State Group Health Insurance Program:

Options for Encouraging Participation in High Deductible Health Plans & Health Savings Accounts

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Why High Deductible Health Plans Exist...

- High Deductible Health Plans (HDHPs) are part of the broader class of products under the rubric of consumer-driven health care.
- The overall goal of high deductible health plans (especially when coupled with health savings accounts) is to optimize service utilization, by giving employees "more skin in the game" to seek less costly care or eliminate any unnecessary care.
- The idea is to change the incentives individual enrollees face in making their decisions to use health care services, leading to more efficient consumption of care.
- To the extent this produces a less costly bundle of health-related goods and services, the cost of health care will flatten or go down over time, potentially benefiting both the employer and the employee.

Coupling with Health Savings Accounts...

- Health Savings Accounts (HSAs) are portable, meaning that all funds in the HSA—including any employer contributions—belong to the employee even when the term of employment ends.

- The funds contributed to a HSA are not subject to federal income tax so long as the account is associated with a qualifying high-deductible health plan (HDHP).

- Expenditures from the account balance (including interest and/or investment earnings) are also tax-free if they are made for qualifying medical expenses.
  - A special case occurs at age 65+; HSA dollars may then be spent on anything without the typical 20% penalty, but the amount withdrawn for ineligible purchases is taxable as income.

- The U.S. Department of the Treasury calculates both the annual contribution limit for the HSA and the required annual deductible for qualification as a HDHP.
  - The 2021 annual HSA contribution limits for an individual is $3,600 and for family coverage is $7,200, regardless of the source of the contribution.
  - For calendar year 2021, a “high deductible health plan” is defined as a health plan with an annual deductible that is not less than $1,400 for individual coverage or $2,800 for family coverage, with total annual out-of-pocket expenses (deductibles, co-payments, and other amounts, but not premiums) that do not exceed $7,000 for an individual or $14,000 for a family.

Nationally Uneven Participation Rates...

- Participation has been uneven across income levels. The potential reasons are varied and range from a lesser ability to take advantage of tax savings at lower income levels to overall discomfort with processing somewhat complicated tax questions or choosing between financial options.

  - Tax filers who reported HSA activity had higher incomes on average than other tax filers. These income differences existed across all age groups. [2008 GAO Report]

  - By the time a 2015 study was released by U.S. Department of Treasury staff, high-income and older tax filers both established HSAs and fully funded their HSAs at least four times as often as did low-income and younger filers. [Note: there is a correlation between income and age.]

  - Segal Consulting's *2017 State Employee Health Benefits Study* observed that as HDHPs and HSAs grow in popularity: "...they become less affordable for some segments of the workforce...to meet that challenge, a greater investment in participant health consumer educational programs may be required."

  - "Both the favorable tax treatment of HSAs (which varies positively with marginal tax rates) and the tax-free savings component of these plans make them inherently more attractive to higher-paid employees." [Glied, Ly and Brown]

  - "HDHP enrollees have a higher level of education than traditional plan enrollees, consider themselves to be in very good health, and receive a higher level of income." [Paul Fronstin, Director of Health Education, Employee Benefits Research Institute]

State Governments See Even Less Participation...

- As of June 2021, at least 30 state governments had a HDHP option, with a slim majority of these (18) both offering and contributing to HSAs. Another 5 (on top of the 18) offered HSAs, but did not contribute to them.

  - Across the country, state administrators report that employee take up of HDHPs has been particularly low where the state does not contribute to the HSA. [Corlette, Kona and Houston]

  - However, take up is even low in those locations where the state makes a contribution. Twenty of the thirty states that offer HDHP options to their employees had less than 10 percent of their insured population enrolled in them, even though over half (11) contribute to their employees' HSAs. [Corlette, Kona and Houston]

Same Experience in Florida...

- For FY 2020-21, Florida had an average enrollment of 4,857 in its High Deductible Plans (PPO and HMO). While virtually all participants were active employees (4,744), some enrollees were associated with COBRA (12), Early Retiree (35) and Medicare (66) accounts.

  - HDHPs were the choice of approximately 2.7% of active employees in FY 2020-21, with this share only expected to rise to 2.9% in FY 2025-26. The number of employees making this selection is expected to stay fairly flat as the total enrollees in all of the state's plan options decline over the same period.

  - On August 31, 2021, DSGI had information on 7,342 HSA accounts (including former and current employees who are no longer contributing). These accounts had a combined balance totaling $16,222,429 after beginning the calendar year with $13,489,929. Of the total, 150 accounts had balances in excess of $20,000. At the opposite extreme, 1,118 accounts had zero balances, and 3,006 had balances of $500 or less.

Although an Effort Has Been Made...

- While the administrative burden of HSAs is frequently mentioned—and the 2008 GAO study indicates a failure to follow through on the creation of a HSA even after a HDHP is selected—Florida has eased some of this burden for its employees.

  - ✓ The State of Florida uses Chard Snyder to automatically open an HSA Advantage account for enrollees in HDHPs with HSA selections.
  - ✓ The state then makes its contributions on a monthly basis (up to $500 per year for single coverage and up to $1000 per year for family coverage).
  - ✓ Any additional contributions by the enrollee are typically made through payroll reductions.
  - ✓ A Benny® prepaid debit card is provided for the employee to cover eligible expenses, up to the current amount in the account.
  - ✓ Chard Snyder provides assistance to enrollees through a website, mobile app and customer service department, as well as a monthly account statement.
  - ✓ The IRS Form 1099-SA provides enrollees with a summary of the distributions (withdrawals) from the HSA and the IRS Form 5498-SA provides them with a summary of the contributions (deposits) that have been made.

Options to Consider...

- One state reported that it had launched an online education program to walk employees through the risks and benefits of HDHPs, which they say has “helped a lot” of employees better assess their options. The agency is also planning to implement a benefits warehouse system to help enrollees review their personal claims histories to enable a more informed plan choice. [Corlette, Kona and Houston]

- Florida could consider contracting with one or more nationally recognized tax or financial advisors to offer state employees a limited number of hours (two to four hours) of free tax or financial advice on retirement and health planning as an elective state benefit. The State would assume no risk for the individualized advice since it would only be responsible for paying the bill; the company would continue to bear its normal risk for advice given to a client. [EDR—needs further research]

More Options to Consider...

- Florida could consider creating a state-backed, short-term loan program for state employees to bridge the expense of a costly medical procedure prior to the deductible being met. The loan proceeds could be deposited in the HSA, and loan repayment could be accomplished through payroll deductions—or leave payouts upon separation. [EDR—needs further research]

- Florida could consider increasing the employer contribution to employees with lower levels of compensation by placing larger amounts in their HSAs. Because the employer monthly HSA contribution of $41.66/single ($500 annually) and $83.33/family ($1,000 annually) is included in the listed employer rates, this would increase the de facto premium listed for these employees—in some cases above the comparable standard plans. [EDR based on Glied, Ly and Brown—needs further research]
  - IRS Publication 969 (2020), Health Savings Accounts and Other Tax-Favored Health Plans, appears to allow this differential treatment: "For purposes of making contributions to HSAs of non-highly compensated employees, highly compensated employees shall not be treated as comparable participating employees."