



## Are Health Savings Accounts the Answer?

by Brad Cook

The rising costs of health-care services and insurance premiums are affecting the way the economy performs. In response to this, Congress has created a modern and attractive approach to health-care. Health Savings Accounts (HSAs) were signed into law on December 8, 2003, as part of the Medicare Modernization Act of 2003 and became available for purchase on January 1, 2004. “You know, there’s an old saying that says no one ever washes a rental car. When you own something, you care about it,” President Bush said, using this scenario to describe the current employer-provided health insurance policies at a campaign rally in Mason City.

The economic premise behind HSAs is the idea of consumer-driven health care. The current tax treatment, allowing tax exemptions for employer-provided health care, has tied insurance to the workplace and has undermined both access to and portability of health insurance, creating gaps in coverage and fueling health-care inflation.

HSAs are aimed at reducing moral hazard – the increased incentive to overuse health-care services because of their reduced prices resulting from “third-party” insurance payments. With the reduction of moral hazard, individuals will become more cost sensitive and, therefore, will allocate their medical expenses more efficiently. The idea of moral hazard is not a new idea. In 1991, Feldman & Dowd estimated that the loss due to moral hazard was between 33.4 and 109.3 billion per year.<sup>1</sup> In other words, Americans with health insurance consumed billions of dollars of health care because they could not feel the entire price burden.

A HSA is a fund set up and controlled by an individual into which the individual or employer can make tax-free contributions to pay for future health-care expenses. In order to qualify for an HSA, the individual must be younger than 65 and must have a high-deductible health insurance plan in which the annual insurance deductibles are at least \$1,000 for an individual and \$2,000 for family coverage. The out-of-pocket maximums for the high-deductible plans can be no more than \$5,000 for individuals and \$10,000 for families.

Contributions made by the employee are “above the line” tax deductions. If the employer contributes to an employee’s account, the contribution must be the same for all employees, and the employer receives a tax deduction as a normal business expense. Contributions made by the employer are treated as employer-provided health care and are excludable from the employee’s taxable income. Tax-deductible contributions are subject to a cap of \$2,600 for individuals and \$5,150 for families per year. Individuals over the age of 55 can make an additional \$500 contribution in 2005 and increasing, in \$100 increments, to \$1,000 in 2009, to catch up.

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Opponents to HSAs suggest that they will disproportionately support wealthier and healthier individuals and do nothing to help those who currently have no health insurance. However, early data provided by eHealthinsurance.com<sup>2</sup> illustrates the contrary. 41% of the HSA enrollees had incomes of \$50,000 or less, and 30% had previously been uninsured. Furthermore, most enrollees (70.5%) paid less than \$100 per month, per member, for HSA-eligible health insurance. This can be compared to the average of \$151 per month that individuals pay in premiums for other health insurance purchased through eHealthinsurance.com.

Those people most often thought to be the unhealthiest and most in need of health-care are the young and the elderly. However, the numbers from eHealthinsurance.com show that the enrollees are from every part of the age spectrum. The majority of HSA enrollees (52%) were forty years of age or older, and nearly half (49%) were families with children.

Consumer-directed health-care products have also been shown to lower employer health-care costs. The Galen Institute reported that a study done by major health insurer Aetna of Hartford, Connecticut “showed that companies that replaced their traditional health insurance with a consumer-driven plan saw their costs fall by 11 percent.”<sup>3</sup>

HSA Insider reports that over seventy insurance companies now offer HSA plans nationwide, with individual, small group, and large group plans. Seventeen companies currently offer HSA to Iowa employers and employees.<sup>4</sup>

HSAs can be the answer to cure the rising epidemic of health-care costs that challenge many Iowans. With the new year coming upon us, I encourage Iowa employers to offer this valuable option to their employees. HSAs can help lower employer’s health-care costs and give the employee more control over health-care expenses. With the lower employer costs, employees could expect to see more money in their paychecks.

### **(Endnotes)**

<sup>1</sup> Roger Feldman and Bryan E. Dowd, “A New Estimate of the Welfare Loss of Excess Health Insurance,” *American Economic Review*, Vol.81, No. 1, March 1991, pp. 297-301.

<sup>2</sup> “Health Savings Accounts Fact Sheet,” April 21, 2004, <[http://images.ehealthinsurance.com/ehealthinsurance/expertcenter/HSAFactSheet\\_Apr04.pdf](http://images.ehealthinsurance.com/ehealthinsurance/expertcenter/HSAFactSheet_Apr04.pdf)>(October 19, 2004).

<sup>3</sup> Grace-Marie Turner, “New Studies Show Consumer-Directed Care Reduces Costs and Improves Access,” *Health Issues*, July 21, 2004, <[www.galen.org/fileuploads/New\\_Studies.pdf](http://www.galen.org/fileuploads/New_Studies.pdf)> (October 23, 2004).

<sup>4</sup> For a listing of HSA providers in Iowa, see [http://www.hsainsider.com/find\\_insurer.asp](http://www.hsainsider.com/find_insurer.asp).

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