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Tax-Free Health Accounts: Portable, Flexible Health Coverage for Working Women

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Too many American women have difficulty obtaining health coverage that meets their needs. This is not because women's needs are so different from those of men, but because government policy is stuck in a 1950s view of women in the economy. However, reforms now pending in Congress would expand access to tax-free health accounts, making it easier for women to obtain personal, portable, affordable and comprehensive coverage.

More than 60 years ago, the federal government decided to allow the purchase of employer-provided health insurance with pretax dollars. Meanwhile, other types of health care coverage, including individually purchased insurance and individual savings for medical expenses, would have to be paid for with after-tax dollars. As with many government actions, the unintended consequences have been numerous. Most Americans have gravitated toward employer coverage, which offers few choices and often does not cover essential expenses. Those who do not get coverage on the job, and those who work part-time or leave the workforce, are left to fend for themselves.

The unintended consequences have been particularly harsh on women. While women are a vital part of the workforce, their employment patterns do not fit the mold of a worker who spends 45 years at a job with health benefits. As a result, their link to health insurance, if any, is easily broken.

Expanding Patient Power. To give working women the full benefit of pretax health insurance, the playing field must be leveled to allow all Americans to use pretax dollars to purchase their own private health insurance *and* to save for future medical expenses. The U.S. House of Representatives, as part of a bill to expand Medicare, recently approved a move in that direction. The House proposal would expand the availability of tax-free health accounts. Funds in these accounts (essentially medical IRAs) would receive the same tax treatment as employer coverage. Contributions and interest would be tax-free, and the account holder could keep what she does not spend.

The concept makes perfect sense. Insurance costs escalate dramatically when patients, spending their employer's or insurer's money, demand unnecessary care. By contrast, when consumers save for their medical needs and keep what they do not spend, they demand only the care they need. The proof? While the few existing health account options are highly restrictive, they have controlled costs and improved choices for more than 1.5 million Americans.

The House proposal would create Health Savings Accounts (HSAs), which would make existing health accounts more flexible, more comprehensive and more widely available. It also would create a new, more expansive Health Savings Security Account (HSSA) option. HSSAs could be joined with more types of health insurance than similar health accounts. Even those who do not want or cannot find insurance could open an HSSA. Both accounts are particularly suited to the needs of women.

Making Coverage Personal and Portable. Health accounts are designed to be the property of the enrollee, just like any other savings account. They also are completely portable, so women can retain them from job to job with no interruption in coverage.

"Health accounts are more important for women than for men."

Portability is particularly important to women because of their work patterns. Women change jobs and drop out of the labor force more frequently than men, mostly to care for children. Women between the ages of 18 and 36 years spend 27 percent of their time out of the labor force, while men are out only 11 percent of the time.[1] Between ages 18 and 36, women hold an average of 9.3 jobs. Men hold a similar number of jobs (9.9), but with fewer gaps in between.[2] While 2.6 percent of men do not work because of family responsibilities, 38.6 percent of women between the ages of 20 and 64 leave the labor force to care for children.[3]

Making Coverage More Comprehensive. Health accounts can also provide more comprehensive coverage than many women now receive, since funds may be used for medical services a health plan does not cover. Many plans do not cover treatments and services that are traditionally recommended for women. For example, up to two-thirds of plans that offer prescription drug coverage do not routinely cover oral contraceptives.[4] Plans that cover prescription drugs typically do not cover over-the-counter drugs. Health accounts can pay for these items, whether or not they are covered by a woman's health plan. According to one study, "[L]ack of plan approval for treatment or tests resulted in nearly one-half

of women either delaying or never receiving the services they thought they needed."[5] With health accounts, *women* get to decide what medical expenses are covered.

This is doubly important since women are the chief users of the health care system. On the average, a woman's out-of-pocket health care costs are 68 percent greater than a man's during her childbearing years.[6] Women also coordinate care for their families — selecting doctors, taking children to appointments and arranging follow-up care. Some 80 percent of married mothers and virtually all single mothers assume major responsibility for managing health services for their families.[7]

However, the House proposed could be changed to allow more comprehensive coverage. As written, it would require many health account holders — including all HSA holders — to combine their account with a high-deductible health plan. A better approach would be to allow enrollees to purchase any type of health plan.

Making Coverage More Affordable. Women unable to obtain coverage at work buy insurance in the individual market. Women are disproportionately represented in minimum wage and in part-time jobs, where health coverage is less common. Women comprise 57 percent of minimum wage workers and are twice as likely as men to work part-time, though many receive health coverage through a husband's employment.[8] Even when working full-time, women tend to work in industry sectors that do not traditionally offer generous benefits. In general, manufacturing jobs, long dominated by union workers, have the highest level of health insurance benefits. Yet only 30 percent of manufacturing jobs are held by women. In contrast, women hold 62 percent of service sector jobs, which have traditionally provided scant health benefits.[9]

Health accounts help keep a lid on medical inflation by giving patients incentives to consume only the care they need. Out-of-pocket expenses are less costly with health accounts because patients can meet them with pretax dollars. Allowing consumers to self-insure for out-of-pocket expenses also reduces administrative costs for patients and doctors alike. Under certain circumstances, consumers could use their health accounts to pay health insurance premiums, including the COBRA premiums that allow a worker to continue coverage between jobs. HSSA funds could even be used to pay private health insurance premiums.

Conclusion. Federal policies toward health insurance often fail to meet the needs of working women. Tying tax benefits for health insurance to employment may have made sense in the 1950s, when most families had a single male breadwinner who stayed at the same job his entire career. However, families and the workforce have changed. Because the government has not kept pace, people who do not fit the 1950s mold — often single mothers and working women — have to work harder just to stay even. Expanding tax-preferred health accounts — like those recently passed by the House — is a matter of gender equity.

[1] "National Longitudinal Survey," Bureau of Labor Statistics, USDL 02-497, p. 1, http://www.bls.gov/nls.

[2] "National Longitudinal Survey," Table 1, "Number of jobs held by individuals from age 18 to age 36 in 1978-2000 by educational attainment, sex, race, Hispanic ethnicity, and age," http://www.bls.gov/nls.

[3] U.S. Census Bureau, "Reasons People Do Not Work, 1996," Table 3, p. 5, http://www.census.gov/prod/2001pubs/p70-76.pdf.

[4] National Women's Law Center, "Contraceptive Coverage: An Essential Component of Health Benefits Plans," Fact Sheet, April 2002, http://www.nwlc.org.

[5] "Women's Health in the United States: Health Coverage and Access to Care," "Executive Summary," Kaiser Women's Health Survey, 2001, p. x.

[6] National Women's Law Center, "Contraceptive Coverage: An Essential Component of Health Benefits Plans," http://www.nwlc.org.

[7] Henry Kaiser Family Foundation, "Women, Work, and Family Health: A Balancing Act," Issue Brief, April 2003, http://www.kff.org.

[8] Bureau of Labor Statistics, "Characteristics of Minimum Wage Workers: 2002," Table 1, http://www.bls.gov/cps/minwage2002pdf.pdf; and "Household Data Annual Averages: 2002," Table 8, http://www.bls.gov/cps/cpsaat8.pdf.

[9] U.S. Census Bureau, *Current Population Survey*, "Characteristics of the Employed, Household Data Annual Averages," Table 14, "Employed persons in nonagricultural industries by age, sex, and race," http://www.bls.gov/cps/cpsaat14.pdf.

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