WISCONSIN STATE LEGISLATURE COMMITTEE HEARING RECORDS

2005-06
(session year)

Assembly
(Assembly, Senate or Joint)

Committee on Insurance (AC-In)

(Form Updated: 11/20/2008)

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An Explanation of …
"Health Savings Accounts"
Tax free healthcare benefits

AB-4
27

Presented by:

Representative Curt Gielow (R-Mequon)

January 20, 2005

What is a Health Savings Account ("HSA")?

- Totally tax-free instrument for accumulating monies to pay for "qualified" medical care expenses
- Monies must accumulate in a trust or custodial account set up by an "eligible individual"
- Participant must be covered by a "high-deductible health plan" ("HDHP")
- Created under the new Medicare legislation enacted in December 2003
- Goal – Contain spiraling healthcare costs by sparking a consumer-led revolution in the way health care is financed

Who is eligible for a Health Savings Account?

Anyone who is, for a given month –

- Enrolled in a HDHP
- Not covered by another non-HDHP
- If covered by another HDHP, plan with lower deductible governs
- Not Medicare-eligible (i.e., is < age 65)
- Not being claimed as a dependent on someone else's tax return

What is a "high-deductible health plan" (HDHP)?

- Annual single deductible of at least $1,000
- Out-of-pocket expenses (DCCs) $5,000
- Annual family deductible of at least $2,000
- Out-of-pocket expenses (DCCs) $10,000
- Above amounts will be indexed for inflation
- Plan cannot provide benefits until deductible met
- Plan may carve out "preventive care" services; i.e., can have $0 deductible for preventive care and still qualify as a HDHP
- Can have higher out-of-pocket expenses for out-of-plan or non-preferred providers and still qualify as a HDHP

Can a HDHP be a self-funded ("self-insured") plan?

- Yes! Employers functioning on a self-funded basis can establish a HDHP eligible eligible for HSA treatment.
- Because self-funded plans are controlled by each employer, self-funded HDHPs may be the most prolific.
- At self-funded employers, unions may push for HDHPs.

Who may contribute to a HSA?

- An HSA is established by an individual, not an employer. It belongs to that individual and is completely portable.
  - An employee and/or employer contributes to the HSA.
  - The self-employed or unemployed may contribute to an HSA.
  - A family member may contribute to the HSA of another family member who is an eligible individual.

What are the contribution limits?

- An individual may contribute up to the amount of the self-only deductible, but not greater than $2,600.
- A family may contribute up to the amount of the family deductible, but not greater than $5,150.
- The above amounts are for 2004; they will be adjusted for future years.
- The above amounts are based on 12 full months of eligibility. They are prorated for eligibility of less than 12 full months.
- Individuals 55 and over can additionally contribute an extra $500 (known as a "catch-up contribution") for 12 full months of eligibility (increasing to $1,000 by 2009).
- No contributions can be made once the individual reaches age 65.

What are the tax ramifications?

- Contributions made by an individual on her own account are deductible whether or not she itemizes deductions.
- Contributions made on behalf of a family member are deductible by that family member.
- Contributions made by an employer are deductible business expenses, but are not taxable to the recipient.
- Contributions grow tax free; build-up not taxed.
- Withdrawals to pay for eligible medical expenses (of individual, or spouse, or family member) are tax free.)

Note: Currently, the deduction applies to federal taxes only.

What are the tax ramifications?

- Withdrawals for non-medical expenses subject to 10% penalty and are taxed. Penalty waived for individuals who have reached age 65, or becomes disabled.
- Contributions can be made any time during the calendar year, and by April 15 for the previous calendar year.
- If the individual dies, then the account passes to the designated beneficiary. If the beneficiary is a spouse, HSA monies can be used for qualified medical expenses of the spouse. If beneficiary someone else, the amount remaining in the HSA becomes taxable income to that beneficiary.
- Discrimination rules apply to employer contributions. Employers must contribute the same amount or the same percentage of the deductible for all employees.

What are "qualified medical expenses"?

- HSA monies can be used to pay for any health care services covered by the underlying HDHP insurance policy. Additionally, HSA monies can be used to pay for:
  - **Claims rejected by insurance company for variety of reasons, such as: out-of-plan provider, provider charge exceeds U&C limits, services not authorized, services subject to DCC, service not "medically necessary", etc.**
  - **Certain OTC "medicines or drugs" (antacids, allergy medicines, pain relievers, and cold medicines). (New IRS ruling.) (Excludes dietary supplements such as vitamins.)**
  - **Vision correction (LASIK) surgery.**
  - **Transportation expenses relative to health care.**

What are "qualified medical expenses"?

- HSA monies can be used to pay for any health care services covered by the underlying HDHP insurance policy. Additionally, HSA monies can be used to pay for:
  - Services in excess of limits (e.g., # of mental health or chiropractic visits).
  - Optometric services.
  - Hearing aids.
  - Long term care insurance and COBRA insurance premiums.
  - Prescriptions drugs not on a formulary.
  - Legal fees (in connection with authorization of medical care).
  - Lodging (away from home for outpatient care)
  - Infertility services.
  - Medicare Part A & Part B premiums.
  - Employee share of premiums for employer-sponsored health plans.
  - Health insurance premiums paid by an employee who is receiving unemployment compensation.
  - Etc.

How do HSAs differ from past tax-shelters for healthcare expenses?

	Medical Savings Account	Flexible Spending Account (Section 125 Plan)	Health Reimbursement Arrangement (Section 105 Plan)
Owner	Individual/Employee	Individual/Employee	Employer
How funded?	$ deposited directly into account	Employee designates a fixed amount of pre-tax wages to be deposited into account; "salary reduction"	Employer establishes a fixed amount for each employee; employer reimburses employee for documented medical expenses. Cannot be "salary reduction"

How do HSAs differ from past tax-shelters for healthcare expenses?

	Medical Savings Account	Flexible Spending Account (Section 125 Plan)	Health Reimbursement Arrangement (Section 105 Plan)
Type of corresponding health plan	Only high-deductible plan allowed	Any type of health plan	Any type of health plan
Portable?	Yes	No. "Use it or lose it"	Year-to-year rollover. However, employer can choose to "take back" fund balance if employee leaves the company.

Administrative and Operating Provisions of HSAs.

- Any eligible person may establish an IRA. No permission is required either from the IRS or one's employer.
- The HSA does NOT have to be opened with the same company (e.g., insurance company) that offers the HDHP. There is no tie-in. The HSA is separate and distinct from the HDHP.
- Participants may want to avoid using the insurance company for their HSA, so as to retain flexibility to change insurance carriers.

Who can serve as trustee or custodian?

- Any licensed insurance company.
- Any bank.
- Anyone already approved by the IRS to be a custodian of IRAs or MSAs; e.g., mutual fund companies and brokers.
- Others by petitioning the IRS.

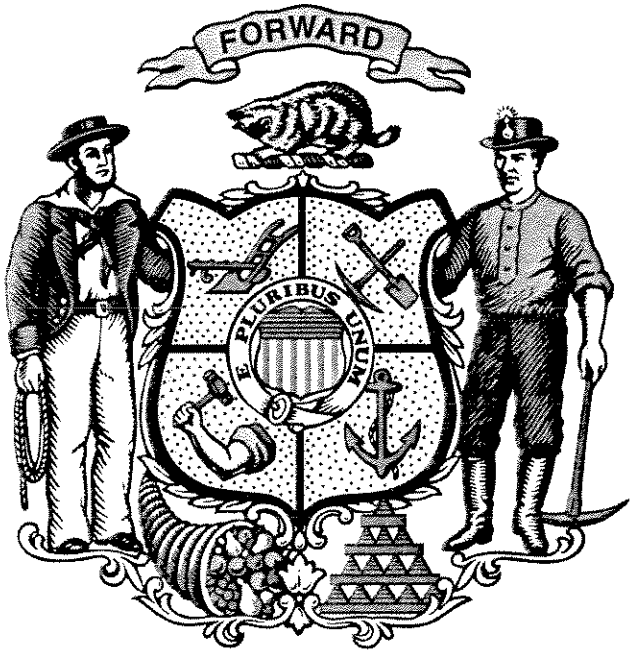
What are the reporting requirements?

- The HSA trustee or custodian does NOT have to determine whether withdrawals were used for legitimate medical expenses.
- Each individual should maintain adequate records to prove withdrawals were for legitimate 213(d) expenses.
- IRS will release forms and instructions to report HSA contributions and withdrawals.
- Employers must report HSA contributions on W2 form.

Who will benefit from HSAs?

Annual Medical Expenses	
$ spent on medical care annually	Percent
No medical expenses $0	33.00%
$1 - $500	40.00%
$501-$1,000	9.00%
$1,001 - $2,000	7.00%
$2,001 - $5,000	6.00%
$5,001-$10,000	2.25%
$10,001 - $25,000	2.00%
$25,001 - $50,000	0.50%
$50,001 - $100,000	0.20%
$100,001 and up	0.05%

(Source: www.americanhealthvalue.com/FYIMedicalExpenses.cfm)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WISCONSIN COUNCIL ON CHILDREN & FAMILIES
Voices For Wisconsin's Children

RESEARCH • EDUCATION • ADVOCACY
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www.wccf.org
A Member of the National Association of Child Advocates

January 24, 2005

Rep. Ann Nischke
Room 8 North, State Capitol
Madison, WI 53702

SUBJECT: Assembly Bill 4 - HSAs

Dear Representative Nischke,

I regret that we were unable to testify last week at the hearing on Assembly Bill 4, relating to health care savings accounts. I would like to take this opportunity to explain why the Wisconsin Council on Children and Families opposes AB 4.

Although we have many concerns about HSAs, I do want to thank the bill authors and cosponsors for their interest in wanting to make health care more affordable for people in Wisconsin. AB 4 would certainly help hold down costs for some employers and some workers. On balance, however, we believe that promoting greater use of HSAs will take our health care system in the wrong direction and will be detrimental for many families in Wisconsin.

Our first concern about the bill is that it targets state tax relief in a way that does not effectively reach people of more modest means. Because the state tax credit would be non-refundable, HSAs provide little or no assistance to the majority of people who are uninsured.

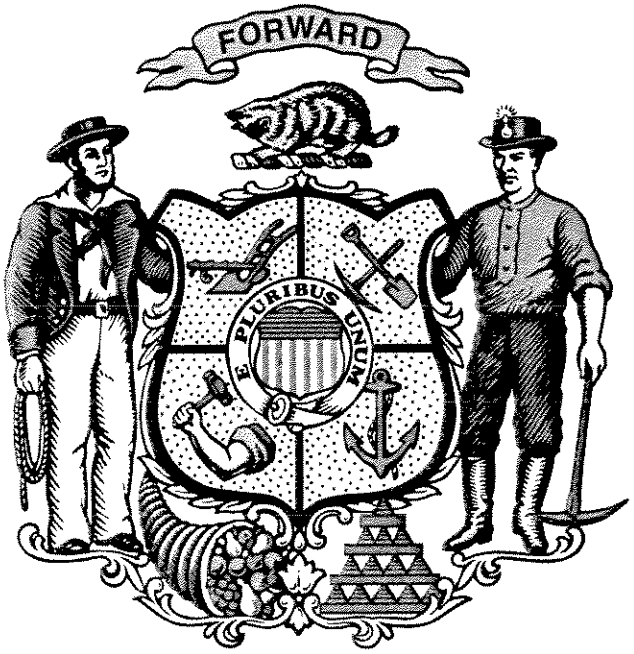
An even larger concern is that the tax incentives for using HSAs will lead to greater use of high deductible insurance plans, and will shift more costs to consumers. We understand the argument that HSAs are intended to make consumer more cost-conscious purchasers of health care services, but we think a $2,000 deductible for family coverage is likely to make some families delay or defer needed preventive care, thereby increasing health care costs in the long run.

It is also likely that HSAs will attract a healthier portion of the market and contribute to risk segmentation. As healthier people opt for the high deductible plans, costs will increase for the other people in traditional plans, thereby making it harder for employers to offer other options. This "adverse selection" effect and the shift in focus away from preventive care lead us to the conclusion that the long-term negative consequences of HSAs will outweigh the benefits.

We would welcome the opportunity to discuss the issue further if you are interested.

Sincerely,

Charity Eleson
Executive Director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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

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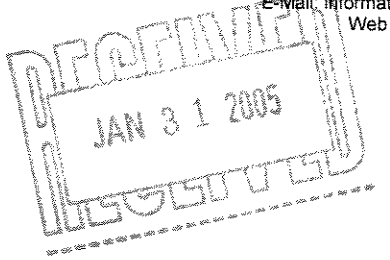


DATE: January 25, 2005

TO: Representative Ann Nischke
Members, Assembly Insurance Committee

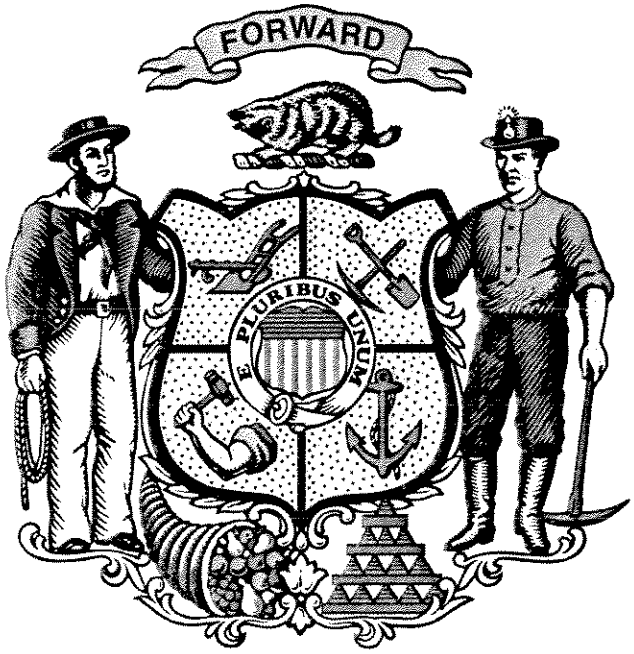
FROM: Eileen Mallow
Assistant Deputy Insurance Commissioner

SUBJECT: Information request from January 20, 2005 Committee Hearing-AB 4.

During my presentation, I was asked if OCI had any information related to the number of insurers who are qualified Health Savings Account (HSA) trustees. I have been told that OCI does not monitor the number of insurers who act as trustees for their own HSA products. OCI has been given anecdotal information of insurers who may have, may currently be, or may have discontinued trustee functions but there is not a comprehensive list in existence at this agency.

As you know, the Internal Revenue Service guidelines say a qualified HSA trustee can be a bank, an insurance company, or anyone already approved by the IRS to be a trustee of individual retirement arrangements (IRAs) or Archer Medical Savings Accounts (MSAs). Qualified trustees, including insurers, are not required to file anything with our office to be a trustee and therefore are not regulated by this office.

Please let me know if OCI can provide any additional information.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Rosenak, Mary Jan

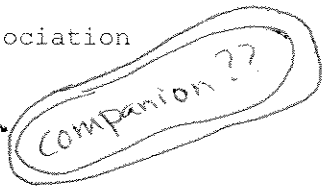
From: Sandy Bolgrihn [Grspace2.9.43849@vocusgr.com]
Sent: Wednesday, January 26, 2005 2:27 PM
To: Rep.Nischke
Subject: AB 4 and SB 7 - Health Savings Accounts

TO: All Legislators

FROM: Michael Theo, Vice President of Public Affairs
Wisconsin REALTORS Association

DATE: January 26, 2005

RE: AB 4 and SB 7 - Regarding Health Savings Accounts



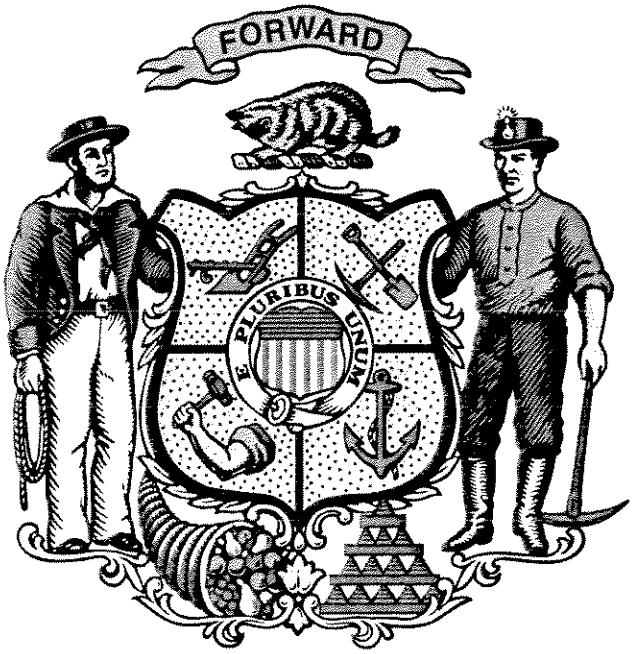
The Wisconsin REALTORS Association (WRA) strongly supports AB 4 and SB 7, legislation providing a nonrefundable state income tax credit for contributions to, and earnings from, personal health savings accounts. While certainly not a cure for today's health care crisis, this legislation will help offset some of the costs Wisconsin families face every day, particularly families of independent contractors and businesses.

Independent contractors are not employees
Like many small businesses, Realtors are having an increasingly difficult time finding and affording health care. However, unlike some small businesses, the problem for Realtors is far more acute because as independent contractors, Realtors have no employer-employee relationship and thus have no access to traditional employer-provided health care and insurance benefits. As a result, independent contractors, like Realtors, must acquire health insurance purely as individuals without the benefit of employer contributions or employee pools. Often times, sadly, they simply do without.

Substantial benefits
This legislation provides a nonrefundable credit against the state's individual income tax of 6.5% of the allowable federal deduction for HSAs. For working families, this will total over $300 per year. Under federal law, individuals covered by high deductible health insurance plans can make pre-tax contributions to the account to cover health care expenditures. Interest earnings on the account are tax-free and expenditures from the HAS are not subject to taxes if used to pay for qualified medical expenses. Finally, because the accounts follow an individual and not an employer or company, this legislation particularly helps highly mobile self-employed workers.

Opponents miss the point
Opponents of this legislation, like public and private employee unions, either don't understand the nature of independent contractors or don't care about this class of workers. Their fear that employers will reduce health benefits under this legislation is simply not applicable to independent contractors because there is no employer-employee relationship to jeopardize. It's time opponents end the health care discrimination they endorse against independent contractors and their families. Realtors, independent contractors and other small business workers need and deserve health care assistance every bit as much as the assistance unionized workers and their families currently enjoy.

Conclusion
Workers and their families who do not, and will not, have access to employer-based health care benefits need and deserve this legislation. While it may not solve all the health care and insurance problems we face as a state or a nation, this legislation will provide a measure of assistance to independent contractors and small businesses in Wisconsin. We encourage your support.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Assembly Republican Majority
Bill Summary

Contact: Mary Jan Rosenak, Office of Rep. Ann Nischke

AB 4: Health Savings Account Tax Credit
Relating to: creating a nonrefundable individual income tax credit for certain amounts relating to health savings accounts that may be deducted from, or are exempt from, federal income taxes.

By Representatives Kaufert, Moulton, Nischke, Hundertmark, Wieckert, Gielow, Rhoades, Jensen, Vos, Kerkman, Ott, Van Roy, McCormick, Davis, Suder, Ainsworth, Nass, Stone, Freese, Gundrum, Underheim, Hines, Petrowski, Gronemus, Ziegelbauer, Lothian, Hubler, Ward, Kestell, Townsend, Albers, LeMahieu, J. Fitzgerald, Owens, Vrakas, Meyer, Strachota, Jeskewitz, Kreibich, Pettis, Musser, Kleefisch, Towns and Vukmir; cosponsored by Senators Darling, Leibham, Harsdorf, Kapanke, Zien, A. Lasee, Stepp, Olsen, Kanavas, Roessler, Grothman and Lazich.

Date: January 27, 2005

BACKGROUND

Under ***current federal law***, eligible individuals covered by a high deductible health plan that meets certain requirements may make contributions to a health savings account (HSA) from which distributions may be made to pay for qualified medical expenses of the HSA beneficiary. The contributions to (up to certain limits) and the earnings on an HSA may be deducted in determining adjusted gross income for purposes of federal income tax.

Under ***current state law***, income from which contributions are made to an HSA and earnings on an HSA are included in an individual's income for purposes of state income tax, that is, the contributions and earnings are not tax free.

SUMMARY OF AB 4

Assembly Bill 4 AS AMENDED BY JOINT FINANCE would adopt federal law as it relates to HSAs, that is, if the conditions specified in federal law are met, contributions (up to certain limits) by an eligible individual and his or her employer to and earnings on an HSA are deducted from income in determining state income tax. Also, distributions from an HSA for qualified medical expenses would not be included in taxable income.

AMENDMENTS

Assembly Substitute Amendment 1 to Assembly Bill 4 [adopted 12-4 by Joint committee on Finance (Senators Decker and Taylor, Representatives Colon and Pocan voted no)] changes the tax credit into a tax deduction, and extends the federal tax credit to employers who contribute to an HSA on behalf of an employee.

FISCAL EFFECT

A fiscal estimate prepared by the Department of Revenue indicates that GPR funds would be reduced by $4.5 million in Fiscal Year 2006, and the fiscal effect would increase about $.5 million in each year thereafter (FY07, $5.1 million; FY08, $5.5 million; FY09, $6.0 million; FY10, $6.5 million; FY11, $6.9 million; FY12 $7.3 million; FY 13, $7.7 million).

PROS

1. HSAs encourage consumers to be better connected to and involved in their health care decisions and costs. Consumer driven health care provides the opportunity to reduce overall health care costs. This legislation would encourage Wisconsin employers and employees to use HSAs.

2. HSAs are an affordable option for small businesses and farmers to provide insurance to their employees.

3. Simplifies tax preparation by accepting and adopting the federal laws at the state level.

CONS

1. The cost of full coverage (first dollar) health insurance may escalate due to adverse selection.

2. There is a loss of revenue to the state.

3. Employers may drop first dollar health insurance in favor of high deductible policies.

SUPPORTERS

State Representatives Dean Kaufert and Terry Moulton (authors), Steve Wieckert; James Buchen, Madison— Wisconsin Manufacturers & Commerce; Ron Kuehn, Madison — Insurance and Financial Association, Professional Insurance Agents, and Independent Insurance Agents; Bill G. Smith, Madison — National Federation of Independent Business (NFIB); Sabrina Gentile, Madison — WI Farm Bureau; Dan Schwartzer — Wisconsin Association of Provider Networks, and Wisconsin Association of Health Underwriters; Mark Wadium, Appleton — Outagamie County; Pat Osborne, Madison — Wisconsin Association Of Life and Health Insurers; Chad Zuleger, Appleton — American Medical Security; Kathryn Sheahan, Madison — UW Nursing Student; Louie Schubert, Madison — American Family Insurance; Mike Semmann, Madison — Wisconsin Bankers Association; Michael Theo, Madison — Wisconsin Realtors Association

OPPOSITION

Senator Tim Carpenter; Joanne Ricca, Milwaukee — Wisconsin State AFL-CIO; Robert Kraig, Milwaukee — SEIU--Wisconsin State Council; Linda Farley, Verona — Dr., Physicians for a National Health Plan; Coalition for Wisconsin Health; Wisconsin Citizen Action; Carmen Dickinson, Milwaukee — SEIU Local 150; Darcy Haber, Madison — Wisconsin Citizen Action; Ross Reykdal, Madison — UW Madison Student Labor Action Coalition; Ann McNeary, Sun Prairie — CWA Wisconsin Political Council; Jon Peacock, Madison — Wisconsin Council on Children and Families; Joe Oswald, DeForest — Wisconsin Laborers District Council; Katherine Wenban, Madison — Coalition for Wisconsin Health; approximately 28 members of SEIU and its affiliate organizations; and 9 members of the general public.

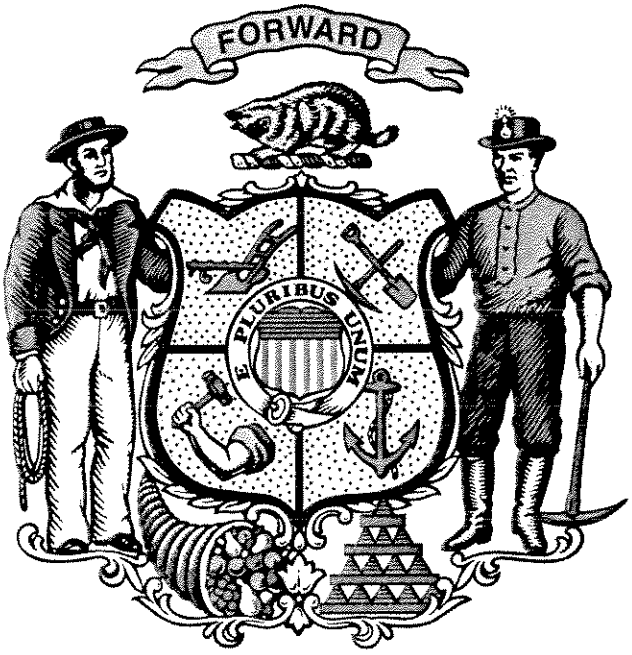
HISTORY

Assembly Bill 4 was introduced on January 13, 2005 and referred to the Joint Committee on Finance. Assembly Substitute Amendment 1 to the bill was offered by the Joint Committee on Finance.

On January 18, 2005 that committee recommended passage of the bill, as amended, on a vote of 12-4 [Senators Decker and Taylor; Representatives Colon and Pocan voting No]. The bill was then referred to the Assembly Committee on Insurance.

A public hearing was held on January 20, 2005.

On January 25, 2005, the Committee voted (9-6) [Cullen, Lehman, Staskunas, Berceau, Nelson, and Sheridan voting NO] to recommend passage of AB 4 as amended.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February 7, 2005

The Honorable James E. Doyle
Governor of Wisconsin
PO Box 7863
Madison, WI 53707

RE: Health Savings Accounts

Dear Governor Doyle:

I ask that you reconsider your position as a new legislation initiative goes forward to have Wisconsin recognize the tax preferred status of private health savings accounts. Our firm is engaged on a daily basis working with primarily small employers and helping them make decisions regarding their continued sponsorship of a group health medical plan for their employees. Although the concept of a high deductible is not the answer for all customers, it has become a popular alternative since it has allowed the opportunity for a small employer to continue to financially sponsor a group health program that they can afford.

In today's era of hyper-inflated health care costs, we can hardly consider a single deductible of $1,000 and a family deductible of $2,000 as a high deductible when you contrast that with the real cost of health care services. Unfortunately, too many consumers have lost their sense of responsibility in the process of purchasing health care services with the advent of the Health Maintenance Organization (HMO) type of health plans that were brought forward in the 1980's. As a result of these failed experiments, many of those insured under these types of plans came to expect health insurance to pay for every and all medical expenditures without any personal financial responsibility. Certainly this strayed dramatically away from the fundamental principal of insurance - that being protection against catastrophic financial loss.

The fundamental concept of returning to an initial deductible before medical expenses are directly paid by an insurance plan returns to the basic principal of insurance. It also puts the consumer back in the role of being financially responsible for their own initial health care expenditures as well as the consequence of their poor lifestyle habits.

We currently have over 25 clients that have adopted the high deductible health insurance program which has provided their employees the opportunity to establish their own personal health savings account. The number of clients will continue to grow as more small employers look to the higher deductible plans as a means of still providing a comprehensive health insurance plan for their employees. However, under the present State of Wisconsin tax law structure, it has become more than confusing as we explain the benefits of a personal health savings account. Let me share with you a more recent example of one of our customers that adopted a high deductible plan effective February 1, 2005.

The employer group _____(a metal finishing company) located in Waukesha, Wisconsin has been a family owned business for over 70 years. They recently elected to go to a high deductible health plan that qualifies for their participating employees to open up a health savings account. The health plan they elected has a $2,000 single deductible and a $4,000 family deductible with medical expenses covered at 100% after satisfaction of the calendar year deductible. Their previous plan already had a $2000 single deductible/$6,000 family deductible. However, it did not qualify for a health savings account because it included copays for doctor visits and prescription drugs.

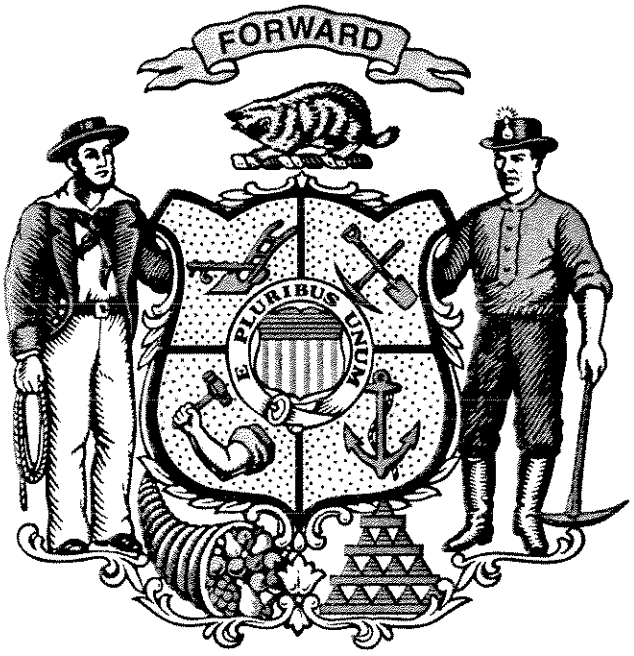
The owner decided to open an HSA account for his employees and to initially deposit $500 to each participant's health savings account. He then asked that I communicate in a meeting to the employees their new health plan which is effective February 1st and the new health savings account. This employer has 10 employees on the health plan and the employees pay 15% of the cost of the monthly health insurance premium with the employer paying the other 85%.

I covered the new high deductible health program and explained the insurance coverage provided by the plan. I then outlined how they are eligible to put aside money on a tax preferred basis to contend with their initial medical expenses that fall under the deductible through a personal health savings account. I went on to explain how their employer would be opening up an account for them and making a deposit of $500 on their behalf. From there I had to explain the complications created by the State of Wisconsin regarding health savings accounts. I explained that the 15% premium contribution that they make towards the cost of the actual health insurance runs under the company's Section 125 Premium Only Plan (POP) which means the contribution comes off the top of their wages before federal, state or FICA taxes are determined. Then I explained that the $500 deposit that the employer will make into their new HSA account would not be added as income for federal tax purposes in 2005. However, based upon the fact that Wisconsin still does not recognize the HSA account, they will have the $500 added to their income in 2005 for state tax purposes along with any interest earnings realized by the account. I then pointed out that they could make additional deposits to their health savings account through the same Section 125 Premium Only Plan. However, the money withheld for deposits into their HSA account would be on a pre-tax basis for federal and FICA but they would have to pay state income tax on that money and any interest realized in the account would also be taxable to them on a state basis.

The 10 employees at _____ were confused and discouraged with the fact that Wisconsin had not federalized their tax laws to recognize the HSA account. We have done similar meetings for our other 24 customers and will continue to educate the consumers as they become eligible to establish their own private health savings account. Clearly, the individuals opening up these HSA accounts are not the wealthy but hard working, tax paying constituents in the State of Wisconsin. Again, I urge you to re-evaluate your position regarding federalizing the tax status of health savings accounts for the State of Wisconsin.

Yours truly,

Terrence P. Frett, CEBS, CLU, CPCU, REBC, RHU
Certified Employee Benefit Specialist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RJ Pilot sent 2/15/05

Health Savings Accounts: The First Year In Review...

for AB-422

February 15, 2005

HSA

health savings accounts

eHealthInsurance

Introduction:

- On January 1, 2004, Health Savings Accounts became available to Americans as a way to help people get affordable health insurance, experience flexibility in the use of their healthcare dollars today, and save for their future medical needs tax-free. As the largest source of health insurance for individuals and families, eHealthInsurance immediately began offering, nationwide, health insurance plans that are Health Savings Account-eligible (HSA-eligible plans) for consumers to use with Health Savings Account (HSA) banking options.
- In April of 2004, eHealthInsurance released "Health Savings Accounts: The First Three Months," the first overview of individual and family adoption of HSA-eligible plans. This preliminary report provided some insights into the market and generated additional questions. In August of 2004, we responded with an updated report, "Health Savings Accounts: The First Six Months."
- This report, "Health Savings Accounts: The First Year in Review," provides a snapshot of the HSA market as defined by HSA-eligible plans sold by eHealthInsurance to individuals and families in their first year, January 1 through December 31, 2004. The report's focus is on the continued adoption of HSA-eligible health insurance plans and highlights key trends between the first six months and the full year of HSA-eligible health plan purchases. For the first time in this report, we also provide comparable data on the purchase of Non HSA-eligible plans with data on the traditional individual and family health insurance market derived from our semi-annual "Cost and Benefits of Individual and Family Health Insurance Report" (September, 2004).
- This report will:
  - Identify and compare key demographics of purchasers of HSA-eligible health insurance plans purchased through eHealthInsurance in 2004;
  - Show the premiums paid by purchasers of HSA-eligible health insurance for all of 2004 and compare them with
    Non HSA-eligible plan premiums paid; and
  - Outline the health insurance benefit levels included in the HSA-eligible plans purchased by consumers in 2004.
- eHealthInsurance is the largest source of health insurance in the United States for individuals and families and represents over 140 of the leading health insurance carriers across all 50 states. Our nationwide coverage enables us to provide a unique analysis of consumer purchasing.

Methodology:

- The "Health Savings Accounts: The First Year in Review" report is based on a sample of thousands of HSA-eligible plans sold between January 1 and December 31, 2004 through eHealthInsurance.com to individuals and families across the U.S. In previous reports on the HSA market, our samples were based on submitted applications rather than sold policies. To provide a consistent data set upon which to draw comparisons, we recast the data for the first six months of the year to include data on sold policies in that time period.
- In this report we also present comparable data on Non HSA-eligible plans. Non HSA-eligible plan data is derived from our semi-annual "Cost and Benefits on Individual and Family Health Insurance Report" (September, 2004) which analyzes a sample of 82,000 health insurance polices purchased from all health insurance sales through www.eHealthInsurance.com from March to August 2004.
- This report does not address consumers' banking participation in the Health Savings Account portion of a HSA program. This will be a subject of future reports issued by eHealthInsurance.
- "HSA-eligible health insurance plans" is defined as those health insurance plans designated by health insurance companies to be in agreement with U.S. Department of the Treasury HSA guidelines. These include deductibles* of a minimum of $1,000 for individuals and $2,000 for families, and out-of-pocket limits** of $5,000 for individuals and $10,000 for families per year. "Non HSA-eligible health insurance plans" is defined as all other health insurance plans that are not designated specifically as meeting the U.S. Department of the Treasury guidelines for HSAs.

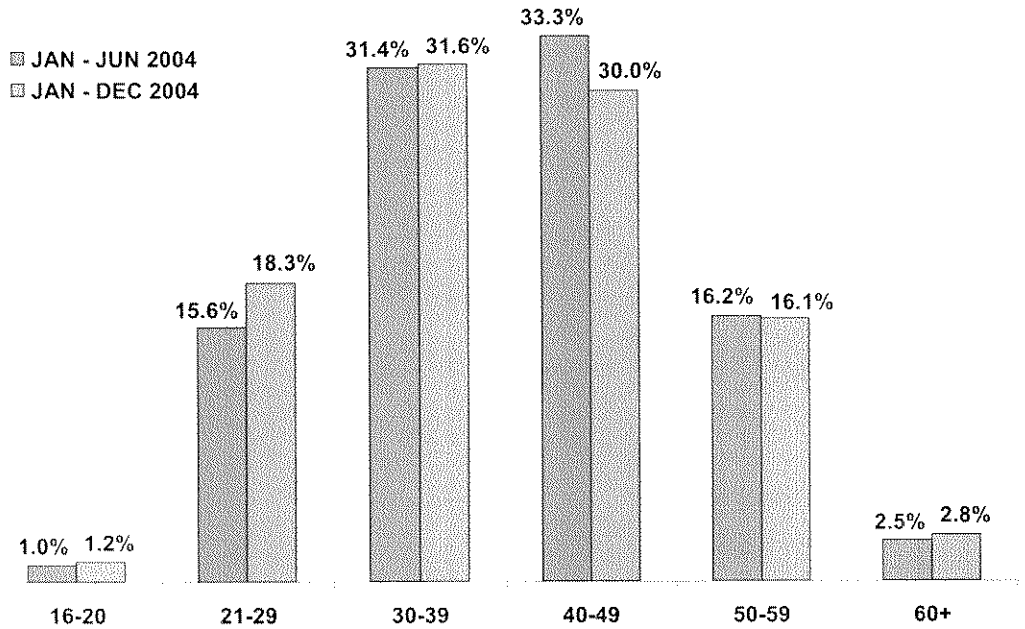
* "Deductible" is the amount of money you must pay each year to cover your medical care expenses before your insurance policy starts paying. Higher deductibles usually result in lower monthly premiums.

** "Out-of-pocket limit" is the dollar amount set by an insurance company that limits the amount a member has to pay out of his or her own pocket for particular health care services during a particular time period.

Highlights on HSA-eligible plan adoption in 2004:

- Nearly half of the people who purchased HSA-eligible plans were 40 years old or above.
- The average age of purchasers of HSA-eligible plans is 40, whereas the average age for purchasers of Non HSA-eligible plans is 35.
- HSA-eligible plans are equally attractive to both individuals and families. 51% of purchasers are individuals and 49% are families (37% of purchasers are families with children, 12% are couples without children).
- HSA-eligible plans are being adopted by all income levels; 40% of HSA-eligible plans were purchased by people with incomes of $50,000 or below.
- HSAs may play a role in helping uninsured people to get health insurance. More than two-thirds of HSA-eligible plan purchasers who were previously uninsured for more than six months had incomes of $50,000 or less.
- HSA-eligible plans are affordable. 89% of HSA-eligible plan purchasers paid $200 or less per person per month.
- 85.4% of HSA-eligible plans purchased in 2004 paid 100% of Office Visits, Surgery, Hospitalization, and Lab/X-Ray services after the plan deductible was met.
- 99.4% of HSA-eligible plans purchased in 2004 included prescription drug benefits.

HSA-eligible Health Plan Purchasers by Age



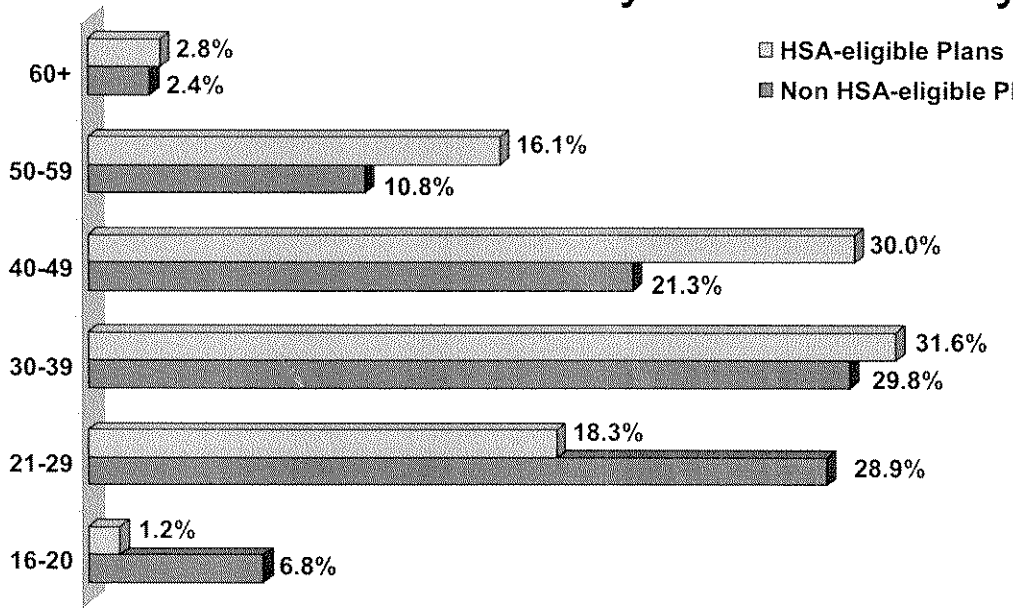
Source: *eHealthInsurance*

Figure 1

Nearly half of the people who purchased HSA-eligible plans were 40 years old or above.

- The age of purchasers of HSA-eligible plans remained consistent throughout 2004.
- Small changes can be seen in two age groups. For the full year, people in the 21-29 year age bracket comprised approximately 3 percentage points more and people in the 40-49 year age group comprised 3 percentage points less of HSA-eligible plans purchased than in the first half of the year.
- Since the beginning of the year, we observed the 40+ market leading the early adoption of HSAs. These consumers may be pre-disposed to understanding the benefits of the premium savings and tax advantages of HSA programs. This group may also be more likely to receive guidance from an accountant or financial planner who may be informing them of the availability of HSAs.

Comparison of All Health Policy Purchasers by Age



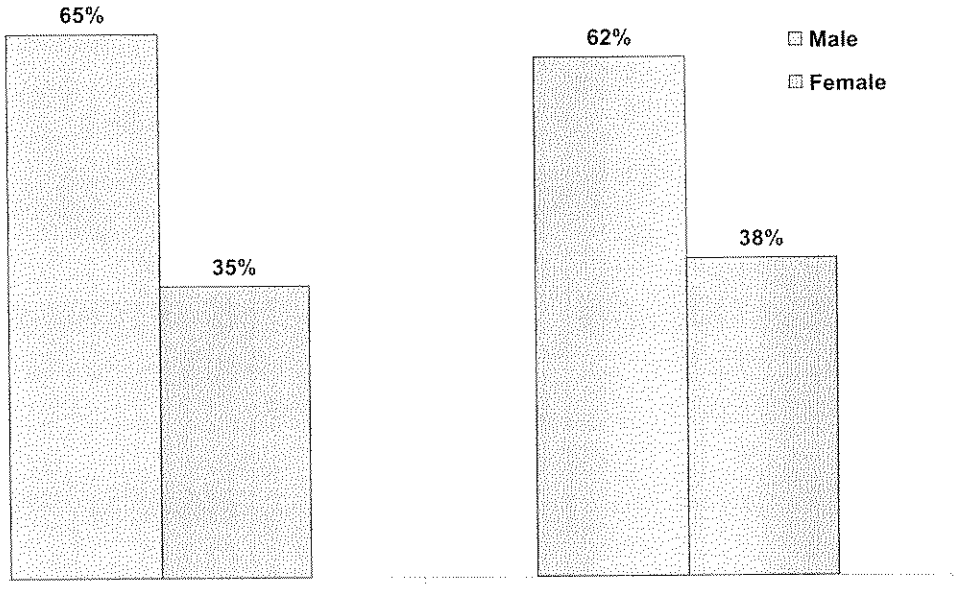
Source: *eHealthInsurance*

Figure 2

- HSA-eligible plan purchasers skew older than Non HSA-eligible plan purchasers.
- 49% of HSA-eligible plan purchasers are represented by the over 40 age groups, while 51% are represented by the under 40 age groups.
- On the other hand, 34% of Non HSA-eligible purchasers are represented by the over 40 age group while nearly 66% are represented by the under 40 age group.
- We believe these gaps may represent the level of understanding and interest in tax planning and long-term savings of many people further along in their careers. These differences may indicate the desire of the older segments to empower themselves to make their own healthcare decisions and to remain in control of more of their own money.
- This may call for more education to younger Americans on both the short-term savings and the long-term benefits of HSAs. This will increase their understanding of the opportunity to reap the most positive effects of HSAs and build their health savings for the future.

The average age of purchasers of HSA-eligible plans is 40, whereas the average age for purchasers of Non HSA-eligible plans is 35.

HSA-eligible Plan Purchasers by Gender



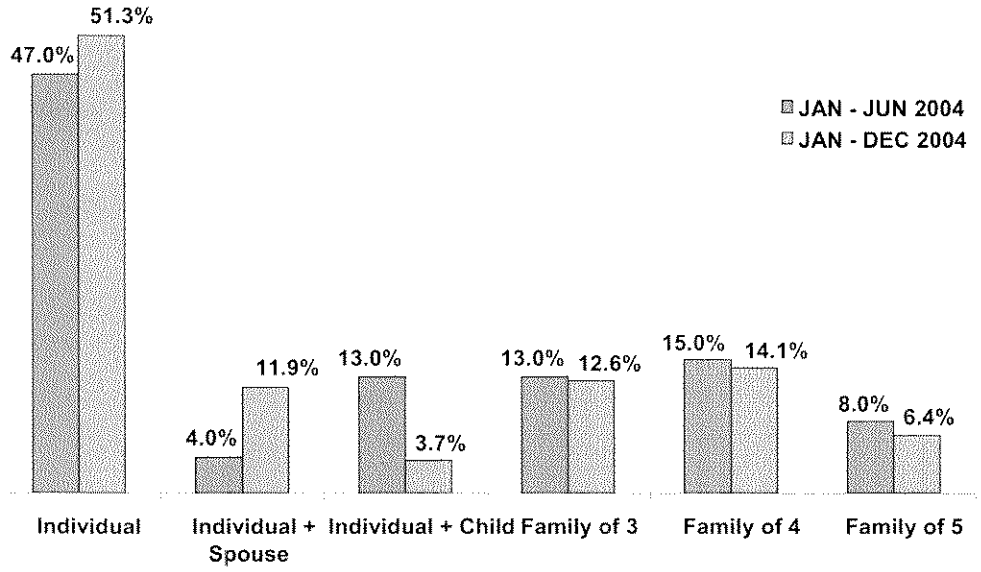
Source: *eHealthInsurance*

Figure 3

- More men continue to purchase HSA-eligible plans than women, although the gap closed slightly. For the full year versus the first half of the year, women made up three percentage points in purchases of HSA-eligible plans by gender.
- Although these statistics would lead us to believe that men are prominent purchasers of health insurance, studies have shown that women are significant influencers in their family insurance decisions.

Men predominate in the purchase transaction of HSA-eligible plans by two-to-one over women.

Family Size of HSA Policies Purchased



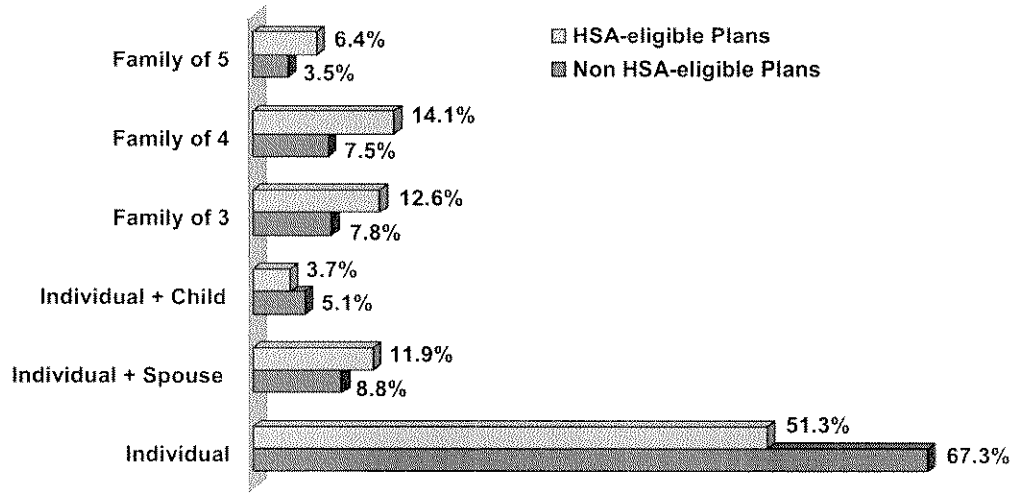
Source: *eHealthInsurance*

Figure 4

37% of purchasers of HSA-eligible plans are families with children.

- HSA-eligible plans are equally attractive to individuals and families. 51% of purchasers are individuals and 49% are families (37% are families with children,12% are couples without children) .
- Couples without children who purchased HSA-eligible plans increased their share of total HSA-eligible purchases by almost eight percentage points in the full year report over the first half of the year. Single parents went down in this period by 9.3 percentage points and individuals buying HSA-eligible plans went up by 4.3 percentage points.
- Many industry-watchers expected that HSA-eligible plans would not be attractive to families. This data shows that nearly half of purchasers are families, and 37% are families with children. By choosing the right HSA-eligible health insurance plan and funding a HSA with pre-tax dollars, families can use that money to pay for medical expenses that may or may not be typically covered by health insurance companies and save money.

Family Size of All Policies Purchased



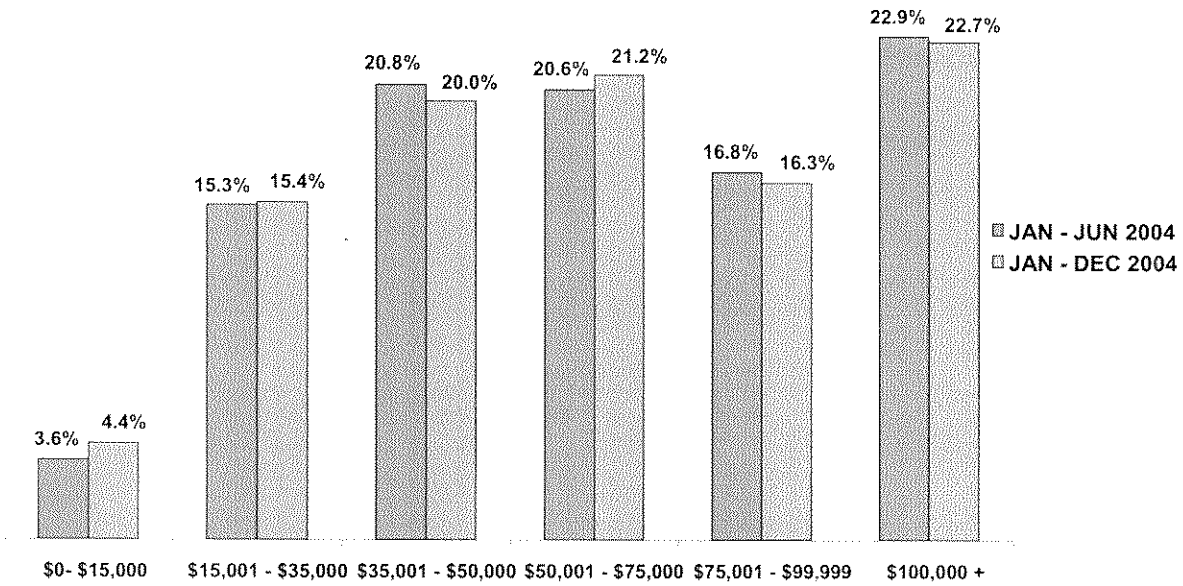
Source: *eHealthInsurance*

Figure 5

- Of those who purchase HSA-eligible plans there is a larger percentage of families as compared with those who purchase Non HSA-eligible plans. On the other hand, of those who purchase Non HSA-eligible plans, a larger percentage are individuals.
- Of those who purchase HSA-eligible plans, 51.3% are individuals and 48.7% are families.
- Of those who purchase Non HSA-eligible plans, 67.3% are individuals and 32.7% are families.
- Families tell us that the key reasons for choosing HSA-eligible plans are a combination of cost savings, good benefits after the deductible is met, and the flexibility and control of spending on medical services and products.

Of families with children, more than 35% purchased HSA-eligible plans versus nearly 24% that purchased Non HSA-eligible plans in 2004.

HSA Purchasers by Income Level



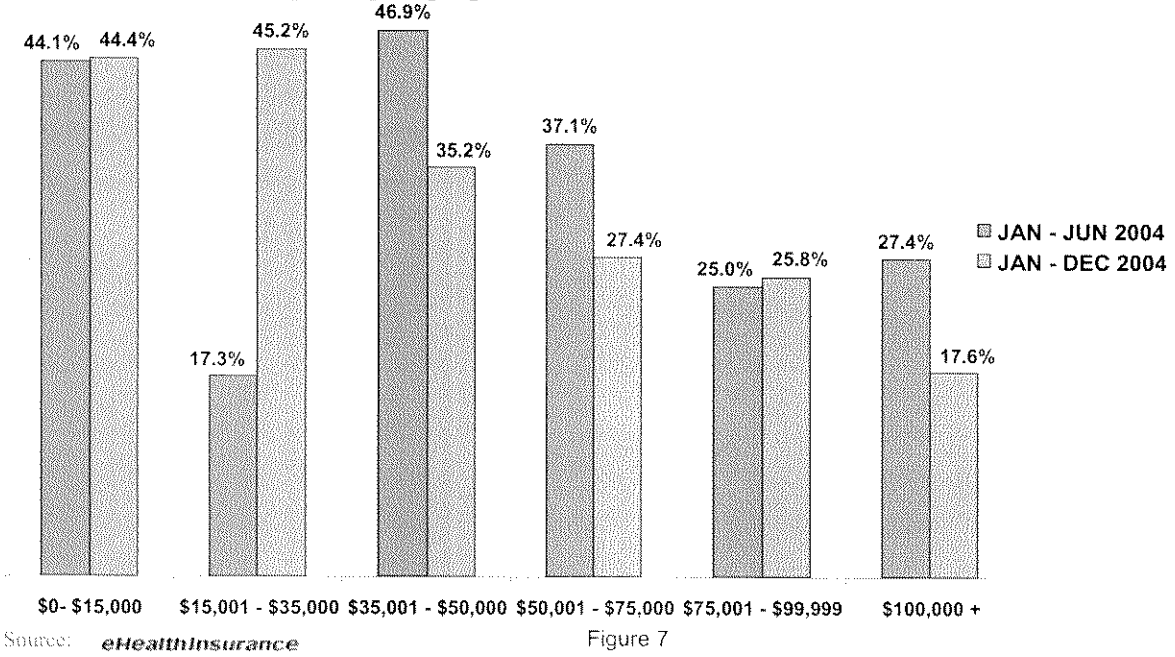
Source: eHealthInsurance

Figure 6

- The relative distribution of HSA-eligible health plan purchases by income level remained consistent throughout the year.
- This includes the 40% of people with lower incomes ($50,000 or below) who bought HSA-eligible plans between January and June 2004 and January and December 2004, with the most significant increase in the $0 - $15,000 income group.
- For the 60% of people with higher incomes (over $50,000) who bought HSA-eligible plans between January and June 2004 and January and December 2004, there was little change.

In 2004, 40% of HSA-eligible plans were purchased by people with incomes of $50,000 or below.

Percent of Previously Uninsured HSA Purchasers by Annual Income Levels



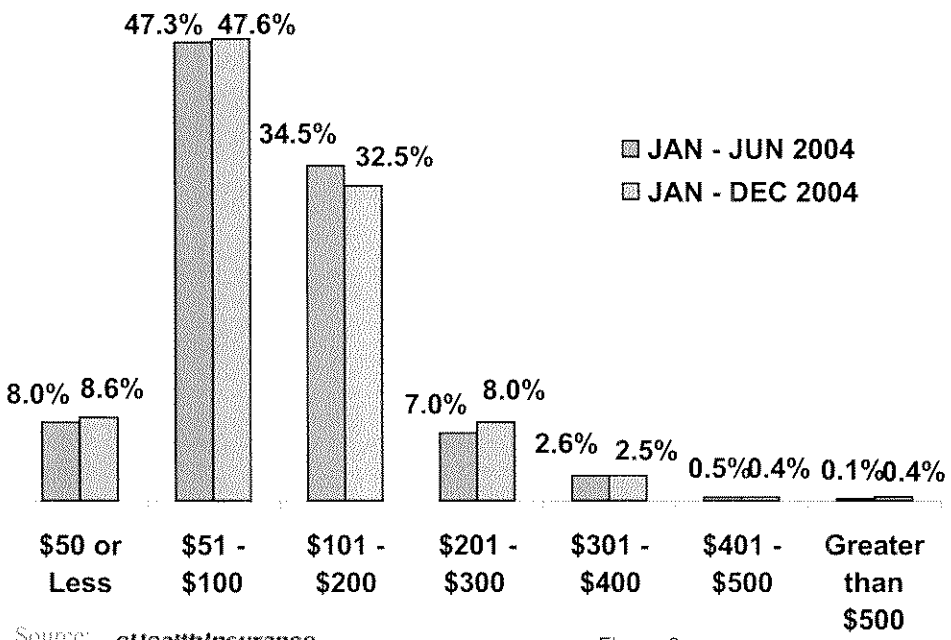
Source: eHealthInsurance

Figure 7

- More HSA-eligible plan purchasers at lower income levels in 2004 were previously uninsured for at least six months before purchasing health insurance through www.eHealthInsurance.com.
- Nearly one-third of HSA purchasers for all income levels were previously uninsured for at least six months.
- The relative percentage of HSA-eligible plan purchasers that reported being previously uninsured and with incomes in the $15,000 – $35,000 range increased by 161% between the first half and full year reports.
- The distribution of HSAs purchased by the previously uninsured in the higher income brackets ($50,000+) is less as compared to the lower income brackets, and declined between the first half and full year reports in all but the $75,000 – $99,999 range.

More than two-thirds of HSA-eligible plan purchasers who were previously uninsured for more than six months had incomes of $50,000 or less.

Monthly Premiums of HSA-Eligible Plans
(per person per month*)



Source: *eHealthInsurance*

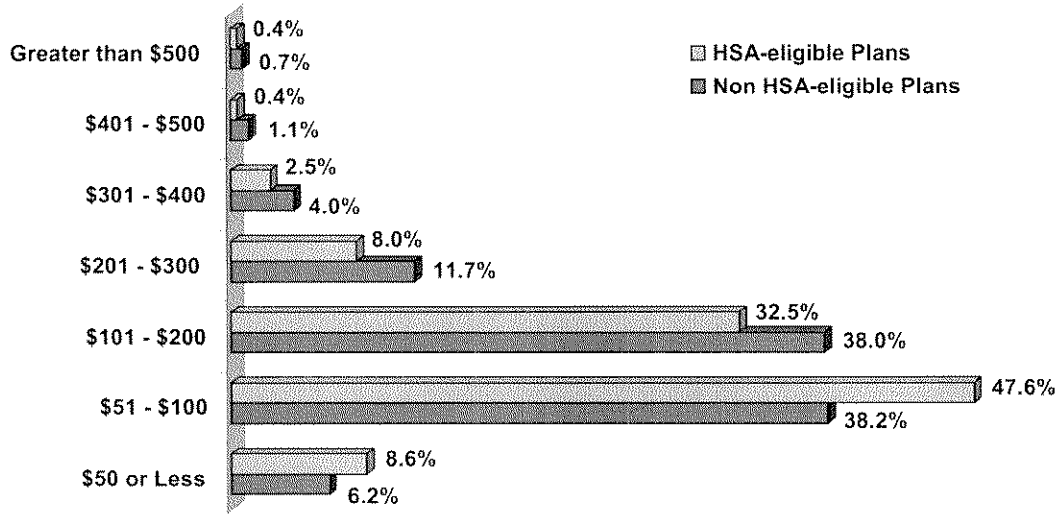
Figure 8

89% of HSA-eligible plan purchasers paid $200 or less per person per month.

- The prices paid by HSA-eligible plan purchasers in 2004 remained consistent throughout the first year.
- 56% of HSA-eligible plan purchasers paid $100 or less per month.
- The percentage of people purchasing HSA-eligible plans with monthly premiums of $101-200 per person per month went down by two percentage points between the first half and the full year reports.

* Note: these numbers are for individuals and families combined, reflecting the costs paid per person per month.

Purchased Health Plans by Monthly Premiums



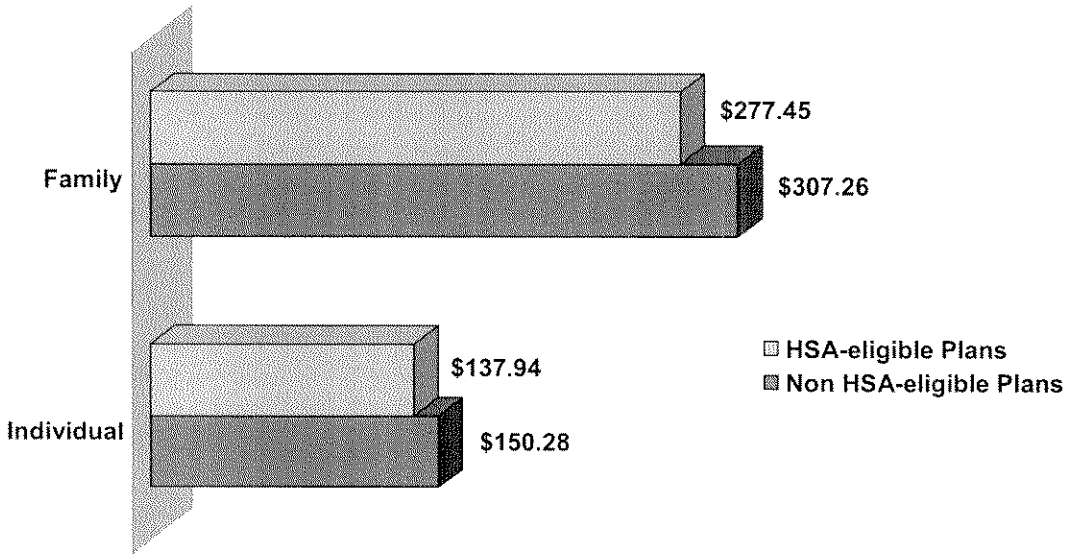
Source: *eHealthInsurance*

Figure 9

- 56% of HSA-eligible plans purchased in 2004 cost purchasers $100 or less per person per month, vs. 44% of Non HSA-eligible plans.

56% of HSA-eligible plans purchased in 2004 cost purchasers $100 or less per person per month, vs. 44% of Non HSA-eligible plans.

Average Monthly Premium Price for Individual and Family Policies



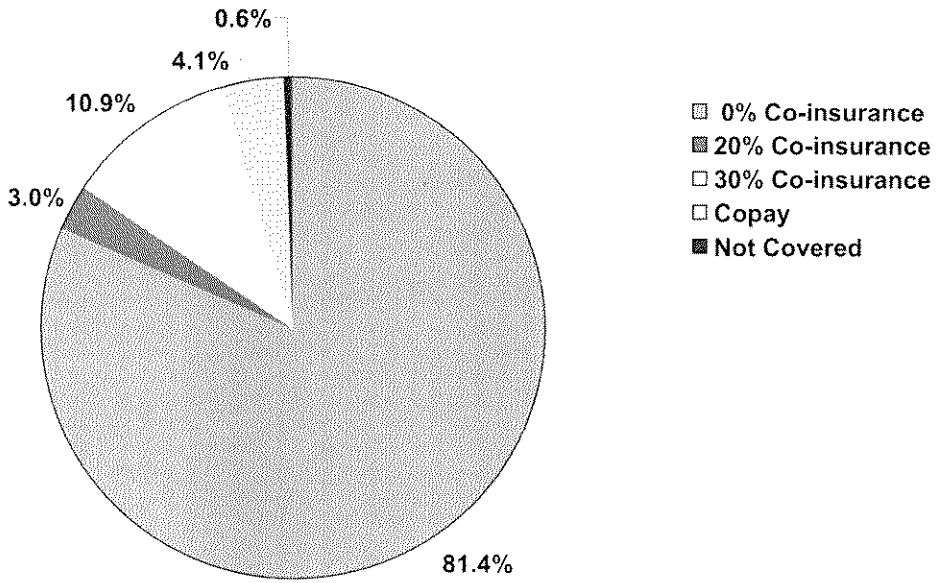
Source: *eHealthInsurance*

Figure 10

- The average price of HSA-eligible plans versus Non HSA-eligible plans show a cost difference for both families and individuals. Family purchasers experienced a greater cost difference than single purchasers of HSA-eligible plans.
- We expect to see the gap widen on the cost differences between HSA-eligible and Non HSA-eligible plans in 2005. Once health insurance companies understand the needs of HSA buyers, we expect that plans will be introduced that better meet their needs -- and through increased adoption, they may be priced even more competitively versus Non HSA-eligible plans.

Families saved the most overall between HSA-eligible plans and Non HSA-eligible plans, with an average cost differential of 9.7%.

HSA Prescription Drug Benefits by Level of Co-insurance



Source: **eHealthInsurance**

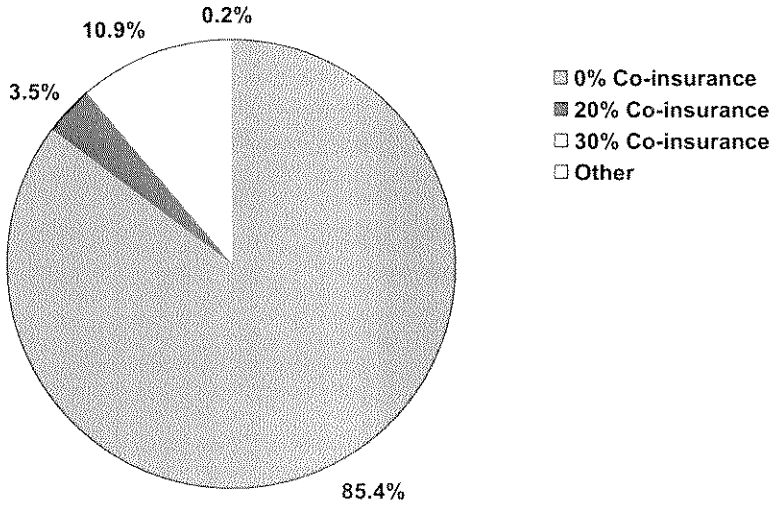
Figure 11

- Nearly all HSA-eligible plans provide some level of coverage for prescription drugs after the plan deductible is met.
- The prescription drug benefit is provided by plans across the country in various ways, but 81% of HSA-eligible plans pay 100% of the costs after the plan deductible is met.

99.4% of HSA-eligible plans purchased in 2004 had prescription drug benefits included.

HSA Benefits Available with Co-insurance:

Office Visits, Surgery, Hospitalization, Lab/X-Ray



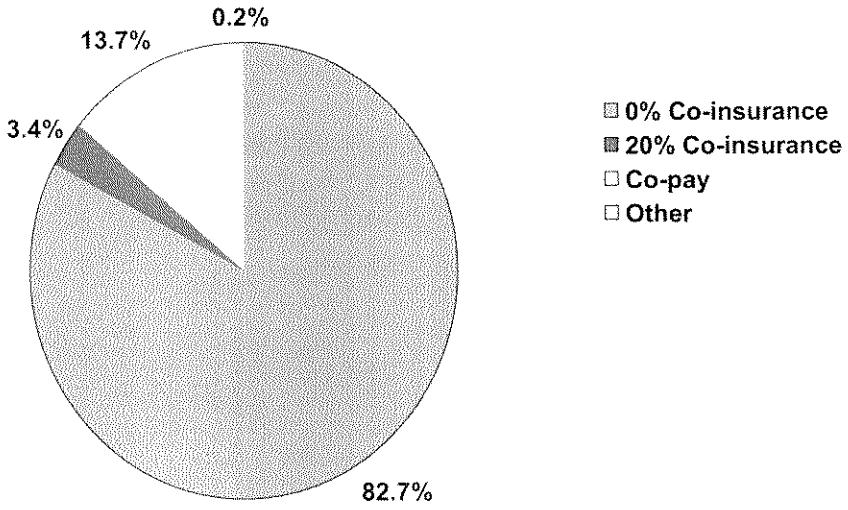
Source: *eHealthInsurance*

Figure 12

- HSA-eligible plans usually provide reasonable levels of co-insurance for Office Visits, Surgery, Hospitalization, and Lab/X-Ray benefits after the plan deductibles are met.

85.4% of HSA-eligible plans purchased in 2004 paid 100% of Office Visits, Surgery, Hospitalization, and Lab/X-Ray services after the plan deductible was met.

HSA Coverage for Emergency Room Visits by Level of Co-insurance



Source: ***eHealthInsurance***

Figure 13

- Nearly 83% of all HSA-eligible plans purchased in 2004 covered 100% of emergency room costs once the purchaser's deductible was met.
- With more HSA-eligible plan supply coming into the market in the last six months of the year, there is more diversity in the plan offerings. This includes optional levels of co-insurance and co-pays. Some of these plans also credit the purchaser for the up-front co-pays if they are admitted to the hospital.

Nearly 83% of HSA-eligible plans purchased in 2004 paid 100% of emergency room services after the plan deductible was met.