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Consumer-Driven Health Plans, HSAs & Tax-related Strategies to Control Health Costs

Rev 9/4/06

NCSL FISCAL ANALYSTS SEMINAR
September 7, 2006
San Diego, CA



Outline of presentation

- Health cost facts and trends
- Growth of Tax Exempt HSAs & HRAs
- Tax credits: business & individuals
 - Reforms in KY, GA, AZ, MT, MA
- Conclusions
- NCSL handouts + online

Expert References



Fronstin, Paul & Sara R. Collins

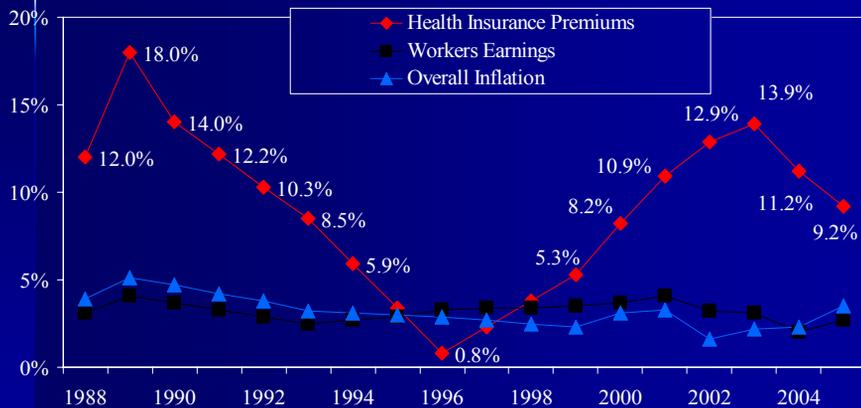
"Early Experiences With High-Deductible and Consumer-Driven Health Plans: Findings From the EBRI/Commonwealth Fund Consumerism in Health care Survey."

www.ebri.org

MERCER
Human Resource Consulting

www.mercerhr.com

Health Premiums Rising 4-5 Times Faster than Inflation and Wages, 1988-2005

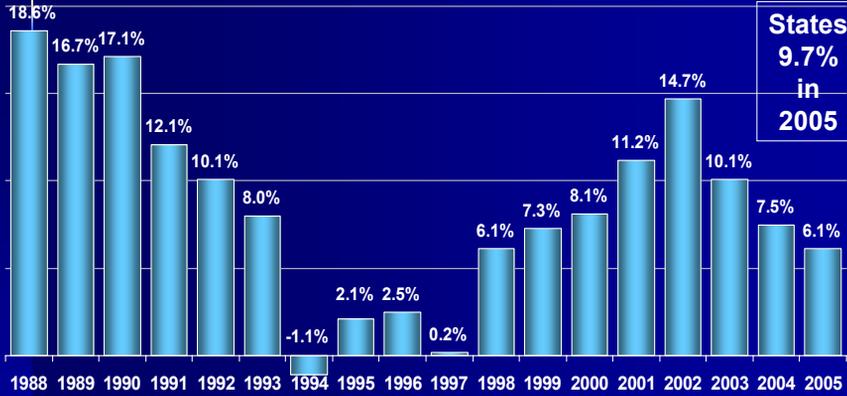


•Source: KFF/HRET and Bureau of Labor Statistics. Paul Fronstin, EBRI for NCSL 4/06

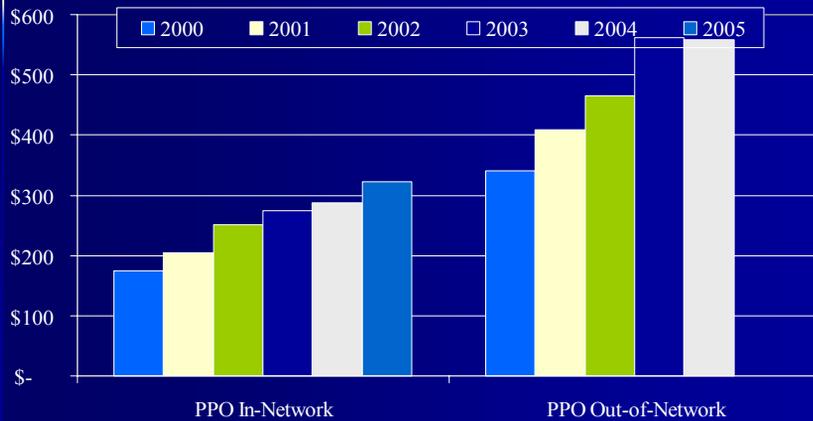
Total health benefit cost increase slows for the third straight year – Good News?

All employers

Paul Fronstin, EBRI for NCSL 4/06



Average Annual Deductibles for Employee-Only Coverage, 2000-2005



Source: KFF/HRET. Adopted from Paul Fronstin, EBRI for NCSL 4/06



Health "Consumerism:" Potentials & Concerns

Potentials

- Lower costs
 - Reduction in use
 - Use of lower cost services
- Better engaged consumer
- More satisfied consumer
- Better health outcomes/more appropriate care
- Improve affordability

Concerns

- Low health literacy
 - Reduce necessary care
 - Induce demand for unnecessary care
- Lack of tools & resources to make decisions
- Impact on high cost users uncertain
- One-time savings

Health Savings Account (HSA)

- **Allows for tax-free accumulation of savings.**
 - Tax free contribution; Tax free accumulation.
 - Tax free withdrawals for health care services, COBRA and Long Term Care Ins. premiums, retiree health premiums for Medicare-eligible retirees.
- **Must have qualified "High Deductible health plan".**
 - Self-only: Minimum \$1,050 annual deductible, \$5,250 Out-of-Pocket max
 - Family coverage: Minimum \$2,100 deductible, \$10,500 Out-of-Pocket max.
- **Contributions**
 - Self-only: limited to level of deductible up to \$2,700 max.
 - Family coverage: limited to level of deductible up to \$5,450 max.
- **Catch-up contributions once age 55 of \$1,000.**
 - Phased-in by 2009.

Health Reimbursement Arrangement (HRA)

- Employer provided account that allows for pre-tax reimbursement of medical expenses.
- Typically combined with a high-deductible health plan, but not required.
- Employee contributions not permitted.

Large employers saving money with Consumer-Directed Health (CDHPs)

Average cost per employee [Mercer NCSL, Apr. 2006]



HRA & HSA Comparison

Account Feature	Ownership of funds	"Use-it-or-lose-it" by end of benefit year?	Access to account upon end of job	Who contributes
Health Reimbursement Arrangement (HRA)	Employer	No, funds rollover	Depends on employer	Employer
Health Savings Account (HSA)	Employee	No, funds rollover	Yes	Both

HRA & HSA Comparison

Account Feature	Must be paired with high deductible	May be used with other accounts	Money can be used for non-health expenses	Tax treatment
Health Reimbursement Arrangement (HRA)	No, but often is	Yes, with limits	Yes, subject to tax and penalties	Not included in taxable income
Health Savings Account (HSA)	Yes	Yes, with limits	Yes, subject to tax and penalties	Reduces taxable income

Consumer-directed health plans gain momentum

Percent of employers offering plan and likely to offer in future

	2003	2004	2005	Likely to offer in 2006*	Likely to offer in 2007*
Large employers (500+)	1%	4%	5%	13%	17%
Jumbo employers (20,000+)	9%	12%	22%	29%	31%
State Gov't Employers			6%	22%	22%

*Selected 5 on a 5-point scale in which 1 = not at all likely and 5 = very likely. Includes employers that currently offer; 2007 figure includes employers likely to offer in 2006. Mercer Health & Benefits – NCSL, April 2006

Employee contributions for CDHP coverage lower than for PPO and HMO coverage [Mercer]

Large employers	No contribution required	Average monthly amount	Average contribution as a % of premium
CDHP			
Employee-only	23%	\$57	26%
Family	7%	\$206	35%
PPO			
Employee-only	13%	\$78	23%
Family	5%	\$290	33%
HMO			
Employee-only	15%	\$67	23%
Family	5%	\$266	33%

State Legislatures' Roles with HSAs

- Encourage wider use of federal HSAs.
- Create a state income tax exemption for deposits.
- Exempt from mandates that make high-deductible policies problematic.
- Require price transparency so consumers know costs of using their own \$\$.
- Regulate or restrict types of high deductible policies that can be offered or sold.
- Expand the types of financial institutions that can offer health savings accounts (credit unions, assoc.)
- Clean up older tax statutes affecting "Medical Savings Accounts"

New laws on HSAs in many states

- States that conformed to federal Internal Revenue Code for HSA Purposes, 12/04: **AZ, CO, CT, DE, GA, HI, ID, IL, IN, IA, KS, LA, MD, MI, MO, MT, NE, NM, NY, NC, ND, OH, OK, OR, RI ('04), SC, UT, VT VA, WV (+ see below) 30**
- States that changed laws in 2005-06 to conform to federal IRS Code for HSAs or expand use: **AR, FL, GA, IN, IA, KY, MA, MN, MS, NV, NJ, OK, PA, UT**
(effective dates vary) **(15)**

New laws on HSAs, *continued*

- States with HSAs for High Risk Pool plans: **AL, AR ('05), CO, ID ('05), KY, LA, MD, MN, MO, NE, SD, WY (12)**
- States with HSAs for state employees: **AR ('04), FL ('05), KS ('06), OK ('05), SC ('05), SD ('04), UT ('06) (7)**
- States that do not have state income tax: **AK, FL, NH, SD, TN, TX, WA, WY (8)**

Revenue impact of an HSA state tax exemption

- Volume matters!
- The maximum annual HSA contribution for:
Self-only coverage is \$2,700;
Family coverage is \$5,450.
- If state income tax rate is 6%, (KY, LA, GA, MO)
state revenue loss for a couple is \$327.
- If 50,000 couples claim max. exemption,
revenue impact is (-) \$16.3 million annually.
- But, if only \$2,000 actually deposited, revenue
impact is only \$6 million annually.

Health price transparency laws: "What does it cost me??"

- If consumers are to spend their own \$\$,
they want to know the real and comparative
price. Prices rarely are available.
- No federal law applies to private market.
- Almost 30 states have some law or program
related to medical price disclosure.
 - Example: **CA** AB 1045 - hospitals must disclose
top 25 procedures; results on state website.

Tax credits to spur individual and small business health insurance

- **Kentucky** 1998 Chap. 496 (HB 315) allows individual income tax deductions for payments for health insurance.
- **Georgia** HB 389 of 2005 Provides an additional tax credit equal to \$500 per eligible new full time employee for one year. Does not require employer to pay health insurance if they do not provide health insurance for other existing employees. Begins with jobs created Jan. 1, 2006; ends Dec. 2010
- **Arizona** HB 2177 of '06 (passed legislature 6/06) Creates a premium tax credit for small business (2-25 employees) & Individuals up to 250% FPL. Cap of \$5 million.
 - credit is the lesser of fifty percent of the premium or \$1,000 for coverage on a single person, \$500 dollars for coverage on a child or \$3,000 for family coverage.

Make small business insurance more affordable: Montana

- **Small Business Health Care Affordability Act**
 - Tax credits to small businesses that are currently offering health insurance.
 - New purchasing pool, State Health Insurance Purchasing Pool, to obtain health insurance.
 - Pool insurance will be subsidized on a sliding scale basis. Program is funded by a tobacco tax.
 - Other states have group purchasing arrangements (AR, CA, KS, OH, TX, NM, WI.) Kansas has plans for a subsidized pool.

Massachusetts Health Reform 2006

- Covers 95% of the uninsured in 3 years
- Preserves federal Medicaid funding
- Simplifies health insurance for small businesses
- Reforms Uncompensated Care
- Promotes financial stability of health care system
- Rewards cost-effective, high quality care
- Encourages shared responsibility: government, individuals, employers, health care providers

Mass. Continued: Strategies

- Commonwealth Health Insurance Connector:
 - New State Authority
 - Makes it easier to find affordable policies
 - Reduces administrative burden for small business
 - Allows more people to buy insurance with pre-tax dollars
 - Existing high-deductible plans can now be tied to Health Savings Accounts
 - Allows part-time and seasonal employees to combine employer contributions in the Connector
 - Allows for portability for policies

Conclusions

- HSAs: continue to expand.
 - More state employee plans.
 - More use as tax shelter for affluent.
- Price Transparency also expanding.
 - Potential to lower some prices.
- Tax credits and exemptions.
 - Limited use, but ongoing interest.
 - Federal push for more tax exemptions.