



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

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## Health Savings Accounts and Preventive Care

Employers and individuals are increasingly looking to consumer driven health plans like Health Savings Accounts (HSAs) to help rein in expenditures. Unfortunately, there is a common misperception that HSAs discourage preventive care. However, not only do most HSA plans provide first-dollar coverage for preventive care, but use of preventive services is higher for persons enrolled in these plans. In addition, the HSA provides a tax-free way to pay for preventive care services even when not covered by an insurance plan.

**What Are Health Savings Accounts?** Section 1201 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 added Section 223 to the Internal Revenue Code to permit eligible individuals to establish HSAs. HSAs are tax-advantaged accounts specifically for health care. To be eligible for an HSA, an individual must be covered by an HSA-qualified insurance plan, technically known as a "high deductible health plan," or HDHP. An HDHP must meet certain requirements for deductibles, out-of-pocket expenses and covered benefits. Under these plans (in 2009), deductibles must be at least \$1,150 for individuals with self-only coverage, or \$2,300 for family coverage. In addition, these plans must limit out-of-pocket expenses to no more than \$5,800 for individuals with self-only coverage, or \$11,600 for family coverage. These amounts are adjusted annually for inflation.

**What Is Preventive Care?** Preventive services cover a range of interventions which can be delivered as a part of routine primary care to individuals, including screening tests for early detection of diseases (e.g., mammograms, Pap smears, etc.); screening tests for treatable risk factors for diseases (e.g., cholesterol and blood pressure tests); medicines to prevent disease (e.g. aspirin to prevent heart attacks); immunizations; and counseling for lifestyle changes (e.g., smoking cessation counseling).

The Internal Revenue Service (IRS) has provided guidance on what constitutes preventive care for HSA purposes.<sup>1</sup> The list of preventive care benefits includes, but is not limited to:

- Periodic health evaluations, including tests and diagnostic procedures ordered in connection with routine examinations, such as annual physicals.
- Screening services (see Appendix).
- Routine prenatal and well-child care.
- Child and adult immunizations.
- Tobacco cessation programs.
- Obesity weight-loss programs.

In July 2004, the IRS issued additional guidance which further clarified the definition of preventive care to include the treatment of a related condition during a preventive care service or procedure in situations where "it would be unreasonable or impracticable to perform another procedure to treat the condition, any treatment that is incidental or ancillary to a preventive care service or screening."<sup>2</sup> The guidance gave the example of the removal of polyps during a diagnostic colonoscopy.

**HDHP Coverage of Preventive Care.** Generally, an HDHP may not provide benefits during any year until the plan deductible is satisfied. The plan deductible must apply to all benefits covered by the plan, including prescription drugs. The only exception is for preventive care; an HDHP may provide preventive care benefits without a deductible or with a deductible below the minimum required deductible. Plans are not required to cover preventive care benefits, but if they do they do not have to apply the deductible to these benefits, and they may apply copays or a smaller deductible to these benefits.

There is a common misperception that HDHPs do not cover preventive care. Even worse, some people assume that the high deductible provides incentives for people to forego preventive care services, which could lead to worse health problems later. However, the evidence shows just the opposite is true.

Most HDHPs provide at least some coverage for preventive care services. According to a study by America's Health Insurance Plans (AHIP), most HDHPs cover recommended preventive benefits on a first-dollar basis — that is, without regard to whether the deductible is met.<sup>3</sup> Virtually all HDHPs purchased in the large group market (99 percent) and small group market (96 percent) provide first-dollar coverage for preventive care. By contrast, only 59 percent of policies purchased in the individual market cover preventive care on a first-dollar basis. However, 75 percent of persons covered by HDHPs have employer-based coverage.

First-dollar coverage for preventive benefits is less frequent in the individual market because premiums for non-self-employed individual coverage are not tax deductible, as they are with employment-based coverage. This gives consumers an incentive to purchase preventive care tax free with HSA funds rather than through higher premiums that are not tax deductible.

Compared to traditional plans like HMOs and PPOs, there is no significant difference in the coverage of preventive care. As the following table shows, workers enrolled in HDHPs are as likely as workers enrolled in other plans to have coverage for preventive care benefits without the deductible applying.

### Percentage of Covered Workers Receiving Preventive-Care Benefits Before Meeting Deductible, 2008<sup>4</sup>

HMO	PPO	POS	HDHP
85	89	88	86

AHIP's survey further found that among HDHP policies offering first-dollar coverage for preventive care, 100 percent cover adult and child immunizations, well-baby and well-child care, mammography, Pap tests, and annual physical exams and screenings. Nearly 90 percent provide first-dollar coverage for prostate cancer screenings, and 83 percent offer coverage for colonoscopies.

**Use of Preventive Care by Individuals with HSAs.** Studies have consistently shown equal or higher utilization of preventive care services for people enrolled in consumer driven plans (including HSAs) than those enrolled in traditional plans. For example, Rowe et al found that enrollees in consumer directed plans use preventive and chronic-illness services at rates close to those of enrollees in PPO insurance plans.<sup>5</sup> Fronstin and Collins, comparing the rates of use of preventive-care services by people enrolled in high deductible plans with the rates those services are used by enrollees in more comprehensive programs, made a similar finding.<sup>6</sup> Studies released by major insurance carriers provide further evidence of these trends.

**Are Prescription Drugs Preventive Care for HSAs?** IRS guidance states that preventive care "does not generally include any service or benefit intended to treat an existing illness, injury, or condition." However, the IRS requested comments on the appropriate standard for preventive care, and in particular, recommendations regarding "the extent to which drug treatments, either solely by prescription or as part of an overall treatment regimen should be treated as preventive care and the appropriate standards for differentiating between drug treatments that would be considered preventive care and those that would not be considered preventive care."

In July 2004, the IRS issued additional guidance which further clarified the definition of preventive care to include drugs or medications "when taken by a person who has developed risk factors for a disease that has not yet manifested itself or not yet become clinically apparent (i.e., asymptomatic), or to prevent the reoccurrence of a disease from which a person has recovered."<sup>7</sup>

The notice gave two examples:

1. Treatment of high cholesterol with cholesterol-lowering medications (e.g., statins) to prevent heart disease or the treatment of recovered heart attack or stroke victims with Angiotensin-converting Enzyme (ACE) inhibitors to prevent a reoccurrence; and,
2. Drugs or medications used as part of procedures providing preventive care services, including obesity weight loss and tobacco cessation programs.

However, the IRS reiterated its previous guidance stating that preventive care does not include any service or benefit intended to treat an existing illness, injury or condition, including drugs or medications used to treat an existing illness, injury or condition. Since most prescription drugs are prescribed for therapeutic treatment of existing illnesses, diseases or conditions, they cannot be considered preventive care under the IRS guidance.

Sen. Orrin Hatch (R-UT) introduced legislation (S.3626) in the 110<sup>th</sup> Congress that would expand the definition of preventive care to include drugs that are prescribed for therapeutic treatments that prevent worsening of one's health status. The legislation states that, "Preventive care shall include prescription and over-the-counter drugs and medicines which have the primary purpose of preventing the onset of, further deterioration from, or complications associated with chronic conditions, illnesses, or diseases." This change could reduce a perceived barrier to adoption of HSAs for individuals with chronic conditions.

**Conclusion.** Although HSAs usually reduce health care costs, they are not just about saving money. HSAs empower consumers to become better-informed patients and take more responsibility for their care. This includes greater incentives to seek preventive care, and the evidence shows that HSAs are having the intended effect. In addition, HSAs provide consumers with more flexibility for choosing their health care providers, medications and medical equipment. They may also find that, once they have become empowered consumers in the health care marketplace, they are better patients — which can only improve their outcomes and quality of life.

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## APPENDIX

### Safe Harbor Preventive Care Screening Services

#### Cancer Screening

- Breast Cancer (e.g., Mammogram)
- Cervical Cancer (e.g., Pap Smear)
- Colorectal Cancer
- Prostate Cancer (e.g., PSA Test)
- Skin Cancer
- Oral Cancer
- Ovarian Cancer
- Testicular Cancer
- Thyroid Cancer

#### Heart and Vascular Diseases Screening

- Abdominal Aortic Aneurysm
- Carotid Artery Stenosis
- Coronary Heart Disease
- Hemoglobinopathies
- Hypertension
- Lipid Disorders

#### Infectious Diseases Screening

- Bacteriuria
- Chlamydial Infection
- Gonorrhea
- Hepatitis B Virus Infection
- Hepatitis C
- Human Immunodeficiency Virus (HIV) Infection
- Syphilis
- Tuberculosis Infection

#### Metabolic, Nutritional, and Endocrine Conditions Screening

- Anemia, Iron Deficiency
- Dental and Periodontal Disease
- Diabetes Mellitus
- Obesity in Adults
- Thyroid Disease

#### Mental Health Conditions and Substance Abuse Screening

- Dementia
- Depression
- Drug Abuse
- Problem Drinking
- Suicide Risk
- Family Violence

#### Musculoskeletal Disorders Screening

- Osteoporosis

#### Obstetric and Gynecologic Conditions Screening

- Bacterial Vaginosis in Pregnancy
- Gestational Diabetes Mellitus
- Home Uterine Activity Monitoring
- Neural Tube Defects
- Preeclampsia
- Rh Incompatibility
- Rubella
- Ultrasonography in Pregnancy

#### Pediatric Conditions Screening

- Child Developmental Delay
- Congenital Hypothyroidism
- Lead Levels in Childhood and Pregnancy
- Phenylketonuria
- Scoliosis, Adolescent Idiopathic

#### Vision and Hearing Disorders Screening

- Glaucoma
- Hearing Impairment in Older Adults
- Newborn Hearing

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#### End Notes

<sup>1</sup> Notice 2004-23.

<sup>2</sup> Notice 2004-50.

<sup>3</sup> A Survey of Preventive Benefits in Health Savings Account (HSA) Plans, July 2007,” AHIP, November, 2007.

<sup>4</sup> Kaiser Family Foundation-HRET, 2008, Exhibits 7.14 and 8.12.

<sup>5</sup> John W. Rowe et al., “The Effect of Consumer-Directed Health Plans on the Use of Preventive and Chronic Illness Services,” *Health Affairs* 27, no. 1 (January/February 2008): 113–20.

<sup>6</sup> Paul Fronstin and Sara R. Collins, “The 2<sup>nd</sup> Annual EBRI/Commonwealth Fund Consumerism in Health Care Survey, 2006: Early Experience with High-Deductible and Consumer-Driven Health Plans,” Employee Benefit Research Institute, Issue Brief 300, December 2006.

<sup>7</sup> Notice 2004-50.