The Children's Partnership

Founders and Presidents
Wendy Lazarus
Laurie Lipper

1351 3rd Street Promenade
Suite 206
Santa Monica, CA
90401-1321
Tel: 310-260-1220
Fax: 310-260-1921

2000 P Street, NW,
Suite 330
Washington, DC 20036-6904
Tel: 202-429-0033
Fax: 202-429-0974

frontdoor@childrenspartnership.org
I-NET: www.childrenspartnerhip.org

HEALTH SAVINGS ACCOUNTS & HIGH DEDUCTIBLE HEALTH PLANS: HOW THEY AFFECT CHILDREN

By The Children's Partnership

CONTEXT

President Bush's proposals to expand the use of Health Savings Accounts (HSAs) tied to High Deductible Health Plans (HDHPs) are prompting a long-overdue public discussion about how to contain the rising costs of health care while making sure everyone in America can receive the health care they need. At The Children's Partnership, we have worked to develop cost-savings measures--such as replacing expensive and wasteful paper applications for health insurance programs with far more efficient electronic applications—because it is clear that failure to contain costs will drain scarce resources that are necessary to solve the problem of children who have no health insurance at all.

We welcome constructive debate on how best to control costs and will continue to work to find effective solutions. We believe that any proposal must be examined for its effects on the 75 million children in the U.S., including the nearly 8.4 million who have no health insurance whatsoever. We remain committed to the value of extending comprehensive health coverage to all children and will work to assure that any new major health products or cost-savings proposals first, and foremost, will protect children.

HSAs & HDHPs: WHAT ARE THEY?

Health Savings Accounts (HSAs) are tax-preferred savings accounts for medical expenses. To qualify for an HSA, individuals must have a High Deductible Health Plan (HDHP) that meets federal standards. For example, federal law requires HDHPs to impose a minimum annual deductible that increases each year in accordance with a formula. For 2006, the minimum deductible is $1,050 for individual coverage or $2,100 for family coverage. Funds in the HSA can be used, on a tax-free basis, to pay for most medical expenses that are not covered by the HDHP. Both employers and employees can make tax-free contributions to an HSA up to the lesser of the HDHP deductible or an annual maximum established under a federal formula. For 2006, the maximum HSA contribution is $2,700 for single coverage or $5,450 for family coverage.

CONCERNS ABOUT HSAs & HDHPs FROM THE STANDPOINT OF CHILDREN'S UNIQUE HEALTH NEEDS

It is clear that HSAs and HDHPs hold strong appeal for employers who wish to cut their costs, for healthy adults with healthy incomes who may realize a cost-savings, and for those who seek to find market-based methods for addressing our health insurance and health care expenditures crisis. However, in terms of what is good for children, we believe that this health insurance model presents serious concerns for families, especially low- and moderate-income families and those with chronically ill family members. Before any expansion of HSAs/HDHPs would be justified for children, the following problems would need to be addressed.

1. ***Jeopardizes Preventive Care***: The value of preventive care for children is well established, resulting in better health outcomes and higher performance in school,[1] and yet there are no requirements at the federal or state level to help ensure that children have access to preventive care when they are enrolled in an HDHP. In fact, as the market is developing, many such plans do not provide first-dollar coverage for preventive care or they place very low caps on covered preventive care. In addition, when preventive care is covered, it can be limited to a set of services that is substandard and does not meet the American Academy of Pediatrics' list of essential preventive care services.

2. ***Jeopardizes Continuity of Care***: The value of continuity of care is equally well documented for children.[2] It is intimately connected to a family's ability to access essential preventive care and necessary follow-up treatment. However, the HSA/HDHP model, which aims to encourage cost savings through "shopping around," may be at odds with encouraging continuity of care in the pediatric context.

3. ***Burdens Families with Financial Risk***: HSAs leave enrolled employees with "meaningful" out-of-pocket risk since an employer's contribution is generally much lower than the deductible amounts.[3] Even in the case of a low-income family where the children are covered by comprehensive public coverage, the financial blow of a $4,000 deductible in the event of a parent's sickness would be devastating.[4] Of great concern is the fact that families often face an even larger financial exposure without even realizing it. For instance, while federal law places a limit on annual out-of-pocket risk, this limit does not include many costs, such as premiums, out-of-network services in managed care plans, the costs of uncovered services, and costs in excess of any benefit limits that may be applied.

4. ***Fails to Educate the Consumer***: As the Changes in Health Care Financing & Organization initiative, a project of the Robert Wood Johnson Foundation, states: "consumer education, communication, and transparency of information are necessary in order to encourage educated, proactive, and cost-conscious consumers."[5] Though HSA/HDHPs are promoted as "consumer-driven" health care, these essential consumer elements are not addressed in the law. The Institute of Medicine estimates that 90 million Americans, nearly half of American adults, have limited health literacy and are unable to make basic health decisions.[6] Families, in particular, rely on their relationship with a pediatrician to help them navigate these concerns and, thus, are unlikely to be the "model consumer" that is anticipated by the HSA/HDHP cost-containment strategy.

5. ***Results in Higher Costs***: If families put off preventive care and experience breaks in continuity, they receive less cost-effective care that is more expensive. Research has shown that higher out-of-pocket expenses lead to lower utilization of essential services and medications, resulting in longer, more frequent hospitals stays, poorer outcomes, and substantially higher costs.[7] A key component of HSA/HDHPs is increased out-of-pocket costs.

6. ***Puts Safety Net Funding At Risk***: The tax breaks proposed by the President, to enhance the adoption of HSA/HDHPs, (such as the proposal to make enrollees' premium payments tax deductible) would substantially reduce the revenue available for funding our critical safety net and for funding public coverage for low-income children. Any losses in this arena will be painful, given the expected adverse selection under this model that will shift healthier, more affluent individuals into HSAs and leave older and sicker individuals unable to afford private comprehensive insurance.[8]

7. ***Experiments with Coverage of Vulnerable Populations***: Recent changes to Medicaid law through the budget reconciliation process allow for the introduction of HSA/HDHPs into Medicaid, as pilots. Low-income and critically ill children rely on the comprehensive nature of Medicaid and SCHIP. Our society cannot gamble with the health of such young and vulnerable children as it experiments with ways to rein in health expenditures.

8. ***Adds Administrative Burdens***: Over the past decades, substantial thought has gone into finding ways to improve the efficiency of our health care system, recognizing the unnecessary waste associated with the administration of insurance. The HSA/HDHP further intensifies this problem, since this additional insurance product adds another layer of administrative complexity that will, in turn, drive up cost, inefficiency, and hassle at all levels of the system.

9. ***Does Little to Help the Uninsured***: Researchers have found that HDHPs are likely to be unaffordable for the currently uninsured.[9] When combined with the expected impact of adverse selection and the anticipated loss of employer coverage due to shifting tax incentives, [10] HSA/HDHPs are likely to transform, rather than fix, the nation's uninsurance problem.

The Children's Partnership will continue to monitor the issues raised for children by HSAs and HDHPs and offer suggestions for how policy makers should respond.

[1] L. Simpson, et. al., "Health Care Trends for Children and Youth in the United States: 2002 Report on Trend in Access, Utilization, Quality, and Expenditures," *Ambulatory Pediatrics*, 4(2) (2004): 1331-153; P. McBurney, K. Simpson, P. Darden, "Potential Cost Savings of Decreased Emergency Department Visits Through Increased Continuity in a Pediatric Medical Home," *Ambulatory Pediatrics*, 4(3) (2004): 204-208; J. Lave, et. al, "Impact of a Children's Health Insurance Program on Newly Enrolled Children," *Journal of the American Medical Association* 279: 22 (1998), pp. 1820-1825.
[2] Ibid.
[3] G. Claxton, et. al., "What High-Deductible Plans Look Like: Findings From a National Survey of Employers, 2005", *Health Affairs Web Exclusive*, (September 14, 2005).
[4] The Kaiser Employer Survey found an average deductible of $4,070 for family coverage in HSA-qualified high deductible health plans. G. Claxton, et. al., "What High-Deductible Plans Look Like: Findings From a National Survey of Employers, 2005" Health Affairs Web Exclusive, Sept. 14, 2005.
[5] HCFO, "Issue Brief: Health Savings Accounts as a Tool for Market Change," VIII:4 (2005).
[6] Institute of Medicine, *Health Literacy: A Prescription to End Confusion* (April 2004).
[7] J. Greene, J. Hibbard, M. Tusler, *Consumers' Use of Health Care Decision Making Tools and Cost Conscious Decision Making: Preliminary Findings* (U. of Oregon, August 7, 2005); D. Goldman, G. Joyce, P. Karaca-Mandic, "Varying Pharmacy Benefits with Clinical Status: The Case of Cholesterol-lowering Therapy" *American Journal of Managed Care*, 12:1 (2006) pp. 21-28.
[8] E. Park and R. Greenstein, "Proposal for New HSA Tax Deduction Found Likely to Increase the Ranks of the Uninsured," (Center on Budget and Policy Priorities, May 10, 2004).
[9] K. Davis, M. Doty, A. Ho, *How High is Too High: Implications of High-Deductible Health Plans* (The Commonwealth Fund, April 2005).
[10] E. Park and R. Greenstein, "Assessing the HSA Coalition's Coverage Estimates for the Administration's Proposed HSA Tax Deduction," (Center on Budget and Policy Priorities, September 13, 2004).