Health Savings Accounts Won't Help Most Older Adults

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Introduction

Many recent proposals aimed at repealing and replacing the Affordable Care Act included the expansion of Health Savings Accounts (HSAs). Proponents contend that HSAs will make membership in high deductible health plans affordable. This paper looks at how HSAs work under current law. Further, in order to analyze how expanding HSAs to cover health insurance premiums would impact affordability for low and moderate income older adults, it then examines how HSAs would have functioned under one proposal, the Better Care Reconciliation Act (BCRA), had it become law. It finds that the combination of HSA contributions and premium costs can easily reach 20% to 30% of an older adult's income, and are not a path to affordable health care for most older adults.

Health Savings Accounts Today

The Medicare Modernization Act of 2003 established HSAs to permit individuals who are enrolled in a High Deductible Health Plan (HDHP) to set aside money to pay for certain out-of-pocket health expenses.[1] HDHPs are health plans with a minimum deductible of $1,300 for an individual with a maximum out-of-pocket limit of $6,550 for 2017 (not including premiums).

HSAs are often promoted as a way to encourage healthy higher-income individuals to save for large medical expenses and reap tax benefits. HSAs have three tax advantages: 1) the money placed in an HSA is tax deductible, 2) any interest accrued in the account is not taxable, and 3) withdrawals from HSAs are tax-exempt as long the withdrawals are used to pay for medical expenses. Contributions to an HSA are capped at $3,400 for an individual for 2017.[2] Individuals age 55 or over can contribute an additional $1,000.

HDHP/HSA coverage is generally offered through employer-based coverage or on the individual market. As of January 2015, 19.7 million individuals were enrolled in HDHP/HSA coverage, an increase of two

1 Medicare Prescription Drug, Improvement, and Modernization Act of 2003, PL 108-173, December 8, 2003, available at gpo.gov/fdsys/pkg/PLAW-108publ173/pdf/PLAW-108publ173.pdf.

2 26 CFR § 601.602, available at irs.gov/pub/irs-drop/rp-16-28.pdf.

million from January 2014.[3] In 2014, 23% of those enrolled in an HDHP/HSA made no individual contributions to their HSAs.[4] The amount people contribute is influenced by income. For example, only 20% of individuals earning less than $50,000 contribute $1,500 or more whereas 51% of those who earn more than $50,000 contribute over $1,500. Medicare enrollees are not currently eligible for an HSA.

Congressional Proposals to Expand Access to Health Savings Accounts

The Better Care Reconciliation Act (BCRA), legislation introduced in June 2017 but not enacted, would have almost doubled HSA contribution limits from $3,400 to $6,550 or $7,550 for an older adult.[5] The BCRA would have allowed people, for the first time, to use HSA contributions to pay for health plan premiums[6] and for over-the-counter medications. The BCRA would also have reduced the penalty individuals incur when they use HSA funds for unpermitted purposes from 20% to 10%.

Health Savings Accounts Today

	Individual Baseline	Individual Average[7]	Family Baseline
Deductible	$1,300	$2,196	$2,600
Maximum Contribution*	$3,400	N/A	$6,750
Out-of-Pocket**	$6,550	$4,085	$13,100
Premiums	N/A	$5,312	N/A

*Individuals age 55 or over can contribute an additional $1,000

**Does not include premiums

How This Works

You pay entirely for your covered health care costs until you reach your deductible. Then the plan picks up a percentage of the cost and you continue to pay your contribution up until $6,550. You can use your HSA funds to pay for health care costs (not including premiums) until they are exhausted.

3 2015 Census of Health Savings Account- High Deductible Health Plans, AHIP, November 2015, available at ahip.org/wp-content/uploads/2015/11/HSA_Report.pdf.

4 Employer and Worker Contributions to Health Reimbursement Arrangements and Health Savings Accounts, 2006-2014, EBRI, March 2015, available at shrm.org/ResourcesAndTools/hr-topics/benefits/Documents/EBRI_Notes_03_Mar15_Svngs-HlthCntribs.pdf.

5 Better Care Reconciliation Act, H.R. 1628, sec. 121, available at congress.gov/115/bills/hr1628/BILLS-115hr1628pcs.pdf.

6 Better Care Reconciliation Act, H.R. 1628 Amendment, p. 168, available at budget.senate.gov/imo/media/doc/SENATEHEALTHCARE.pdf.

7 See US Census Bureau Data, 2015, Table H-10, available at census.gov/data/tables/time-series/demo/income-poverty/historical-income-households.html.

HDHP/HSA Model: Not a Good Option for Older Adults

HSAs provide the most benefit to individuals with high incomes. This is because high-income people both have enough income to contribute to HSAs and will receive the largest tax benefit from their contributions.

Most Older Adults Cannot Afford to Contribute To an HSA

Most older adults who are not yet eligible for Medicare have limited income and assets. The median income for individuals age 55 to 64 is $62,000, which is significantly lower than the income of younger individuals age 35 to 54, for whom the median income is $71,000-$73,000. Of all individuals who currently do not have health insurance coverage, half have less than $100 in their bank account.[8] Even more startling, is how little in savings individuals age 55-64 have as they approach retirement. Forty-one percent have no retirement savings at all.[9]

The portion of monthly income that low to moderate-income older adults could therefore contribute to an HSA would be minimal at best.

Most Older Adults Do Not Benefit from the Tax Advantages of HSAs

Because older adults with low to moderate incomes fall into lower tax brackets, have little to contribute to HSAs, and face higher health care costs, they would not receive the tax benefits that higher income individuals who have more disposable income to contribute would enjoy. Further, because the HSA design uses tax deductions, rather than tax credits, there is no tax benefit at all for individuals for whom no income tax is due.

High-income individuals receive the largest tax benefit for each dollar contributed to an HSA because they fall within the highest marginal tax rates. Accordingly, high-income individuals could save up to approximately 40 cents for every dollar contributed to an HSA while low-income individuals would receive just 10 to 15 cents for every dollar contributed.[10] Many low-income individuals would not receive a tax benefit at all because they do not have taxable income.

Also, unlike younger adults, older adults cannot wait years for money in HSAs to grow before needing those funds to cover medical expenses. Older adults already pay large portions of their incomes for health care. Individuals age 55 to 64 spend approximately nine percent of their income on health care compared to younger individuals age 45 to 54 who spend a little less than seven percent of their income on health care.[11] The age gap in health care costs would widen further if, as was proposed with BCRA, health insurers would be permitted to charge older adults five times more for coverage than younger individuals. Even if older adults could contribute to an HSA, the HSA would not make their health care affordable.

8 Health Insurance Marketplace Uninsured Populations Eligible to Enroll in 2016, APSE, October 15, 2015, available at aspe.hhs.gov/basic-report/health-insurance-marketplace-uninsured-populations-eligible-enroll-2016.

9 Retirement Security, Most Older Adults Approaching Retirement Have Low Savings, GAO, May 2015, available at gao.gov/assets/680/670153.pdf.

10 26 CFR § 601.602, available at irs.gov/pub/irs-drop/rp-16-55.pdf.

11 Household health care spending in 2014, Bureau of Labor Statistics, August 2016, available at bls.gov/opub/btn/volume-5/household-healthcare-spending-in-2014.htm.

For example, Ms. Jones is a sixty-year-old with an annual income of $26,500. Under a proposal like BCRA, Ms. Jones' premiums for health care would total $20,500.[12] She would be responsible for paying $6,500 in premiums out of pocket after receiving a tax subsidy of $14,000 based on her age and income.[13] If we assume Ms. Jones would contribute the maximum to her HSA, her account would total $7,550. This contribution would constitute 28% of her income, an amount that most low-income individuals could not afford to set aside. Based on her income bracket, she would receive a $.15 tax deduction on every dollar she contributes to her HSA totaling $1,133 in tax savings. Even with this tax benefit she would receive by paying for her premiums out of her HSA, the net premium she would pay is still $5,367. In the end, Ms. Jones would pay 20% of her income on premiums and would still have out-of-pocket health care costs from her deductible and cost sharing. To compare, under today's law, Ms. Jones' net premiums total $1,700, just 6% of her income, and she receives considerable cost-sharing subsidies that reduce her out-of-pocket costs.[14]

As this example shows, the tax deduction that may be attractive for those who can afford to contribute to an HSA would generate little or no savings for older adults of modest means. The bottom line is that low to moderate income older adults would likely end up paying more in premiums, deductibles, and cost sharing without receiving any significant tax benefits of an HSA than if they were enrolled in non-HDHP/HSA plan with a lower deductible.

Net Premium Costs after Maximum HSA Contributions

Single Individual Annual Income	Base Premium Cost	Tax Subsidy	Max. Annual HSA Tax Deduction (.15%)	Net Premium Cost***	Premium Cost as % of Total Income
Age 64 $26,500 Under BCRA	$20,500*	$14,000	$1,133**	$5,367	20%
Age 64 $56,800 Under BCRA	$20,500*	$0	$1,888**	$18,612	33%
Age 40 $92,000 Under BCRA	$6,400*	$0	$1,834**	$4,566	5%

*Based on the purchase of a Silver Plan

**Based on individual contributing the maximum: $6,550 for individuals under age 55; $7,550 for individuals age 55 and over

***Includes Tax Subsidies & HSA Tax Deductions

12 Congressional Budget Office Cost Estimate, Better Care Reconciliation Act of 2017, June 26, 2017, available at cbo.gov/system/files/115th-congress-2017-2018/costestimate/52849-hr1628senate.pdf.

13 Id.

14 Id.

HDHP/HSA Coverage Does Not Make Older Adults Better Health Care Consumers

Proponents contend that HDHPs with HSAs encourage individuals to be better health care consumers. The idea is that if you have a high deductible, you are more likely to shop around for cheaper and higher quality care. Studies have shown, however, that overall consumers did not get better at finding cheaper care. Instead, they just opted to get less care, reducing health care spending overall.[15] The same studies, on the other hand, showed that those consumers who were high health care users with care needs that exceeded the deductible did not reduce their use of services.

Older adults are high health care users. Over half of individuals age 40 and up have multiple chronic conditions, and three out of four adults age 65 and older have multiple chronic conditions.[16] Approximately 71% of the total health care spending in the United States is associated with care for individuals with more than one chronic condition.[17] Accordingly, older adults fall squarely in the category of those who spend beyond plan deductibles. They use care because they need it and are less likely to be price shoppers.

Conclusion

Proposals to expand HSAs are again likely to be put forth in the coming months as legislators reconvene to discuss how to make health care more affordable. This paper shows that the HSA proposal in BCRA and other similar legislation does not solve the affordability issue facing low and moderate income older adults seeking health care coverage in the individual markets. The tax benefits are minimal and the expectation that these individuals can contribute significant amounts is unrealistic in light of their income. While HSAs could confer significant savings on high-income younger individuals, they are not a solution for affordability for individuals who are the least able to afford health insurance and need it most.

15 Health Care Spending After Adopting Full-Replacement, High Deductible Health Plan With a Health Savings Account: A Five Year Study, Employee Benefit Research Institute, July 2013, available at ebri.org/pdf/briefspdf/EBRI_IB_07-13.No388.HSAs2.pdf See also, Non-Group Health Insurance: Many Insured Americans with High Out-of-Pocket Costs Forgo Needed Health Care, Families USA, May 2015, available at familiesusa.org/sites/default/files/product_documents/ACA_HRMSurvey%20Urban-Report_final_web.pdf.

16 Multiple Chronic Conditions Chartbook, Agency for Health Care Research and Quality, April 2014, available at ahrq.gov/sites/default/files/wysiwyg/professionals/prevention-chronic-care/decision/mcc/mccchartbook.pdf.

17 Id.