union board? If the latter, legislative action may be needed to offer an HSA option.
- Federally qualified HSA contributions are tax deductible. Would offering HSAs to state employees have any tax consequences for the state?
- Should HSAs be one of many choices being offered to state employees?

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News Release

FOR IMMEDIATE RELEASE  
January 20, 2005

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**16,546 Federal Employees Register for Health Savings Account Information on OPM Site; 241,000 Log-on In 5 Months**

Increase highlights strong interest among federal employees in HSAs

Washington, D.C. - Federal employees' interest in Health Savings Account (HSA) continues to rise according to the U.S. Office of Personnel Management's (OPM) recent statistics showing 16,546 people have registered their e-mail addresses in the HSA website's ([www.opm.gov/hsa](http://www.opm.gov/hsa)) database requesting more information. To date, 241,216 Federal employees have logged on to the site since its September 20 debut.

Source: Office of Personal Management Website, <http://www.opm.gov/>

- Would the account be fully or partially funded by the state?
- Is the HSA contribution considered a “gift of public funds” (i.e., additional employee monetary compensation, which some states don’t allow)?

**Risk Pools.** Health insurance risk pools are special safety net programs created by state legislatures to provide a safety net for the 1 to 2 percent of the population that is medically uninsurable.

Established over 25 years ago, high-risk pools operate in 33 states and in 2004 covered 181,441 people.<sup>7</sup> In August 2002, the federal government approved funding of up to \$1 million each for states that did not have a qualified high-risk pool as an incentive to establish one. Risk pools typically offer benefits that are comparable to basic private market plans.

Because funding is the number one challenge facing risk pools, states are looking at creative ways to keep costs down. Many high-risk pools already offer high-deductible plans, and they have proven to be very popular.

The National Association of State Comprehensive Health Insurance Plans (NASCHIP) did an informal survey of state risk pools in May 2004 and found that nine states reported they were in the process of establishing or already had an HSA-qualified health plan. These states include Maryland, Minnesota, Nebraska, Kentucky, South Dakota, Colorado, Missouri, Alabama and Louisiana.<sup>8</sup> Most recently, Arkansas signed into law an HSA plan for its risk pool participants.

*Issues for states to consider:*

- Would state restrictions on deductibles, out-of-pocket maximums and prescription drug coverage clash with basic HSA requirements?
- Are the savings between low-deductible and high-deductible risk pool plans enough to fund the HSA?
- Would the HSA contribution be tax deductible?

**Medicaid HSAs.** Medicaid is the federal-state program that provides health insurance, long term care and other health care services to about 51 million poor, disabled and senior Americans. For the first time since Congress passed it in 1965, Medicaid has become more costly than Medicare and is the largest budget item in nearly half the states.

According to a 50 state survey undertaken by the Kaiser Family Foundation, “39 states were facing increased pressure and another 12 states were facing constant, but intense pressure to control Medicaid costs. For FY 2005, 47 states adopted plans to freeze or reduce provider payments, and 43 states planned pharmacy cost controls to reduce overall Medicaid spending growth. In addition, 15 states made plans to restrict eligibility, nine states planned to reduce or restrict benefits and nine states reported plans to increase copayments in FY 2005.”<sup>9</sup>

Can HSAs help the Medicaid program? For at least some of the Medicaid population, the answer is yes, but the savings will likely be relatively small given the size and scope of the Medicaid program.

The problem with the Medicaid program as it is currently structured is that people have little incentive to be prudent shoppers of medical services. A Medicaid HSA plan for the under-age-65 population would change those incentives. The state could continue to be the insurer, but increase the deductible, depositing part or all of the savings in the Medicaid beneficiary’s HSA. Better yet, the state could simply provide a defined contribution to a private sector insurer or third-party administrator selling HSA plans.

Would this approach be a radical departure from traditional Medicaid? Yes, but Medicaid needs radical change. Iowa passed into law a Medicaid HSA, H.B. 841, on May 12, 2005. And Florida’s new Medicaid reform has an innovative HSA plan.

*Issues for states to consider:*

- What should happen to the HSA balances once a Medicaid beneficiary leaves the program?
- Can states use methods such as electronic benefit transfer (EBT) cards to protect against misuse of the account, as they do with their food stamp programs?
- Should a Medicaid HSA program be implemented as a limited demonstration project to test and evaluate it?
- Since HSA plans already include a financial incentive to use the funds wisely, would frequently used state cost-control restrictions such as prescription drug lists and formularies that limit patient choice also be imposed on the Medicaid HSA population?

**Conclusion:** The private sector is undergoing an “HSA revolution.” And we have seen remarkable data that demonstrate Health Savings Accounts can make a difference. If the states don’t want to be left behind, they need to look for ways to make HSAs available to public sector populations.

*Note: Endnotes are available at [http://www.cahi.org/cahi\\_content/resources/pdf/n131HSA.pdf](http://www.cahi.org/cahi_content/resources/pdf/n131HSA.pdf).*

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## Endnotes

<sup>1</sup> America's Health Insurance Plans (AHIP), "Number of HSA Plans Exceed One Million in March 2005," retrieved at <http://www.ahip.org/content/fileviewer.aspx?docid=9771&linkid=83197> on May 18, 2005.

<sup>2</sup> "Managing Health Care Costs in a New Era: 10th Annual National Business Group on Health/Watson Wyatt Survey Report 2005," March 17, 2005, See <http://www.watsonwyatt.com/research/resrender.asp?id=w-821&page=1>.

<sup>3</sup> Information retrieved on April 11, 2005 from [www.opm.gov/feddata/factbook/2004/factbook.pdf](http://www.opm.gov/feddata/factbook/2004/factbook.pdf).

<sup>4</sup> Information retrieved on April 11, 2005 from <http://ftp2.census.gov/govs/apes/03stus.txt> and <http://ftp2.census.gov/govs/apes/03stlus.txt>.

<sup>5</sup> "Medicaid Program at a Glance," January 2005. Information retrieved on April 11, 2005 from [www.kff.org/Medicaid/7235.cmf](http://www.kff.org/Medicaid/7235.cmf).

<sup>6</sup> Council for Affordable Health Insurance Legislative Tracking Service for members, March 10, 2005.

<sup>7</sup> "Comprehensive Health Insurance for High-Risk Individuals: A State-by-State Analysis," by Communicating for Agriculture, Eighteenth Edition, 2004/2005. As of January 1, 2005, West Virginia will be the 34th pool in operation. However, Florida's pool has been closed for new enrollment since 1991.

<sup>8</sup> Ibid.

<sup>9</sup> Vernon Smith, Rekka Ramesh, Kathleen Gifford, Eileen Ellis, Robin Rudowitz, and Molly O'Malley. "The Continuing Medicaid Budget Challenge: State Medicaid Spending Growth and Cost Containment in FY 2004 and 2005. Results from a 50 State Survey," October 2004, See <http://www.kff.org/medicaid/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=48004>.