In the Literature

HOW MUCH MORE COST-SHARING WILL HEALTH SAVINGS ACCOUNTS BRING?

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Proponents of health savings accounts (HSAs) believe they can reduce medical spending by making consumers more sensitive to the costs of care. In keeping with this argument, HSAs together with high-deductible health plans should encourage consumers to make prudent treatment decisions because they are spending their own money. However, a new Commonwealth Fund-supported study finds that because of the tax subsidies accountholders receive, HSAs may actually lower effective out-of-pocket costs for some enrollees.

In "How Much More Cost Sharing Will Health Savings Accounts Bring?" (*Health Affairs*, July/Aug. 2006), Dahlia K. Remler, Ph.D., a professor at Baruch College School of Public Affairs, and Sherry A. Glied, Ph.D., chair of the department of health policy and management at Columbia University, evaluate consumer cost-sharing under traditional health policies compared with cost-sharing incurred under HSAs coupled with high-deductible health plans.

Remler and Glied find that HSA/high-deductible health plans actually reduce cost-sharing for people who spend the least and the most on health care, while increasing cost-sharing for individuals in the mid-range of spending. In particular, those patients responsible for half of all medical spending—7.7 percent of the population—would see no change, or even a decline, in cost-sharing under HSAs.

What Are HSAs?

HSAs are a form of medical savings account that must be accompanied by a health plan with a high deductible—at least $1,050 for an individual or $2,100 for a family. By allowing people to save and withdraw money tax-free to pay medical expenses, HSAs extend the tax subsidy for health insurance premiums to consumers' out-of-pocket medical spending. Employers also can contribute to workers' accounts from pretax income.

Whether and to what extent HSAs actually reduce health spending depend on consumers' behavior, the cost-sharing provisions of comprehensive plans and high-deductible health plans, as well as the tax bracket of those individuals with HSAs.

Cost-Sharing Compared

For the study, the researchers modeled cost-sharing levels in three types of plans: a typical comprehensive plan ($350 deductible, 20% coinsurance, and $1,800 out-of-pocket limit); a typical high-deductible policy without an HSA (no coinsurance and $2,500 deductible); and the same high-deductible policy, but with an HSA.

In the comprehensive plan, maximum out-of-pocket spending would occur at total medical outlays of $7,600. But for someone with a high-deductible policy without an HSA, maximum out-of-pocket spending would occur at $2,500 of medical spending. Thus, while the high-deductible policy has greater cost-sharing before the $2,500 deductible is met, the comprehensive policy has greater marginal cost-sharing above $2,500.

Moving to high-deductible plans *with* HSAs changes the cost-sharing picture. Because HSA contributions are shielded from federal

and state income taxes as well as payroll taxes, consumers in effect receive a subsidy with which to purchase care. With a marginal tax rate of 40 percent (35% income tax bracket, 6.2% Social Security, and 1.45% Medicare tax), for example, very healthy individuals would have lower cost-sharing under an HSA than under the comprehensive plan; only those with expenses between $700 and $2,500 would see an increase in cost-sharing.

Effects by Spending Level

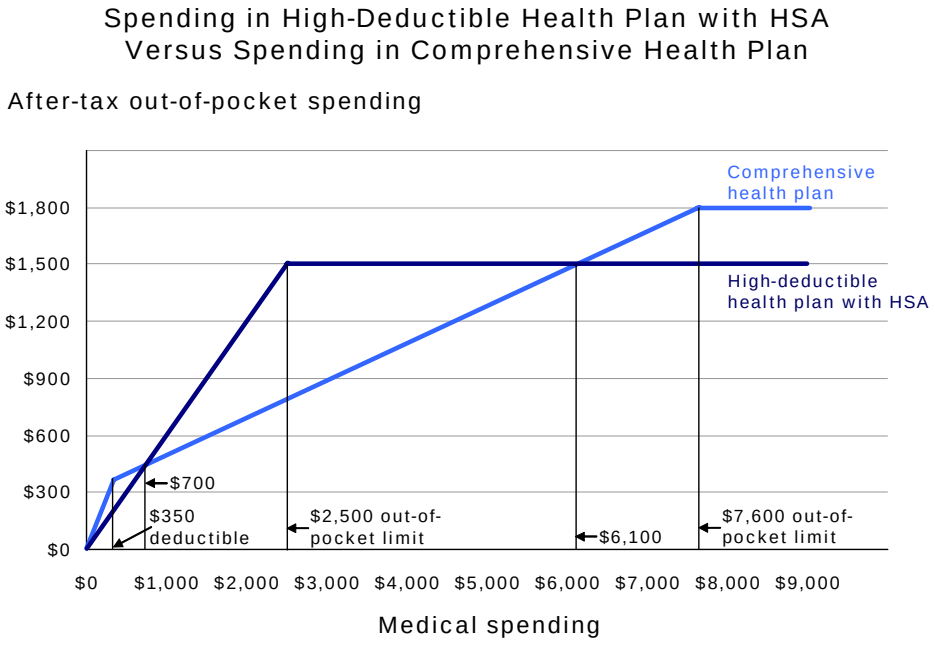
The lion's share of health spending is concentrated among a small portion of the population. In 2001, 30.2 percent of the population was responsible for just over 1 percent of all medical spending. By comparison, 7.7 percent of the population represented fully half of all medical spending.

According to the authors of the *Health Affairs* study, HSAs with high-deductible plans would entail an increase in cost-sharing for those in the middle of the health care spending distribution. However, the accounts would bring a decrease for those at the very low end and in much of the high end. In fact, the authors note, maintaining or introducing an out-of-pocket maximum while increasing the deductible would greatly reduce cost-sharing for high spenders, who are responsible for a large share of overall medical spending.

Conclusions

The researchers note that cost-sharing at the point of service has been rising over the past several years. Most health plans today already incorporate cost-sharing and utilization review to control consumer spending. HSA plans as currently structured do not appear to greatly increase cost-sharing and may actually lower cost-sharing when tax subsidies are considered.

To make HSA/high-deductible polices more effective in controlling medical spending, the authors say that cost-sharing would have to be raised substantially among the people who spend the most on health care. But a large increase in cost-sharing would make care unaffordable to those needing it the most. "Raising incentives for cost-consciousness necessarily increases financial risk," the authors warn, "and it might undermine the access to care that we wish to preserve."



Notes: HSA is health savings account; Max OOP is out-of-pocket maximum. Authors' calculations using prototypical plans below and a marginal tax rate of 40%. High-deductible health plan: deductible = Max OOP = $2,500. Comprehensive health plan: deductible = $350, coinsurance = 20%, Max OOP = $1,800.

Source: Adapted from D. K. Remler and S. A. Glied, "How Much More Cost Sharing Will Health Savings Accounts Bring?" *Health Affairs,* July/Aug. 2006 25(4):1070–78.