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Tax-free but of little account

Without changes, health savings plans unlikely to achieve lofty goals

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After Congress' 11th-hour inclusion of health savings accounts under the umbrella of Medicare reform legislation, pundits on opposite ends of the political spectrum have either hailed the new tax-sheltered accounts as the greatest thing since penicillin or the end of health insurance as we know it. However, HSAs-as currently configured-are unlikely to be the tonic free-market advocates crave for the U.S. healthcare system or the poison pill feared by detractors.

Modeled on medical savings accounts but with fewer eligibility restrictions, HSAs are now available to anyone under age 65 enrolled in a high-deductible health plan-defined as a plan with at least a $1,000 deductible for single coverage and $2,000 for family coverage. Plans can provide first-dollar coverage for certain preventive services and still qualify. Both individuals and employers can deposit money into the accounts, reap investment returns and withdraw money for eligible medical expenses, all tax-free. Annual contributions are capped at the lesser of the actual deductible or $2,600 for individuals and $5,150 for families.

HSAs were designed to reduce an incentive in the tax code that favors insurance with little or no patient cost-sharing. If a person with employment-based coverage switches to a high-deductible plan, the premium savings are taxable but out-of-pocket costs come from after-tax income. Under HSAs, nearly all medical spending is tax-sheltered, with the extra benefit of tax deferral for investment earnings that are not spent on medical care.

Supporters hope people will flock to the accounts, and-by giving consumers more of a financial stake in their care decisions-inject a dose of competition into the healthcare marketplace. Detractors fret that the accounts are part of a larger conservative agenda to dismantle employer-based health insurance coverage and provide tax shelters for the healthy and wealthy.

Given the strong employer push toward increased patient cost-sharing in mainstream health plans, one might expect HSAs to accelerate that trend. But in the heat and haste of the Medicare debate, Congress may have overestimated the appeal of family coverage with a $2,000 deductible-a threshold that applies to prescription drugs as well. A $2,000 deductible for family coverage is a much higher threshold than a $1,000 deductible for a single person. Usually no more than one family member has large medical expenses in a year, so families will be much less likely to exceed the deductible than will single people. While the current HSAs might appeal to single, healthy workers, most employers are unlikely to embrace a less-than-family-friendly change to their health benefits.

The policy shift toward encouraging high-deductible policies also runs counter to emerging real-world approaches to increasing patient financial responsibility for healthcare. As discussed at a recent Center for Studying Health System Change conference, leading-edge employers and insurers are avoiding the use of large deductibles. Instead, they are developing financial incentives to steer patients to efficient providers, care sites or services by varying cost-sharing depending on these choices. Their goal is to avoid large financial burdens on low-income people or patients with medical conditions that require expensive treatments even when delivered efficiently.

There's little question that HSAs will transfer resources from the sick to the healthy. When a deductible is increased from $500 to $1,000 and the premium is lowered, those who need extensive medical care will pay more and those who do not will pay less. Higher-income people will benefit more from the accounts because they are more likely to have insurance and because of their higher marginal tax rates. Also, higher-income people will be more likely to fully fund their HSAs.

So what impact will these new accounts have on physicians, hospitals and other providers? The short answer: Not much in the near term because HSAs are unlikely to reach the critical mass needed to spark significant changes in healthcare delivery. Initial interest is likely to be confined to the individual insurance market under the current requirements. However, Congress could refine the accounts, for example, by allowing a family to meet the deductible if its spends $1,000 on one member's care.

If the accounts ultimately gain traction, healthcare providers and suppliers will face a host of new challenges. Research shows that when patients' out-of-pocket costs increase, their use of healthcare services declines-although actuaries believe patient responses to more cost-sharing will be muted by the presence of an HSA. Also, bad debt would likely become a more serious problem for providers but would be tempered somewhat by patients' ability to draw on their accounts. Realistically, however, the already established trend toward increased patient cost-sharing in mainstream types of insurance is likely to have a much larger impact on providers than will the relatively small percentage of people who increase their deductible to qualify for an HSA.

Even if the accounts have great success in getting people to increase health cost-sharing, they are unlikely to be the magic cost-containment bullet. Since a small proportion of insured people with medical expenses higher than HSA deductibles account for a large proportion of healthcare spending, even widespread adoption would address only a portion of the cost challenge. By creating HSAs, policymakers have opted for a strange prescription to confront rapidly rising costs in healthcare because newly tax-subsidized spending will offset some of the impact of higher deductibles.

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