



## **RSC POLICY BRIEF: HSA ENROLLMENT**

**MAY 1, 2008**

This week, the Government Accountability Office (GAO) released a [study](#) requested by Reps. Henry Waxman and Pete Stark with additional data on take-up and enrollment in Health Savings Accounts (HSAs). In addition, America's Health Insurance Plans (AHIP) released a new [report](#) reflecting enrollment in HSAs as of January 2008. In response to these two reports, the RSC has prepared the following document rebutting criticisms propounded by the Democrats who requested the GAO study, and summarizing the news released by AHIP about HSAs' growing popularity.

### **Democrat Criticisms Based on GAO Report**

**Criticism: Because contributions to HSAs are significantly exceeding withdrawals from the accounts, Health Savings Accounts can therefore be considered a “tax shelter.”**

#### **Response:**

- The GAO report found that in 2005, tax filers contributed \$754 million to HSAs, while withdrawing \$366 million, or about half the total contribution figure, to pay various expenses.
- The point of HSAs is to allow individuals to save money tax-free for health care expenses. Therefore, many conservatives would view the net \$388 million in savings as positive news—because that money is being saved to pay for long-term and catastrophic health care expenses, rather than being used on high-cost, first-dollar insurance coverage with benefits that individuals may never use.
- GAO also cited various employer surveys noting that employers are placing \$600-800 annually in their workers' HSAs to pay for health expenses.
- Some conservatives may believe that, had total withdrawals nearly equaled total contributions, Democrats would instead be objecting that individuals are not saving enough funds in their HSAs to cover unexpected health expenses under a high-deductible health insurance plan.

**Criticism: Because HSA account holders reported higher incomes than other tax filers, HSAs are being used primarily by wealthy individuals and families.**

Response:

- The data in the GAO study leading to this conclusion reflect information from tax year 2005—when there were just over one million covered lives in HSAs.
- Since the point in time captured by GAO, Health Savings Accounts have grown nearly six-fold, and now encompass more than six million covered lives.
- The small sample size available in 2005 may have incorporated a disproportionate number of holders of Medical Savings Accounts (MSAs), who converted their accounts into HSAs upon their creation in early 2004. Because MSAs were only available to self-employed individuals and small business owners—who would have higher incomes than the general population—it is perhaps unsurprising that the incomes of these “early adopters” would be higher than all tax filers.
- However, eHealthInsurance, an online broker of health insurance policies nationwide, has released a [report](#) based on its sales of HSA policies in 2005, which found that 45% of HSA-eligible plan purchasers earned less than \$50,000 annually—and 41% of HSA purchasers had not previously had health insurance coverage in the prior six months.
- Because the data on “all tax filers” included both Medicare and Medicaid recipients—many of whom have significantly lower incomes than the average tax filer, and none of whom are eligible to make HSA contributions—the GAO report did not provide an “apples-to-apples” comparison of the incomes of those individuals who purchase HSAs and those who choose other forms of private insurance.
- The GAO report did not provide context on the relative incomes for individuals who use other tax-favored accounts, such as those for college savings. Without that contextual data, it is difficult to determine whether and how HSAs are being improperly used when compared to similar tax-favored savings vehicles.

**Criticism: Many individuals who take out HSA-eligible plans are never opening Health Savings Accounts—leaving them vulnerable to high expenses in the event of a health care emergency.**

Response:

- The GAO study quoted various studies stating that 42-49% of HSA-eligible plan enrollees had not opened an HSA.
- However, the study confuses the difference between *covered lives* in an HSA-eligible plan and the *number of accounts opened*. For many reasons, the two numbers will never be equal, or even nearly equal—dependent children covered on their parents’ HSA-eligible plan cannot open their own account, and some spouses may choose to operate a shared account rather than two distinct ones.

## **Growth of Health Savings Accounts**

Both the GAO study and the report released by AHIP this week confirm that Health Savings Accounts have appreciably grown in popularity since their introduction in 2004. Relevant points include the following:

- The number of HSA covered lives has grown from 438,000 in September 2004 to more than 4.5 million in January 2007—and 6.1 million in January 2008.
- The growth in enrollment from January 2007 to January 2008 represents a 35% increase in the number of HSA covered lives in a single year.
- Of the nearly 1.6 million newly covered lives, almost half were in the small group market—a particularly compelling statistic, given the difficulties many small businesses have in offering health insurance to their employees.
- States such as Louisiana and Minnesota, along with the District of Columbia, are seeing HSA-eligible policies approaching 10% of all enrollment in private health insurance.
- HSAs provide quality health insurance above the high deductible—the average lifetime maximum benefit exceeds \$3 million for many policies, and anywhere from one-fifth to one-third of policies have unlimited lifetime maximum benefits.
- The average HSA account balance is \$1,382—significant savings that can be used to pay for health expenses.

**Conclusion:** Despite the comments released by the Democrats who requested the GAO study, many conservatives will be pleased by much of the data in the report. The study demonstrates that individuals and families are compiling real savings in their Health Savings Accounts—money that may otherwise have been sent to an insurance company to pay higher premiums for benefits that they may never have used. Instead, consumers are creating savings to pay for catastrophic health care expenses, and becoming wiser shoppers when purchasing incidental medical goods and services, which will help to slow the growth of health care spending.

The dramatic and continued increase in HSA adoption over the past four years demonstrates the resonance which this new concept has had on individuals and families alike. The significant growth in HSA adoption among small businesses—where many of the “working uninsured” are employed—and the contributions made to HSAs by a strong percentage of employers indicate their widespread popularity as a means for businesses to control the growth of health care spending while empowering their workers to make better health decisions. For these reasons, many conservatives will continue to support actions that allow HSAs to grow and thrive, while opposing actions by Democrats—either through legislative fiat or unnecessary regulatory burdens—to undo this critical health care innovation.

**RSC Staff Contact:** Chris Jacobs, [christopher.jacobs@mail.house.gov](mailto:christopher.jacobs@mail.house.gov), (202) 226-8585

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