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A new (old) approach to health insurance

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Policy experts and business owners alike have at least heard of health savings accounts (HSAs) and their companions, high-deductible (HD) insurance plans. According to a new report, their use continues to grow at a rapid rate.

Each year, America's Health Insurance Plans, a trade association whose members cover 200 million Americans, conducts a census of the market. Its latest report gives a snapshot of the market as of January.

The association says the 87 companies in its census represent "virtually all health insurance plans" meeting the definition of HSA/HD coverage.

A health savings account is a tax sheltered vehicle for accumulating expenses that can be used for medical expenses. In 2007, individuals and employers may contribute up to \$2,850 for an HSA with a single plan, or up to \$5,650 for a family plan.

By law, HSAs are combined with high-deductible insurance policies. Federal law currently requires a minimum deductible of \$1,100 for individual coverage and twice that for family coverage.

The HSA/HD combination can offer significant advantages. Higher deductibles mean lower insurance premiums. Contributions to the HSA, meanwhile, offer tax deductions to both individuals and employers. HSA funds, unlike traditional work-based insurance, are portable. They can also be used for certain medical expenses not covered in traditional insurance. Money spent on medical expenses is not subject to tax, and after you reach age 65, it becomes like a Roth IRA if you take out money for non-medical expenses.

HSA/HD plans are still a small portion of the health insurance market. But they are growing rapidly. As of January, they covered about 4.5 million people, up 43 percent from 2006 and 340 percent since 2005.

One fact gleaned from the report is that employers are picking up HSA/HD plans. Initially, the HSA/HD market was dominated by individual policies.

In March 2005, 64 percent of the plans were sold to individuals. By January, that portion was down to 26 percent. Over the last two years, the large-group segment grew the most. It now makes up 49 percent of all HSA/HD plans.

Why the growth? The report does not speculate, but the potential for cost savings is surely one reason.

According to a Kaiser Family Foundation (www.kff.org) study, the average premium in 2006 for employer-sponsored coverage was \$11,480. By contrast, in January the average annual premium for HSA/HD family coverage was \$6,663 in the large-group market. That's a cost-savings of almost 40 percent.

Disease management is an important part of maintaining health and keeping costs low. When insurers are weighted by enrollment, at least 87 percent of companies that responded to the question about disease management say they offer it for asthma, congestive heart failure, coronary heart disease, and diabetes.

The trade group adds that 46 percent of enrollees are 40 or older. Just over one-quarter of all enrollers were previously without insurance. So this new approach is making inroads to the older workforce. Thankfully, it also is expanding insurance coverage.

As interesting as the report is, it has several limitations. First it does not include information on health reimbursement arrangements (HRAs), the older cousins to HSAs.

Another problem is that information in the report about the savings accounts portion of HSA/HD coverage is based on fewer than 360,000 accounts. The trade group did not send its census to credit unions, banks or brokerage firms, and selected other institutions that can also set up the accounts.

In July, 2006, AISHealth (www.aishealth.com/) said that financial firms held HSA assets of \$1.5 billion, up 50 percent from the beginning of the year. Since HSA/HD enrollment at that time was only 3.5 million, it may be reasonable to estimate the balance in January 2007 at \$2.5 billion.

The HSA/HD model is still young. It is significant though, for signaling a change from pre-paid medical care to catastrophic coverage with a dash of cash management. Employers and policy makers alike should find continued growth when the next HSA/HD census come out.