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Committee on Ways and Means
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on

Impact of High Deductible Health Insurance And Health Savings Accounts on Consumers

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Summary

Recent experience with health savings accounts and high deductible health insurance policies has confirmed what economists and policy analysts have predicted for the past decade: In a voluntary health insurance marketplace where lawmakers have let the free market write the rules, encouraging high deductible policies combined with tax favored savings accounts, benefits the rich and increases the financial burden on the sick. **It is time for Congress to call a halt to this misguided policy and turn its attention to health system reform that will provide guaranteed coverage to all Americans, while improving the quality of care in the system and constraining costs.**

Concerns about High Deductible Health Insurance and Health Savings Accounts

Variation of risk in health insurance markets. The health insurance market is different from the market for other consumer goods. When a car manufacturer sells a car, the seller has no reason to care who is buying it: age, sex, health status, income simply do not matter. Health insurance is a different kind of market. Not only do sellers care very much about the nature of the buyer, if allowed they create detailed underwriting rules that discriminate against buyers by design – denying coverage to the sick, excluding any pre-existing conditions (for which the need for care and coverage is greatest), and charging higher premiums to the older and sicker.

The key economic factor that makes health insurance markets different from markets for other consumer goods and services is the tremendous variation in risk of the population. A small percent of the population (regardless of whether you consider the young or the old, the rich or the poor, males or females) tends to account for a large part of health care expenditures. Most people are healthy and incur very small if any costs. Consumers take their own health risk profile into account when deciding about what type of policy (and deductible) they should seek. Insurers take consumers' health risk profile into account when deciding whether to provide coverage.

Data from the Medical Expenditure Panel Survey (MEPS) (with adjustments by the Lewin microsimulation model) reveals the extent of variation that exists. While these numbers are from 2000, there is no doubt that the variation continues to exist. While average health care costs (of those with employer based coverage) was $2628 in 2000, those with spending in the lowest fifth incurred just $30 of health care expenditures. Those in the top tenth of spending incurred costs of $16,710.[1] This variation of risk goes to the heart of the need to find a way to spread costs broadly in order to keep costs affordable to those at the highest risk level.

Erosion of "Choice" of Low-Deductible Coverage. Employer-based coverage and government financed programs such as Medicare spread the risks and costs across broad populations. Because of the variation of risks, and different selections made by people of different health status, high deductible plans can not exist in the long-term in a marketplace that offers low-deductible plans as well. Ultimately, low-deductible plans will be driven out of the market, with "premium spirals" driving out comprehensive coverage. **This is the hidden secret that the supporters of high deductible tax breaks tend to leave off of their talking points: Instead of increased choice in the marketplace of health insurance options, over time, the "choice" of high deductible coverage is likely to crowd out low deductible choices.**[2] It is particularly troubling that this basic change in the health insurance marketplace could take place without explicit debate and consideration of the full long-term implications and elimination of true choice.

When consumers are given a choice between high and low deductible coverage, a small percent will elect the high deductible option. People with high incomes and low health care costs are most likely to be attracted to the high deductible/HSA option (and relatively low premium). It is ironic that the choice that most consumers want may well not be available to them as the market plays out over several years.

Benefit to the Healthy and the Wealthy from Tax Encouragement of High-Deductible Health Insurance. Tax policy now encourages high deductible health insurance policies by making contributions to health savings accounts tax deductible. This tax policy, combined with high deductible health coverage, has been predicted to appeal disproportionately to the healthy and the wealthy.

- The healthy benefit because they have the new prospect of a tax-sheltered investment in which money is not taxed when put in or when withdrawn (i.e., not needed by the healthy to cover health care costs).
- The wealthy, with higher tax brackets, benefit disproportionately because the tax savings are larger at higher tax brackets than lower tax brackets.

A recent study by the Government Accounting Office[3] found that people with Health Savings Accounts (HSAs) in 2005 had an average adjusted gross income of $139,000 compared with $57,000 for other filers. This is an alarmingly high differential and should be a wake-up call to policy-makers for the validation that it provides to the concerns that opponents (such as Consumers Union) of this policy have expressed over the last decade. In addition, a study conducted at the University of Minnesota found that the average income of employees who enrolled in high deductible coverage was 48 percent higher than the income of employees who did not.[4]

A study conducted of 4,680 Humana employees found that enrollees in high-deductible policies were "significantly healthier on every dimension measured." [5]

Distraction from the Issue of the Uninsured and Underinsured. The potential for health savings accounts and encouragement of high deductible insurance to split the healthy from the sick and the rich from the poor is alarming. But of even greater concern is the distraction they pose to turning the full attention of policy makers and the health policy community toward the challenge of providing true health care security to all. **We should be moving full-steam toward the goal of guaranteed, quality, affordable**

health care for all consumers, not spending countless resources creating an analyzing new models that promise to split the healthy from the sick, shift costs to the sick, and expand the inequities in our system.

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[1] Gail Shearer, Consumers Union, *The Health Care Divide: Unfair Financial Burdens,* August 10, 2002, Table 10.

[2] Daniel Zabinski, Thomas M. Selden, John F. Moeller, Jessica S. Banthin, Center for Cost and Financing Studies, Agency for Health Care Policy and Research, "Medical Savings Accounts: Microsimulation Results from a Model with Adverse Selection, *Journal of Health Economics* 18 (1999(195-218).

[3] "Health Savings Accounts: Participation Increased and Was More Common among Individuals with Higher Incomes," Letter of April 1, 2008 from Jon E. Dicken, GAO, to Chairman Waxman and Chairman Stark, Government Accountability Office.

[4] Jon B. Christianson, et. al., "Consumer Experiences in a Consumer-Driven Health Plan," *Health Services Research*, 39:4, Part II (August 2004).

[5] For an expanded discussion of the Humana and University of Minnesota studies, see Gail Shearer, "Commentary—Defined Contribution Health Plans: Attracting the Healthy and Well-Off", *Health Services Research* 39:4, Part II (August 2004).