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Health Savings Accounts: Answering the Critics, Part III

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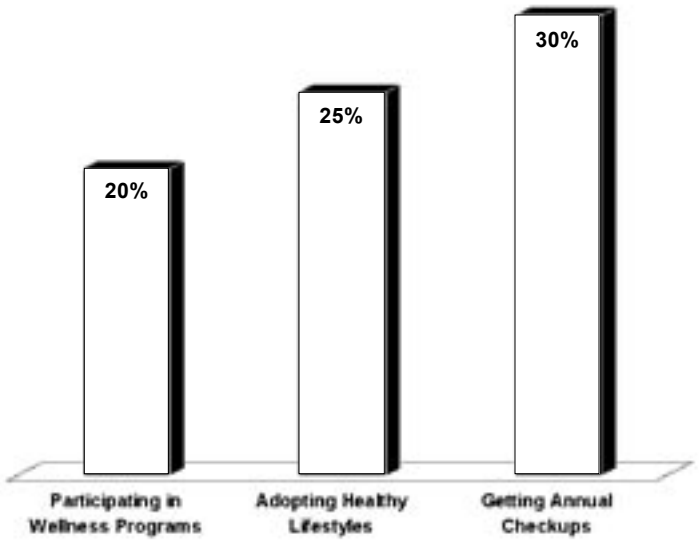
Health Savings Accounts (HSAs) allow patients to manage some of the dollars spent on their health care. Critics say that giving health care consumers the ability to control their own spending will have dire consequences. The evidence shows otherwise.

Criticism: HSAs encourage people to skimp on preventive care. Reply: There has never been any evidence to support this claim. If anything, the opposite tends to be true. A study of prescription drug utilization by people with medical savings accounts in South Africa found people taking preventive medications did not skimp on drug therapy due to cost. A more recent survey by McKinsey & Company found that individuals in CDHC plans were more interested in illness prevention than those in traditional health plans. For instance, those with consumer-driven plans were 20 percent more likely to report interest in wellness programs, 25 percent more likely to adopt healthy behaviors, and 30 percent more likely to schedule an annual checkup. [See the figure.]

Preventive Measures in which Enrollees in Consumer-Driven Plans Express More Interest
(than individuals in traditional plans)



Source: Vishal Agrawal et al., "Consumer-Directed Health Plan Report — Early Evidence is Promising," North American Payor Provider Practice, McKinsey & Company, June 2005.

That said, it is hard to generalize because most HSA and non-HSA plans have provisions that encourage preventive care (as opposed to leaving employees free to make unbiased choices). Although federal law requires HSA plans to have an across-the-board deductible, there is an exception for preventive care, and most HSA plans offer first-dollar coverage for preventive care or require only modest copayments. For example, many Destiny Health plans provide first-dollar coverage for 10 medications that treat chronic diseases such as diabetes, high cholesterol and asthma.

In addition, Destiny Health offers wellness programs to encourage healthy behaviors. Participants earn wellness points by making lifestyle changes (such as losing weight or stopping smoking) and by participating in preventive health care programs. They can use the points they earn to obtain cash rewards, discounts on merchandise or health club memberships.

The health insurer Lumenos reports that many employers reward workers who take health risk assessments by depositing funds into an Health Reimbursement Arrangement (HRA). Those who are found to be at-risk for health problems may be offered an online training session in return for an additional deposit. Those successfully completing the course may get a third deposit.

Criticism: HSA plans will leave doctors and hospitals with more bad debts. Hospitals in particular are notoriously bad about collecting the patient's share of the bill. Thus, with patients shouldering more financial responsibility, hospitals fear more bills will go unpaid. Doctors have similar concerns.

Part of the answer to this dilemma is that providers have to change the way they do business. If patients have money in HSA accounts, providers need to know how to access those accounts. If the patient has an HSA debit card, for example, the provider needs a machine that can read the card.

But a more fundamental solution is emerging. In a new pilot program, the insurer United Health guarantees the patient's share of the bill in return for a discount on fees from providers. This arrangement makes sense. It shifts the burden of bad-debt collection from entities least able to manage it to entities best able. Because United

oversees HSA deposits and premium collections for its employer clients, it is in a much better position to monitor the patient's overall spending and ability to pay.

Criticism: HSA plans undermine the ability of insurers to pool risk. Reply: The fear most often vocalized is that the market will become segmented, with all the healthy people in one plan and all the sick in another. But that outcome by itself would not necessarily be a bad thing. If we had a real free market for insurance, we could expect plans to specialize instead of trying to be all things to all customers. Plans that were especially skilled at diabetic care would try to attract diabetics. The best heart plans would compete for heart patients and so forth. If specialization improves quality, public policy should encourage it.

"Adverse selection" is only a problem when there is a significant mismatch between health status and premiums. For example, imagine an employer who pays the same premium for every employee, but allows a choice of two plans. If all the healthy employees join plan A and all the less healthy join plan B, the employer will be overpaying plan A and underpaying plan B. However, all employers who offer employees choices know about this problem and they have incentives to anticipate it and correct it by making premium payments that reflect expected risk.

In the individual market, adverse selection is much less of a problem because individual insurance usually involves medical underwriting — that is, premiums are adjusted for risk — and risk tends to be priced more accurately. Put differently, with individual and family policies, people tend to pay for what they get. There is nothing special about HSA plans with respect to these issues.

Criticism: Consumers don't like HSAs. Reply: HSAs are spreading rapidly. A survey by America's Health Insurance Plans finds that about 3.2 million people are enrolled in HSA plans and another 3 million have HRAs. A U.S. Treasury estimate projects 14 million HSA accounts by 2010 and 21 million if President Bush's recent proposals are adopted.

Two recent surveys, one a joint survey by the Employee Benefits Research Institute and Commonwealth Fund, and another by the employee benefits consulting firm McKinsey & Company, found that people enrolled in consumer-driven health plans were less satisfied than those in comprehensive (low-deductible) health plans. However, such surveys implicitly ask people to compare low-deductible (more benefits) insurance with high-deductible (fewer benefits) insurance, instead of comparing patient management with employer management of health care dollars. By contrast, Lumenos found that 96 percent of its HRA enrollees were satisfied and nearly all of them would enroll again. Aetna found that about 90 percent of its HRA enrollees were satisfied and would enroll again.

Criticism: HSAs won't reduce spending above the deductible, where most of our health care costs occur. Reply: As a practical matter, the patient's financial exposure does not end at the deductible under many HSA plans. For example, a typical plan might have a $2,000 deductible and a 20 percent copayment above the deductible up to a maximum patient exposure of $5,000. Under such plans, the patient has a direct financial stake in the first $17,000 of health care spending. Since half of all health care spending is on bills of $12,000 or less, these types of HSA plans will potentially effect most health care spending. Today, most HSA accounts contain a modest amount of money and can pay only a few thousand dollars of medical bills. However, over the course of a working life the balance in a typical account is likely to become quite large, allowing patients to use their HSAs to purchase virtually every service out of pocket, including even the most expensive procedures.

Further, HSA plans are in their infancy. In the future, more flexible accounts could be used in creative ways to involve patients in many more decisions. One approach would carve out entire categories of care (say, all primary care, all diagnostic tests, and so forth) and let the patient be totally responsible for those expenses — without any deductible or copayment.

Another approach is to make health insurance more like casualty insurance. Some plans today set maximums on the fees they will reimburse for every procedure — sufficient to cover, for example, the charges of 80 percent of all physicians in an area. Patients could use their HSAs to pay the extra cost of seeing the more expensive 20 percent of physicians if they choose.

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