

Health Savings Accounts: Affordable And Accessible Health Care

Today's Presidential Action

Today, President Bush Discussed His Agenda To Make Health Care More Affordable And Accessible By Expanding Health Savings Accounts (HSAs). The President discussed how HSAs are giving Americans more control over their health care costs and decisions and are helping businesses make health care more affordable and accessible for employees.

Health Savings Accounts: The Basics

What Are HSAs? Established by the Medicare reform bill President Bush signed into law in December 2003, HSAs allow Americans to save tax-free dollars to pay for near-term medical expenses and save for future longer-term costs. Accounts are accompanied by an HSA-qualified insurance plan covering major medical expenses and preventive care. HSA-qualified insurance plans are an alternative to traditional health insurance policies and have lower premiums and higher deductibles. Savings from lower premiums can be put toward funding the HSA.

- **Who Is Eligible For HSAs?** To be eligible for HSAs, individuals must be covered by an HSA-qualified insurance policy. Americans with government health benefits, for example Medicare and Medicaid, are generally ineligible.
- **How Do People Sign Up For HSAs?** People with HSA-qualified plans can open up their account with banks, credit unions, insurance companies, and other approved companies. Employers may also set up plans for employees. More information is available on the Treasury Department website at <http://www.treas.gov/offices/public-affairs/hsa/faq.shtml>.
- **What Are HSA-Qualified Insurance Policies?** HSA-qualified insurance policies are more affordable insurance plans that protect individuals and families in the event of major medical illness. These plans generally provide the same benefits as traditional insurance policies, including prescription drug coverage, doctor's visits, emergency room visits, and hospitalization. However, they require that a higher deductible be met before benefits are paid. The higher deductible allows the insurance company to charge significantly lower premiums.
- **How Much Can Be Contributed To An HSA Annually?** For 2006, Americans can contribute up to \$2,700 per year for individual coverage or up to \$5,450 per year for a family. However, annual contributions cannot exceed the deductible of the HSA-compatible insurance policy. For example, if the deductible is \$1,100, not more than \$1,100 can be contributed that year. Both individuals and employers can contribute to HSAs. Money unspent one year rolls over into the next year. Americans age 55 or older (and not yet enrolled in Medicare) can make additional "catch-up" contributions of up to \$700 per person this year, which can provide extra help to many early retirees.

HSAs Provide Americans With More Control Over Health Care Costs. Americans own and control the money in their HSA. They decide how to spend the money in their account on their own health care needs, and they keep what they do not spend. HSAs can make health insurance more affordable and help businesses lower health care costs.

- **Increased Patient Control Over Health Care Spending Can Result In Better Value For The Patient.** For example, overall health care costs have risen, but competition and consumer choice have lowered the cost of laser eye surgery (LASIK) – a procedure not covered by most insurance plans. The consumer marketplace led the price of this surgery to fall by almost half, and procedures increased 10-fold from 1998 to 2002.

Health Savings Accounts: Expanding Health Care Coverage And Lowering Costs

More Americans Are Signing Up For HSAs. The number of Americans with HSAs has tripled from one million in March 2005 to the more than three million reported in January 2006. The number of Americans with HSAs is currently projected to increase to 29 million by 2010.

- **Low- And Moderate-Income Americans And Those Previously Uninsured Are Enrolling In HSAs.** More than one-third of HSA purchasers last year had incomes under \$50,000 per year, and one-third of individual HSA purchasers last year were previously uninsured.

- **HSA's Are Helping Small Businesses Provide Health Insurance.** The latest survey data indicate one-third of small businesses offering HSAs previously did not offer insurance to employees.

Building On This Success, The President Proposes To Expand HSAs By:

- **Giving Individuals Who Independently Purchase HSAs The Same Tax Advantages As Those With Employer-Sponsored Insurance.** The President proposes making premiums for HSA-compatible insurance policies tax-free when purchased directly by individuals instead of through their employers. An income tax credit would offset payroll taxes paid on premiums for HSA policies – especially helping the self-employed, unemployed, and workers for companies that do not offer insurance. Americans who are not working, especially early retirees, could pay premiums for the purchase of non-group HSA plans tax-free from an HSA account.
- **Eliminating All Taxes On Out-Of-Pocket Spending Through HSAs.** The President proposes allowing Americans with HSAs and their employers to make annual HSA contributions to cover all out-of-pocket costs tax-free under their HSA policy, not just the deductible as provided under current law.
- **Extending The Benefits Of HSAs To Low-Income Families And Individuals Through Refundable Tax Credits.** A family of four making \$25,000 per year or less will be able to receive a refundable tax credit of \$3,000 from the Federal government to help purchase an HSA-compatible policy. These families can put up to \$1,000 of that money directly into an HSA to cover routine medical expenses.
- **Enabling Portable HSA Insurance Policies.** Employers would have the ability to offer workers a portable HSA-qualified insurance policy that employees could keep after changing jobs. Premiums would be tax-free and would not increase based on employees' health status upon changing jobs, leaving the labor force, or moving.
- **Allowing Employers To Make Higher Contributions To The HSAs Of Chronically Ill Employees.** Under current law, employers must contribute the same amount to each employee's HSA. This prevents employers from providing extra help to chronically ill employees to pay for their higher-than-average out-of-pocket expenses. Permitting employers to make higher contributions will help chronically ill employees fund their HSAs and pay their out-of-pocket expenses tax-free through their accounts.

The President's Agenda To Make Health Care More Affordable And Accessible To All Americans

Passing Association Health Plans (AHPs) To Give Small Businesses The Same Benefits As Big Businesses And The Ability To Expand Employee Coverage. AHPs let small businesses join together across state lines to purchase health insurance, giving them the same advantages, administrative efficiencies, and negotiating clout enjoyed by big companies and labor unions. By purchasing coverage for thousands of employees at a time, association members can pay lower premiums for better coverage. The President has called on Congress to allow small businesses to form AHPs.

Enhancing The Medical Liability System's Fairness And Predictability While Reducing Wasteful Costs. Frivolous lawsuits and excessive jury awards limit access to health care by driving providers out of many communities. They also increase costs by forcing doctors to practice defensive medicine. Lawsuits are driving many good doctors out of practice – leaving women in nearly 1,500 American counties without a single OB-GYN. The President calls on Congress to pass medical liability reforms securing an injured patient's ability to get quicker compensation for economic losses while reducing frivolous lawsuits.

Improving Health Information Technology (IT). The Administration is working to expand the use of health IT to lower costs, reduce medical errors, and improve quality of care. In 2004, the President launched an initiative to make electronic health records available to most Americans within the next 10 years.

Increasing Transparency In The Health Care System. Americans should be able to easily obtain understandable information about the price and quality of health care. The President urges medical providers and insurance companies to make information about prices and quality readily available to all Americans prior to treatment.