The HSA Cure
Can Health Savings Accounts curb the rising cost of healthcare?
By Bridget Lynch

Health insurance is one of those things that people don't particularly like. It's expensive, they say. It's bureaucratic. It's a necessary evil. It's a card that one carries in ones wallet and using it precedes an avalanche of paperwork and more often than not, a lighter wallet

But why is health insurance the bad guy? Car insurance and homeowners insurance, though not generally loved, are not nearly as reviled as health insurance. What's the big difference? It all seems to stem from the advent of the third party payer.

Today, most payments to physicians and hospitals are made, not by the patient but by their insurance companies. In many, if not most instances, the patient has no involvement in or knowledge of the actual cost of their care. Therein lies the rub. Without any information about cost and a framework in which to evaluate it, patients are no longer acting as consumers. People who would never buy anything without thoughtful consideration of its price accept immunizations and medical tests without a question about cost.

Back to Basics
As a way to allow people to have more information and make better decisions about their health-care spending, Congress envisioned the Health Savings Account (HSA) and its accompanying high deductible health plan. They rolled it out in 2004 and tens of thousands of Americans have purchased them. But has there been a revolution in health insurance in the past 18 months? The experts say no, but a shift is likely coming. As they say, Rome wasn't built in a day.

Health insurance in the United States is a relatively recent phenomenon. The first health insurance plans, dating back to the Civil War, were just that: insurance. They provided coverage against catastrophes. Specifically, accidents related to travel by rail and steamboat. In the 1930s and 40s, several large life insurance companies began offering health insurance. Non-profit organizations called Blue Cross (for hospital services) and Blue Shield (for physician services) first offered group health plans in 1932.

In the years following World War II with labor shortages, wage freezes and strong unions, health insurance morphed into employee benefit plans and that evolution changed the way Americans viewed healthcare. Instead of covering and individual against a catastrophe, health insurance became an employee benefit and a cost-sharing mechanism between employers and their workers. Insurance companies administered those plans and became third party payers.

Economist Milton Friedman[*] put it this way: "Employer financing of medical care has caused the term 'insurance' to acquire a rather different meaning in medicine than in most other contexts. We generally rely on insurance to protect us against events that are highly unlikely to occur but involve large losses if they do occur – major catastrophes, not minor regularly occurring expenses. We insure our houses against loss from fire, not against the cost of having to cut the lawn. We insure our cars against liability to others or major damage, not against having to pay for gasoline. Yet in medicine, it has become common to rely on insurance to pay for regular medical examinations and often for prescriptions."

Control to the Consumer

"The system doesn't work very well for the average person out there," says Cary Badger, Vice President of Customer Marketing for the Regence Group. "It's expensive and complex. In order to fix that effectively you have to give control back to the consumer. Give them information and take the complexity out of benefit designs and give them real time information about how to make decisions."

The idea behind the HSA is simple. Put the money into the individual's hand and she will make better decisions with it. Here is how it works: an individual or employer purchases a high-deductible health plan and then funnels money into a HSA account at a financial institution. Under a typical arrangement, an individual might buy a $1500 high-deductible plan and deposit $500 into an HSA account. The first $500 of medical expenses is paid from the HSA, the next $500 is out of pocket and expenses above $1000 are paid by the insurer with a copayment from the consumer until the annual out-of-pocket cap is reached.

"HSAs in some respects, hearken back to the day when policies were made for unexpected illness or injury – people didn't think much about paying to go to the doctor's office," says Mark Charpentier, CEO of Lifewise Health Plan of Oregon. "A good analogy is buying a car. People pay for routine oil changes, pay for tires and even often pay out of pocket for a fender bender. And a car tune-up at 30,000 miles is much more expensive than a visit to a doctor's office."

HSAs are attracting people who want more control over their health care and its financial implications, Badger says.

"They're take charge kind of people," Badger says. "They research information on the web – they are already well-informed patients. They want control over their health care destiny and that is a powerful emotion in the marketplace. If you put the money in the control of the consumers it will evolve the market into a consumer or market-responsive environment in terms of costs and control."

However, some people are intimidated by the idea of a high-deductible heath plan. In the past, plans with a high deductible were used as cost-shifting mechanisms by employers. But when coupled with the HSA, people are realizing that it is an appealing combination, Badger says.

It's Your Money

The accounts are managed by a financial institution and funds are invested in mutual funds, similar to 401(k) plans. The key feature is that the account belongs to the individual rather than the employer, said Joel Levi, Vice President of Business Development for Wells Fargo Health Benefits Services.

“They are almost like an IRA,” Levi says. “The employer has no access to the account other than to contribute. There is no vesting.”

Employees can take the account from job to job and contribute up until retirement.

Wells Fargo has entered into joint marketing agreements with The Regence Group, ODS and Kaiser Permanente. They began marketing HSAs in July 2004 and have 35,000 accounts nationwide, Levi says.

The highest level of adoption has been in the small group segment – companies with 2-50 employees, says Marty Stewart, Vice President for Sales and Marketing for ODS.

“There seems to be the most distress in that group size because of the sheer cost of health care,” Stewart says. “That group size is more willing to try possible solutions because they have been subject year after year after year to fairly significant increases in the cost of their benefits and that gets closer to the bone with smaller groups.”

Different Choices, Different Results

Originally, it was projected that the self-employed and professionals with mid- to higher-level income would purchase HSAs, says Charpentier. And that is happening but they are also seeing people who were previously uninsured buying HSAs, he says

“They are looking for coverage that is catastrophic in nature – a level of coverage that a major event won’t break the bank for them,” Charpentier says.

Providing an affordable option for coverage was one of the main reasons that Kaiser Permanente also entered the HSA field in May.

“We believed we needed to move in this area,” says Susan Pozdena, Director of Product and Benefit Management for Kaiser Permanente. “We had some anecdotal information as well as some quantifiable information that indicated that certain groups of the population who were price sensitive simply weren’t able to afford the richer Kaiser benefits. Our mission is to address the needs of the community and without these kinds of plans were didn’t feel like we were doing that.”

The move for Kaiser as an HMO to offer deductible plans is a recent change and has been a learning experience both for its members as well as staff, Pozdena says.

However, unlike many of its Portland counterparts, Kaiser is not working on a marketing or education push for their HSAs.

"The jury is still out," Pozdena says. "We're watching the market uptake. So far there hasn't been a tremendous response. We're at not quite 100 yet. We hope it will pick up."

Lifewise however, is seeing its best sales in their HSA product, Charpentier says.

"The adoption rate surprised us," Charpentier says. "The whole company is now converting to an HSA and PPO option for our employees. We're going to walk the talk and see how that goes."

HSAs have come a long way very quickly, Stewart says.

"We've seen the most adoption in the small group segment," he says. "Thirty percent of every piece of business that we sell on the medical side is an HSA-style product."

Wells Fargo has received several requests for presentations about HSAs for large employers, Levi says.

"We think 2007 will be the big push for larger employers," he says. "There is a lot more involved with a rollout for a large company – the education for a 20 person group is fairly simple but a 100,000 person group is much more difficult."

Educating the public about HSAs is at the top of most insurance company's agendas.

"Our goal now isn't to sign as many people up as possible but to get the word out about the advantages, let people learn about it so there not so frightened by the high-deductible health plans and then they will adopt faster," Badger says. "We think it is a hockey stick adoption rate, and it will really pick up in three to five years."

The Ownership Society: Consumers In Charge

HSAs seem to be just the tip of the iceberg in the evolution of the health insurance market. A whole new concept of consumer-driven health care is emerging as a leading trend in the industry.

"High-deductible health plans are one component of the consumer-driven model," says Stewart. "The whole idea is to get people to take more ownership of their health – get them to eat healthy, take up healthy hobbies and think about what's going on instead of going home and having a six-pack of beer and a bag of pork rinds."

To this end many companies are rolling out companion products and services that are intended to help their members obtain more information about their health care.

"We are enhancing our web experience for our consumers to include more information in the future about cost and quality of health care to support HSAs and other programs," Regence's Badger says. "It will be available to all members but those with HSAs might realize the benefits earlier because they are more attuned to the consumer mindset."

ODS has implemented eDoc, a program that connects members to a board certified and credentialed doctor via email with a guaranteed response within 24 hours, Stewart says.

"Many people are able to get what they need through that email conduit," he says. "Twenty-five percent of the people who use it avoid an office visit."

Additionally, ODS offers a 24 hour nurse line, an employee assistance program for mental and behavior health issues and an online medical library, Stewart says.

Becoming Better Health Care Owners
"Education is the single biggest factor in making HSAs successful," ODS' Stewart says. "Too often people zero in on high-deductible health plans because it is an obvious way to save money but they ignore the other resources available or they use one and not the others and they are all intended to work together."

Lifewise also offers its members a nurse line and has web capabilities as well.

"We have an online health advisor," Charpentier says. "If for instance, you were going to have rotator cuff surgery, you would go through an online questionnaire and find out information about what hospital would be the best match. You could look at data about the number of surgeries they performed last year, the number of readmits, whether the hospital is in the plan our not, close to you or not. All these different statistics to learn more and move more and more toward being a consumer."

Charpentier added that the process is not unlike online car shopping.

For some groups, Lifewise has set up a mechanism to help employers entice their employees into using the web capabilities to their fullest advantage. Some employers will offer an additional contribution to an employee's HSA if they fill out a completely confidential health risk assessment online. The questionnaire helps identify areas where a member might be at risk and can assist in identifying those who need follow-up care, Charpentier says.

"It's about changing the patient's mindset and making them be more of a consumer," Charpentier says.

"HSAs are our best-selling product and they are exceeding our expectations but they are not the silver bullet," says Charpentier. "It's a step in the right direction. We need to figure out a funding mechanism for people to afford insurance because deductibles are going to increase and we want to be able to cover people adequately."

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[*] Freidman, Milton, *How to Cure Healthcare*, The Public Interest, Winter 2001.