

GAO

Report to the Ranking Minority
Member, Committee on Finance, U.S.
Senate

August 2006

CONSUMER- DIRECTED HEALTH PLANS

Early Enrollee Experiences with Health Savings Accounts and Eligible Health Plans



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-06-798](#), a report to the Ranking Minority Member, Committee on Finance, U.S. Senate

Why GAO Did This Study

Health savings accounts (HSA) and the high-deductible health insurance plans that are eligible to be coupled with them are a new type of consumer-directed health plan attracting interest among employers and consumers. Employers and plan enrollees

features and enrollee characteristics with those of traditional plans, such as preferred provider organization (PPO) plans.

GAO reviewed (1) the financial features of HSA-eligible plans in comparison with those of traditional plans, (2) the characteristics of HSA-eligible plan enrollees in comparison with those of traditional plan enrollees, (3) HSA funding and use, and (4) enrollees' experiences with HSA-eligible plans. GAO analyzed data regarding HSA-eligible and traditional plans and enrollees from national employer health benefits surveys, three selected employers, and a national broker of health insurance. GAO compared Internal Revenue Service (IRS) data for tax filers reporting HSA contributions with corresponding data for all tax filers under 65 years old. GAO also conducted focus groups with employees of the three employers.

CONSUMER-DIRECTED HEALTH PLANS

Early Enrollee Experiences with Health Savings Accounts and Eligible Health Plans

What GAO Found

In 2005, HSA-eligible plans had different financial features than traditional plans—such as lower premiums and higher deductibles—but both plan types covered similar health care services, including preventive services, and used similar provider networks. For the three employers' health plans GAO reviewed to illustrate enrollees' potential health care costs, GAO estimated that HSA-eligible plan enrollees would incur higher annual costs than PPO plan enrollees for extensive use of health care, but would incur lower annual costs than PPO plan enrollees for low to moderate use of health care.

HSA-eligible plan enrollees generally had higher incomes than comparison groups, but data on age differences were inconclusive. In 2004, 51 percent of tax filers reporting an HSA contribution had an adjusted gross income of \$75,000 or more, compared with 18 percent of all tax filers under 65 years old. Two of the three employers GAO reviewed and a national broker of health insurance also reported that HSA-eligible plan enrollees had higher incomes than traditional plan enrollees in 2005. GAO's data sources did not conclusively indicate whether HSA-eligible plan enrollees were older or younger than individuals and enrollees in comparison groups.

Just over half of all HSA-eligible plan enrollees and most employers contributed to HSAs, and account holders used their HSA funds to pay for current medical care and to accumulate savings. About 55 percent of HSA-eligible plan enrollees reported HSA contributions to IRS in 2004. Tax filers claimed an average deduction of about \$2,100 for their HSA contributions in 2004, and the average amount increased with income. About two-thirds of employers offering HSA-eligible plans contributed to their employees' HSAs, and the average employer HSA contribution was about \$1,064 in 2004. About 45 percent of tax filers reporting 2004 HSA contributions also reported that they withdrew funds in 2004, and 90 percent of these funds were withdrawn for qualified medical expenses. The other 55 percent of those reporting HSA contributions in 2004 did not withdraw any funds from their HSA in 2004.

HSA-eligible plan enrollees who participated in GAO's focus groups generally reported positive experiences, but most would not recommend the plans to all consumers. Participants enrolled in the plans generally

Contents

Letter		1
	Results in Brief	4
	Background	6
	Financial Features of HSA-Eligible Plans Differed from Those of Traditional Plans, but Covered Services Were Similar	11
	HSA-Eligible Plan Enrollees Had Higher Incomes Than Comparison Groups, but Data on Age Differences Were Inconclusive	18
	Just over Half of Enrollees and Most Employers Contributed to HSAs, and Account Holders Used HSA Funds to Pay for Medical Care and to Accumulate Savings	22
	Focus Group Participants Generally Understood and Were Satisfied with HSA-Eligible Plans, but Would Not Recommend These Plans to All Consumers	26
	Concluding Observations	30
	Agency Comments	31
Appendix I	Scope and Methodology	32
Appendix II	GAO Contact and Staff Acknowledgments	38
Related GAO Products		39
Tables		
	Table 1: Key Features of HSA-Eligible Plans and HSAs for 2006	10
	Table 2: Financial Features of HSA-Eligible and Traditional Plans Offered by Employers, 2005	14
	Table 3: Financial Features of HSA-Eligible and Traditional Plans Offered in the Individual Market through eHealthInsurance, 2005	16
	Table 4: Average Age of HSA-Eligible Plan Enrollees and Comparison Groups	21

Figures

Figure 1: Adjusted Gross Income of Tax Filers Reporting HSA Contributions and All Tax Filers, 2004	19
Figure 2: Average Deduction Claimed for HSA Contribution, 2004	24



United States Government Accountability Office
Washington, DC 20548

August 9, 2006

The Honorable Max Baucus
Ranking Minority Member
Committee on Finance
United States Senate

Dear Senator Baucus:

Health savings accounts (HSA) and the high-deductible health insurance plans that are eligible to be coupled with them are a new type of consumer-directed health plan (CDHP) attracting interest among employers and consumers.¹ Both employers and plan enrollees may contribute to tax-advantaged HSAs, and enrollees can use the accounts to pay for their health care expenses.² The high-deductible health plans typically have lower premiums than other types of health plans because high-deductible health plan enrollees bear a greater share of the initial costs of care.

The novel structure of HSA-eligible plans has raised questions regarding how the plans and HSAs will affect enrollees' health care purchasing decisions and costs. Proponents of HSA-eligible plans believe that the plans will encourage enrollees to become more astute health care consumers and thus restrain health care spending increases. Proponents argue that the high deductibles give enrollees an incentive to seek lower-cost health care services and that the ability to carry over unspent HSA funds from year to year gives enrollees an incentive to obtain services only when necessary. However, some critics contend that the high deductibles associated with HSA-eligible plans may discourage enrollees from obtaining necessary health care services. Some critics are also concerned

¹In addition to HSAs, other types of accounts associated with CDHPs include health reimbursement arrangements, which differ from HSAs in that they are owned by the employer, not the enrollee, and medical savings accounts, which are enrollee owned and have lower allowable contributions than HSAs. Since December 31, 2005, medical savings accounts can no longer be opened.

²Tax advantages for HSAs were authorized by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 for individuals covered by high-deductible health insurance plans that meet certain criteria. Pub. L. No. 108-173, § 1201, 117 Stat. 2066, 2469.

that the plans may attract a disproportionate share of wealthier enrollees who seek to use the HSA primarily as a tax-advantaged savings vehicle or healthier or younger individuals who use fewer health care services. If these plans do attract a larger share of individuals who are likely to use fewer health care services, premiums for traditional health insurance plans, such as preferred provider organization (PPO) plans,³ could rise faster than they otherwise would because of the disproportionate share of enrollees with higher health care expenses remaining in those plans.

Because HSAs and HSA-eligible plans are a relatively new concept in health insurance coverage, there is interest in the plan features and the characteristics and experiences of early plan enrollees.⁴ For example, there is interest in who is enrolling in HSA-eligible plans, and whether they differ from enrollees in traditional health plans, such as PPO plans. In response to your request, we examined the following questions:

1. How do financial features, covered services, and enrollees' annual costs compare between HSA-eligible and traditional plans?
2. How do the characteristics of enrollees compare between HSA-eligible and traditional plans?
3. How are HSAs funded, and how are HSA account holders using their funds?
4. What are enrollees' experiences with HSA-eligible plans?

To compare the financial features of HSA-eligible plans with those of traditional plans, we summarize85 dast

in 2005 by three large employers in the public, utility, and insurance sectors, as well as those of plans sold for 2005 by eHealthInsurance, a large, national broker of individual and small business health insurance.⁵ To compare the covered health care services and provider networks of HSA-eligible plans with those of traditional plans, we reviewed plan brochures provided by the three large employers and spoke with employer and insurance carrier officials and industry experts. To illustrate the potential health care costs faced by HSA-eligible and traditional plan enrollees, we examined the total annual costs to enrollees of the three employers' HSA-eligible and PPO plans in 2005. We compared the total costs for enrollees who used extensive and low to moderate amounts of health care.

To compare the characteristics of HSA-eligible and traditional plan enrollees, we analyzed demographic data provided by the Internal Revenue Service (IRS) on adjusted gross income and age reported by tax filers who reported an HSA contribution on their returns for 2004⁶ and compared them with the corresponding data for all tax filers under 65 years old.^{7,8} We also compared 2005 income and age data for HSA-eligible and traditional plan enrollees who purchased coverage from the three employers we reviewed and from eHealthInsurance.⁹

To examine how HSAs are funded and used, we analyzed data on individual and employer contributions and account withdrawals. To determine the share of enrollees that opened HSAs, we analyzed survey data on HSA-eligible plan enrollment and IRS data on HSA contributions. We also conducted interviews with industry experts regarding the share of enrollees that opened HSAs. To examine individuals' HSA contributions,

⁵Traditional plans offered through eHealthInsurance include both PPO plans and other major medical plans that do not meet the federal criteria for HSA-eligible plans.

⁶The first year that individuals could contribute to HSAs was 2004.

⁷The IRS data set we used is a random sample of 200,295 individual income tax returns in 2004 from IRS's Statistics of Income (SOI) individual tax return file. The findings from the IRS data that we report were estimates derived from the SOI sample, which was weighted to represent an estimated population of about 132 million tax returns. IRS uses the SOI file to develop annual statistics on the population of individual taxpayers.

⁸Individuals 65 and older are generally enrolled in Medicare and are ineligible to contribute to an HSA.

⁹Data from the three employers excluded retirees, and data from eHealthInsurance excluded enrollees 65 or older.

we analyzed IRS data on the average tax deduction for 2004 HSA contributions and reviewed data provided by the three employers on the 2005 contributions of employees enrolled in HSA-eligible plans. To examine employer HSA contributions, we analyzed IRS data on the average employer contribution in 2004 and summarized 2005 data reported by two national employer health benefits surveys and the three large employers we reviewed. To determine how account holders use HSA funds, we analyzed IRS data on reported HSA withdrawals in 2004 and conducted a series of focus groups with employees of the three large employers we reviewed regarding HSA-eligible plan enrollees' use of accounts in 2005.

To determine enrollees' experiences with HSA-eligible plans, we gathered information from focus groups of employees of the three large employers regarding enrollee education, plan comprehension, experience with obtaining care, use of decision-support tools, and plan satisfaction in 2005. Unless otherwise noted, the participant experiences we report reflect multiple focus groups.

Much of the data we present cannot be generalized to all HSA-eligible plans and enrollees or HSA account holders. For example, the IRS data for tax filers reporting an HSA contribution cannot be generalized to all HSA-eligible plan enrollees because the sample is not designed to capture individuals enrolled in a high-deductible health plan who did not have an associated HSA. The results of the focus groups and the data obtained from the three employers cannot be generalized to all HSA-eligible plan enrollees or employers because they represent only the experiences of the focus group participants and the benefit offerings of the three employers. We reviewed all data for reasonableness and consistency and determined that the data were sufficiently reliable for our purposes. We performed our work from November 2004 through July 2006 in accordance with generally accepted government auditing standards. Appendix I provides more detailed information on our methodology and the characteristics and limitations of the data we report.

Results in Brief

The financial features of HSA-eligible plans differed from those of traditional plans, but both plan types covered similar health care services. HSA-eligible plans had lower premiums, higher deductibles, and higher out-of-pocket spending limits than traditional plans in 2005. For example, a 2005 national employer health benefits survey reported HSA-eligible plan premiums that were, on average, 35 percent less than traditional plan premiums for single coverage and 29 percent less for family coverage. The

same survey found that employers' HSA-eligible plan deductibles were, on average, nearly six times greater than those for employers' traditional plans. The HSA-eligible plans offered by the three employers we reviewed covered the same broad categories of health care services as did traditional plans in 2005, including preventive, diagnostic, maternity, surgical, and emergency services, and also used similar provider networks. For the three employers' health plans we reviewed to illustrate enrollees' potential health care costs—including premiums, deductibles, and other out-of-pocket costs for covered services—we estimated that HSA-eligible plan enrollees would incur higher annual costs than PPO plan enrollees for extensive use of health care, but would incur lower annual costs than PPO enrollees for low to moderate use of health care.

HSA-eligible plan enrollees generally had higher incomes than comparison groups, but data on age differences were inconclusive. In 2004, 51 percent of tax filers reporting an HSA contribution to IRS had an adjusted gross income of \$75,000 or more, compared with 18 percent of all tax filers under age 65. Two of the three employers we reviewed and eHealthInsurance also reported that HSA-eligible plan enrollees had higher incomes than did traditional plan enrollees in 2005. IRS data also suggest that the average age of tax filers who reported HSA contributions was about 9 years higher than the average age of all tax filers under age 65 in 2004. Similarly, eHealthInsurance reported that in the individual market the average age of its HSA-eligible plan enrollees was 5 years higher than that of its traditional plan enrollees in 2005. In contrast, data from several employer groups indicate that the average age of HSA-eligible plan enrollees, excluding retirees, was 2 to 6 years lower than that of other groups of enrollees.

Just over half of HSA-eligible plan enrollees and about two-thirds of employers contributed to HSAs, and account holders used HSA funds to pay for medical care and to accumulate savings. About 55 percent of HSA-eligible plan enrollees reported HSA contributions in 2004, according to our analysis of data obtained from IRS and a publicly available survey. Among tax filers who claimed a deduction for an HSA in 2004, the average deduction was about \$2,100, and the average amount increased with income. About two-thirds of employers offering HSA-eligible plans contributed to their employees' HSAs in 2005, according to national surveys. In 2004, the average employer HSA contribution was about \$1,064. About 45 percent of tax filers reporting an HSA contribution in 2004—made by themselves, others on their behalf, or their employers—also reported withdrawing funds in 2004, and the average annual amount withdrawn by these tax filers was about \$1,910. About 90 percent of these

withdrawn funds were used to pay for expenses identified under the Internal Revenue Code as eligible medical expenses. Fifty-five percent of tax filers reporting HSA contributions withdrew no money from their account in 2004.

HSA-eligible plan enrollees who participated in focus groups at the three employers we reviewed generally reported positive experiences with their plan, but most would not recommend these plans to all consumers. While focus group participants enrolled in HSA-eligible plans understood the key attributes of their plan, such as low premiums, high deductibles, and the mechanics of using the HSA, they were confused about certain other features. For example, many participants were unsure what medical expenses qualified for payment using their HSA. Few participants researched the cost of hospital or physician services before obtaining care, although many participants researched the cost of prescription drugs. Most participants reported satisfaction with their HSA-eligible plan, but said they would not recommend these plans to everyone. Participants said they would recommend HSA-eligible plans to healthy consumers, but not to people who use maintenance medication, have a chronic condition, have children, or may not have the funds to meet the high deductible.

We provided pertinent portions of a draft of this report to IRS and eHealthInsurance and incorporated their technical comments as appropriate.

Background

The majority of Americans receive their health coverage through the private health insurance market. In 2004, as many as 177 million enrollees and dependents—up to 84 percent—of the nearly 210 million individuals under age 65 with health insurance coverage received coverage through the private health insurance market.¹⁰ Since 2004, insurance carriers selling coverage in this market have added HSA-eligible plans to their portfolio of insurance products.

Private Health Insurance Markets

Private health plans are offered in two primary markets—the group and the individual markets. The group market includes health plans offered by

¹⁰Employee Benefit Research Institute, “Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2005 Current Population Survey,” Issue Brief No. 287 (Washington, D.C.: November 2005).

employers to employees, either by purchasing the coverage from an insurance carrier or by funding their own health plans, and health plans offered by other groups, such as professional associations. About 159 million individuals and their dependents under age 65 received health coverage through the group market in 2004.¹¹ The individual market includes health plans sold by insurance carriers to individuals who do not receive coverage through an employer or other group. In this market, health insurance brokers may link individuals with an insurance carrier, and the enrollee pays a premium for coverage. About 17 million individuals and their depTm(ealth plans)Tj0.001a7489483 505.49973 Tm(ndents un

for family coverage in 2006.¹⁶ Most HSA-eligible plan enrollees are covered by plans that operate similarly to traditional plans. HSA-eligible plan enrollees pay premiums to access covered services. As with traditional plans, rates negotiated by insurance carriers provide incentives for HSA-eligible plan enrollees to access in-network care. However, HSA-eligible plan enrollees are subject to higher-than-average deductibles. Preventive care services may be exempted from the deductible requirement, but coverage of most other services, including prescription drugs, is subject to the deductible.¹⁷ After meeting the deductible, the HSA-eligible plan pays for most of the cost of covered services until the enrollee meets the out-of-pocket spending limit, at which point the plan pays 100 percent of the cost of covered services. Insurance carriers offer HSA-eligible plans to both employers in the group market and individuals in the individual market.

An HSA is a tax-advantaged savings account established for paying qualified medical expenses.¹⁸ Individuals are eligible to open an HSA if they are enrolled in an HSA-eligible plan and have no other health coverage, with limited exceptions.¹⁹ However, HSA-eligible plan enrollees are not required to open or contribute to an HSA and can use non-HSA funds to pay for medical expenses. HSA-eligible plan enrollees who choose to pay for medical expenses from their HSA may access their account funds by check, by debit card, or by authorizing the insurance carriers to allow the providers to directly debit their account funds. HSAs are owned by the account holder, and the accounts are portable—individuals may keep their accounts if they switch jobs or enroll in a non-HSA-eligible health plan. Both employers and individuals may contribute to HSAs, and individuals may claim a deduction on their federal income taxes for their

¹⁶These amounts are annually adjusted for cost-of-living increases. In 2005, the minimum deductible amount was \$1,000 for single coverage and \$2,000 for family coverage, and the maximum limit on enrollee out-of-pocket spending was \$5,100 for single coverage and \$10,200 for family coverage.

¹⁷The IRS definition of preventive care includes periodic health evaluations, including tests and diagnostic procedures ordered in connection with routine examinations, routine prenatal and well-child care, immunizations, tobacco cessation programs, obesity weight-loss programs, and various screening services. Through 2006, IRS allows certain plans to be treated as HSA eligible, where, in order to comply with state requirements, the plans cover certain services (such as prescription drugs) before enrollees meet the deductible. After 2006, no such transitional relief will be available.

¹⁸Qualified medical expenses are identified under the Internal Revenue Code.

¹⁹Limited coverage (including specific injury or accident, disability, dental care, or vision care) in addition to the HSA-eligible plan is permissible.

HSA contributions regardless of whether they itemize deductions or claim the standard deduction. HSA balances can earn interest; roll over from year to year; and be invested in a variety of financial instruments, such as mutual funds. HSA balances may also accumulate subject only to annual limits on contributions. In 2006, contributions were limited to 100 percent of the deductible, but not more than \$2,700 for single coverage or \$5,450 for family coverage.²⁰ Contributions, earned interest, and withdrawals for qualified medical expenses are not federally taxed. Withdrawals for nonqualified expenses are subject to income tax and, if made before age 65, a tax penalty. A financial institution, such as a bank or insurance company, typically administers the account. Table 1 describes the key features of HSA-eligible plans and HSAs.

²⁰The annual contribution limit is adjusted annually for cost-of-living increases. In 2005, contributions were allowed up to 100 percent of the deductible, but not more than \$2,650 for single or \$5,250 for family coverage.

Table 1: Key Features of HSA-Eligible Plans and HSAs for 2006

Feature	Description
HSA-eligible plan features	
Deductible requirements ^a	Minimum of \$1,050 for single and \$2,100 for family coverage; to be adjusted for cost-of-living increases in future years. ^b
Maximum out-of-pocket limits ^a	Maximum of \$5,250 for single and \$10,500 for family coverage; to be adjusted for inflation in future years.
HSA features	
Ownership	Accounts are owned by the individual.
Portability	Accounts are fully portable—individuals can retain their HSA balances if they change jobs or obtain other health coverage.
Who may contribute	Individuals, family members, employers, and other entities may contribute on behalf of the individual.
Annual contribution limits	Contributions are allowed up to 100 percent of deductible, but not more than \$2,700 for single or \$5,450 for family coverage; however, account holders aged 55 or over and not enrolled in Medicare can contribute an additional \$700.
Unspent funds	Unspent funds may roll over from year to year without limit.
Definition of qualified medical expenses	Included are expenses intended to alleviate or prevent a physical or mental condition or illness, including vision and dental services, and premiums for long-term care insurance, certain continuation coverage, coverage while receiving unemployment benefits, and coverage after age 65 (except Medigap ^c).
Tax treatment	Withdrawals for qualified medical expenses and earned interest are exempt from federal income taxes; employer contributions are excluded from gross income, and employee contributions are deductible from federal income taxes.
Nonmedical withdrawals	Nonmedical withdrawals are subject to income tax, and an additional 10 percent penalty is assessed if these withdrawals are made before age 65.
History	Tax advantages for HSAs were authorized in December 2003 and made available beginning January 1, 2004.

Source: GAO analysis of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and IRS guidance on HSAs.

^aServices not covered by the insurance plan do not count toward the deductible or out-of-pocket maximum.

^bThrough 2006, IRS allows certain plans to be treated as HSA eligible, where, in order to comply with state requirements, they cover certain services (such as prescription drugs) prior to meeting the deductible. After 2006, no such transitional relief will be available.

^cMedigap is a private supplemental insurance available to Medicare enrollees. It helps to pay for some of Medicare's deductibles, copayments, and coinsurance amounts, as well as some benefits Medicare does not cover.

HSA-eligible plans typically provide, to some extent, information on the cost of health care services and the quality of health care providers. This information may help enrollees to become more actively engaged in making health care purchasing decisions. Experts suggest that in order to assess the price competitiveness of different providers or the cost of different treatment options, enrollees need reliable, specific information

about the cost of services. Experts also suggest that in order to make informed provider choices, enrollees need data on key quality measures to assess the quality of different providers. These quality measures may include the volume of procedures performed, the outcomes of those procedures, and certain process indicators demonstrating whether providers followed certain recommended treatment guidelines. Insurance carriers offering HSA-eligible plans may also provide online access to health accounts for enrollees to manage their health care spending.

These tools may be provided by health insurance carriers to all health insurance plan enrollees, but are likely to be more important to enrollees of HSA-eligible plans and other CDHPs, who have a greater financial incentive to make informed decisions about the quality and costs of health care providers and services. However, insurance carriers have faced challenges in obtaining or presenting quality and cost data. As we noted in our April 2006 report, the decision-support tools provided with CDHPs were limited and did not provide sufficient information to allow enrollees to fully assess cost and quality trade-offs of health care purchasing decisions.²¹

Financial Features of HSA-Eligible Plans Differed from Those of Traditional Plans, but Covered Services Were Similar

The financial features—premiums, deductibles, and out-of-pocket spending limits—of HSA-eligible plans differed from those of traditional plans in 2005, but both plan types covered similar health care services. HSA-eligible plans had lower premiums, higher deductibles, and higher out-of-pocket spending limits than traditional plans in 2005. The HSA-eligible plans we reviewed covered the same broad categories of services as traditional plans and used similar provider networks in 2005. Our illustration of enrollees' potential health care costs for the three employers' health plans we reviewed showed that HSA-eligible plan enrollees would incur higher annual costs than PPO plan enrollees for extensive use of health care, but would incur lower annual costs than PPO plan enrollees for low to moderate use of health care.

²¹ [GAO-06-514](#).

HSA-Eligible Plans Had Lower Premiums, Higher Deductibles, and Higher Out-of-Pocket Spending Limits Than Traditional Plans

Group Market

In the group market, HSA-eligible plans had lower premiums, higher deductibles, and higher out-of-pocket spending limits than traditional plans in 2005. Similarly, in the individual market, HSA-eligible plans had lower premiums and higher deductibles than traditional plans in 2005.

In the group market, HSA-eligible plans had lower premiums, higher deductibles, and higher out-of-pocket spending limits than traditional plans in 2005. Premiums for HSA-eligible plans were lower than those for traditional plans in 2005. According to a national employer health benefits survey, monthly premiums for HSA-eligible plans averaged \$225 for single coverage and \$659 for family coverage in 2005.²² These HSA-eligible plan premiums were, on average, 35 percent less than surveyed employers' traditional plan premiums for single coverage and 29 percent less than surveyed employers' traditional plan premiums for family coverage. On average, surveyed employers paid about the same share of the premiums for their HSA-eligible plans as for their traditional plans. Monthly premiums for the HSA-eligible plans offered by the three employers we reviewed ranged from \$231 to \$319 for single coverage and from \$612 to \$995 for family coverage in 2005.²³ These HSA-eligible plan premiums were 13 to 27 percent less than the employers' traditional plan premiums for single coverage and 18 to 23 percent less for family coverage. In contrast to data from the national employer health benefits survey, data from the three employers we reviewed showed that the employers paid a greater share of the premium for their HSA-eligible plan enrollees than for their traditional plan enrollees.

HSA-eligible plan deductibles were higher than traditional plan deductibles in 2005.²⁴ For example, one national employer health benefits survey reported that annual deductibles for HSA-eligible plans averaged

²²See Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2005 Annual Survey* (Menlo Park, Calif., and Chicago, Ill.: 2005). In this survey, family coverage refers to coverage of four individuals.

²³For these employers, family coverage refers to coverage of three or more individuals.

²⁴Deductibles may vary depending on whether the enrollee seeks care from a provider that is part of the insurance carrier's provider network. For the purposes of this report, if the plans or data we reviewed reported separate deductibles for services received from in-network and out-of-network providers, we discuss only the deductibles for services received from in-network providers.

\$1,901 for single coverage and \$4,070 for family coverage in 2005—nearly six times greater than those of surveyed employers' traditional plans.²⁵ Another national employer health benefits survey reported that the median annual deductible for HSA-eligible plans offered by large employers was \$1,200 for single coverage in 2005, four times greater than those of surveyed employers' traditional plans.²⁶ Annual deductibles for the HSA-eligible plans offered by the three employers we reviewed ranged from \$1,250 to \$3,000 for single coverage and from \$2,500 to \$6,000 for family coverage in 2005. In contrast, deductibles for two of the three employers' traditional plans were zero and for the other employer were \$350 for single coverage and \$700 for family coverage.

Out-of-pocket spending limits for HSA-eligible plans were higher than those of traditional plans in 2005.²⁷ According to a national employer health benefits survey, the median annual out-of-pocket spending limit for HSA-eligible plans offered by large employers was \$3,500 for single coverage in 2005, which was higher than the median out-of-pocket spending limit of \$1,960 reported for traditional plans.²⁸ Out-of-pocket spending limits for HSA-eligible plans offered by the three employers we reviewed ranged from \$3,750 to \$5,000 for single coverage and from \$7,500 to \$10,000 for family coverage in 2005, in contrast to the limits among the employers' traditional plans of \$1,000 to \$2,350 for single coverage and \$2,000 to \$4,700 for family coverage.²⁹ Table 2 summarizes the financial features of HSA-eligible and traditional plans offered by employers in 2005.

²⁵Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2005 Annual Survey*.

²⁶Mercer Human Resource Consulting, *National Survey of Employer-Sponsored Health Plans: 2005 Survey Report* (New York, N.Y.: 2006).

²⁷Out-of-pocket spending limits may vary depending on whether the enrollee seeks care from a provider that is part of the insurance carrier's provider network. For the purposes of this report, if the plans or data we reviewed reported separate out-of-pocket spending limits for services received from in-network and out-of-network providers, we discuss only the limits for services received from in-network providers.

²⁸Mercer Human Resource Consulting, *National Survey of Employer-Sponsored Health Plans: 2005 Survey Report*.

²⁹The employers' plans we reviewed may not be comparable because some plans excluded certain covered services from the calculation of their out-of-pocket spending limit.

		Kaiser Family Foundation Survey ^a		Mercer Survey ^b		Employer 1		Employer 2		Employer 3	
Feature	Coverage type	HSA-eligible	Traditional	HSA-eligible	Traditional	HSA-eligible	Traditional	HSA-eligible	Traditional	HSA-eligible	Traditional
Monthly premium	Single	\$225	\$346	N.A.	\$339 ^c	\$231	\$315	\$319	\$365	\$251	\$318
Enrollee share of premium		16%	15%	N.A.	23% ^c	4%	30%	18%	28%	2% ^d	25% ^e
Employer share of premium		84%	85%	N.A.	77% ^c	96%	70%	82%	72%	98% ^d	75% ^e
	Family ^f	\$659	\$924	N.A.	\$879 ^c	\$612	\$798	\$995	\$1,208	\$758	\$969
Enrollee share of premium ⁱ		21%	25%	N.A.	33% ^c	18%	37%	13%	28%	2% ^d	24% ^e
Employer share of premium ^j		79%	75%	N.A.	67% ^c	82%	63%	87%	72%	98% ^d	76% ^e
Annual deductible ^g	Single	\$1,901	\$323	\$1,200 ^h	\$300 ^h	\$3,000	\$350	\$1,800	\$0	\$1,250	\$0
	Family	\$4,070	\$679	N.A.	\$750 ^h	\$6,000	\$700	\$3,600	\$0	\$2,500	\$0
Annual out-of-pocket spending limit ^k	Single Family	\$2,551 ^l	N.A.	\$3,500 ^h	\$1,960 ^h	\$5,000	\$2,350	\$4,800	\$1,000	\$3,750	\$1,000

^lPremium data are reported for families where a covered spouse does not have access to medical benefits through his or her employer.

^gIf the plans or data we reviewed reported separate deductibles for services received from in-network and out-of-network providers, we reported only the deductibles for services received from in-network providers.

^hData repr

Table 3: Financial Features of HSA-Eligible and Traditional Plans Offered in the Individual Market through eHealthInsurance, 2005

Feature	Coverage type	HSA-eligible	Traditional
Monthly premium	Single	\$111	\$138
	Family	277	363
Annual deductible ^a	Single	3,190	1,597
	Family	5,213	2,025

Source: eHealthInsurance.

Notes: Data represent average values for HSA-eligible and traditional plans. Traditional plans offered through eHealthInsurance include both PPO plans and other major medical plans that do not meet the federal criteria for HSA-eligible plans. Family coverage refers to coverage for three or more individuals.

^aReported for in-network services only.

HSA-Eligible Plans Covered Similar Health Care Services and Used Similar Provider Networks as Traditional Plans

HSA-eligible plans offered in 2005 by the three employers we reviewed covered health care services similar to those covered by the traditional plans offered by the same employers. The HSA-eligible and traditional plans offered by the same employer covered the same broad categories of services, such as preventive, diagnostic, maternity, surgical, outpatient, and emergency care, and typically covered the same services within these categories.³³ While each HSA-eligible plan defined preventive services differently, each plan covered, and paid 100 percent of the cost of, certain core services, including annual physical exams, routine immunizations for children, routine mammograms, routine Pap tests, and well-child care.³⁴ These services were generally also covered by the traditional plans offered by the employers.³⁵

The provider networks used by HSA-eligible plans and traditional plans were similar. Two of the three employers we reviewed used the same insurance carrier and the same provider network for the HSA-eligible plan and the traditional plan it offered to its employees in 2005. One employer used different insurance carriers for its HSA-eligible and traditional plan in

³³The HSA-eligible and traditional plans we reviewed generally covered the same categories of services for all plan enrollees and dependents. Both plan types covered maternity services for only the primary enrollee and spouse, and generally not for female dependents.

³⁴One employer's HSA-eligible plan required a copayment (a fixed payment generally made at the time of service) before paying 100 percent of the cost of covered preventive services.

³⁵One employer did not cover annual physical exams under its traditional plan.

2005, and in this case, the HSA-eligible plan network was broader than the traditional plan network. Other evidence suggests that the provider networks used by CDHPs and traditional plans are similar. For instance, industry experts told us that insurance carriers that offer both CDHPs and traditional plans typically use the same provider networks for both products. Insurance carriers we spoke with told us that they used the same provider network for their CDHP and traditional plan products. Additionally, as we noted in our November 2005 report, the provider networks used throughout the country by a national CDHP in the Federal Employees Health Benefits Program (FEHBP) were the same or comparable to those used by the program's traditional plans.³⁶

Enrollee Costs Would Be Higher for HSA-Eligible Plans Than for PPO Plans When Extensive Care Is Used, but Lower When Low to Moderate Care Is Used

Our illustration of enrollees' potential health care costs—including premiums, deductibles, and other out-of-pocket costs for covered services—for the three employers' 2005 health plans we reviewed showed that HSA-eligible plan enrollees would incur higher annual costs than PPO plan enrollees for extensive use of health care, but would incur lower annual costs than PPO plan enrollees for low to moderate use of health care.³⁷ For example, we estimated that in the event of an illness or injury resulting in a hospitalization costing \$20,000, the total costs incurred by the three employers' HSA-eligible plan enrollees would be 47 to 83 percent higher than those faced by the employers' PPO plan enrollees. Specifically, the total costs of health coverage paid by HSA-eligible plan enrollees would range from \$3,710 to \$5,111, while the costs paid by PPO plan enrollees would range from \$2,136 to \$3,472. In contrast, we estimated that the total costs paid by HSA-eligible plan enrollees who used low to moderate amounts of health care, visiting the doctor for illnesses or injuries six times in one year, would be 48 to 58 percent lower than the

³⁶ [GAO-06-143](#).

³⁷ We assumed that enrollees had single coverage and used in-network services. We also assumed that enrollees used the funds their employers contributed to their HSA in 2005 and paid for the rest out of pocket. We assumed that enrollees did not have HSA funds carried over from a prior year, which, if used, could have lowered enrollees' out-of-pocket costs. We considered only the costs associated with medical care provided by a physician and did not consider any other costs that could be incurred by an enrollee, such as prescription drug costs. We also did not consider the tax implications associated with enrollee spending for health care services; if HSA-eligible plan enrollees used tax-advantaged funds they, or someone other than their employer, contributed to their HSA, their costs could have been lower.

costs paid by the PPO plan enrollees.³⁸ Specifically, the total annual costs of health coverage for HSA-eligible plan enrollees would range from \$440 to \$679, compared with \$1,056 to \$1,317 for PPO plan enrollees.

HSA-Eligible Plan Enrollees Had Higher Incomes Than Comparison Groups, but Data on Age Differences Were Inconclusive

HSA-eligible plan enrollees generally had higher incomes than comparison groups, but age differences varied depending on the data reviewed. Fifty-one percent of tax filers reporting HSA contributions had an adjusted gross income of \$75,000 or more, compared with 18 percent for all tax filers under age 65 in 2004. Two of the three employers we reviewed and eHealthInsurance reported that HSA-eligible plan enrollees had higher incomes than did traditional plan enrollees in 2005. Regarding age differences, data from IRS for tax filers and from eHealthInsurance for individual market enrollees indicate that the average age of HSA-eligible plan enrollees was higher than that of individuals from comparison groups. In contrast, data from several employer groups indicate that the average age of HSA-eligible plan enrollees was lower than that of comparison groups of enrollees.

HSA-Eligible Plan Enrollees Had Higher Incomes Than Comparison Groups

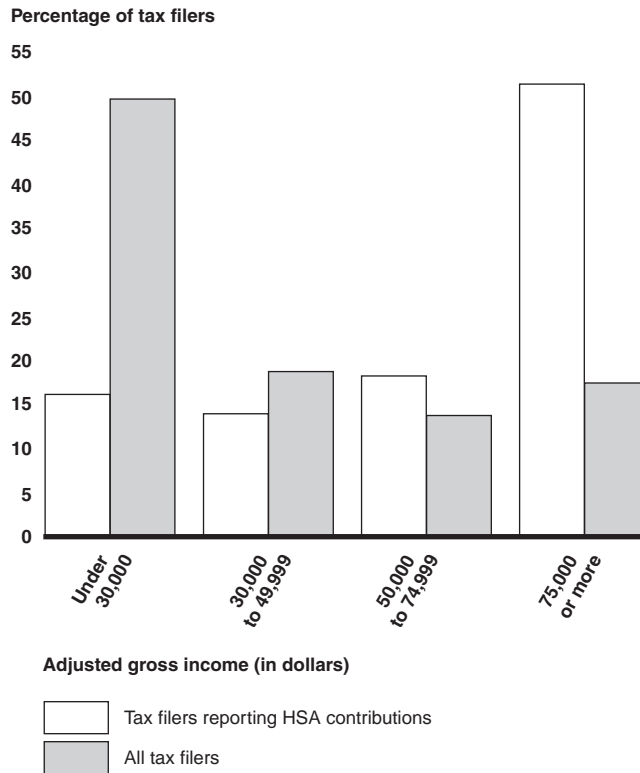
HSA-eligible plan enrollees had higher incomes than comparison groups. The average, or mean, adjusted gross income of the estimated 108,000 tax filers reporting HSA contributions in 2004 was about \$133,000,³⁹ compared with \$51,000 for all tax filers under age 65, according to IRS data. Similarly, the median adjusted gross income for these tax filers was about \$76,000, compared with \$30,000 for all tax filers under age 65. Moreover, 51 percent of tax filers reporting HSA contributions had an adjusted gross income of \$75,000 or more, compared with 18 percent of all tax filers under age 65.⁴⁰ (See fig. 1.)

³⁸We assumed that the negotiated rate for each doctor's visit was \$80. We developed this assumption based on our analysis of one insurer's negotiated rates for office visits for low to moderate problems in the regions in which the three employers' plans were offered.

³⁹To receive a deduction, tax filers must report HSA contributions to IRS. Those reporting HSA contributions in 2004 represented about 0.1 percent of the 115 million tax filers less than 65 years of age.

⁴⁰All tax filers includes both insured and uninsured individuals. The uninsured tend to have lower incomes than those with health insurance coverage.

Figure 1: Adjusted Gross Income of Tax Filers Reporting HSA Contributions and All Tax Filers, 2004



Source: GAO analysis of IRS data.

Notes: Data are based on a sample of 2004 tax returns processed by IRS. For the all tax filers category, we excluded those 65 years and older because they are generally enrolled in Medicare and are ineligible to contribute to an HSA.

We also found similar income differences between HSA-eligible plan and traditional plan enrollees when we examined other data sources from the group and individual markets. As we previously reported, among FEHBP enrollees actively employed by the federal government, 43 percent of HSA-eligible plan enrollees earned federal incomes of \$75,000 or more, compared with 23 percent for all enrollees in 2005.⁴¹ Actively employed HSA-eligible plan enrollees also had higher incomes than traditional plan enrollees in 2005 for two of the three employers we reviewed. One employer reported that the average salary of its HSA-eligible plan

⁴¹ [GAO-06-271](#).

enrollees was \$75,000, compared with \$61,000 for its traditional plan enrollees, and the second employer reported that the average salary of its HSA-eligible plan enrollees was \$91,000, compared with \$81,000 for its traditional plan enrollees. The third employer reported that about the same share (4 percent) of its actively employed HSA-eligible plan and traditional plan enrollees had incomes of \$75,000 or more in 2005. In the individual market, eHealthInsurance reported that 35 percent of its HSA-eligible plan enrollees had incomes of \$75,000 or more, compared with 21 percent of its traditional plan enrollees in 2005.⁴²

Data Sources Did Not Show Consistent Age Differences between HSA-Eligible Plan Enrollees and Comparison Groups

The data sources we examined did not conclusively indicate whether HSA-eligible plan enrollees were older or younger than comparison groups. IRS data indicate that the average age of tax filers reporting HSA contributions was about 9 years higher than that of all tax filers under age 65 in 2004.⁴³ Similarly, eHealthInsurance reported that the average age of its individual market HSA-eligible plan enrollees was 5 years higher than that of its individual market traditional plan enrollees in 2005.⁴⁴ In contrast, several data sources from the group market in 2005 suggest that the average age of HSA-eligible plan enrollees was lower than that of the traditional plan enrollees or the average of all enrollees. As we previously reported, the average age of FEHBP's HSA-eligible plan enrollees, excluding retirees, was about 3 years lower than that of all FEHBP enrollees.⁴⁵ The three employers we reviewed reported that the average age of HSA-eligible plan enrollees, excluding retirees, was 2 to 6 years lower than that of their traditional plan enrollees. (See table 4.)

⁴²Traditional plans offered through eHealthInsurance include both PPO plans and other major medical plans that do not meet the federal criteria for HSA-eligible plans.

⁴³All tax filers include both insured and uninsured individuals. The uninsured tend to be younger than those with health insurance coverage.

⁴⁴Traditional plans offered through eHealthInsurance include both PPO plans and other major medical plans that do not meet the federal criteria for HSA-eligible plans.

⁴⁵[GAO-06-271](#).

Table 4: Average Age of HSA-Eligible Plan Enrollees and Comparison Groups

Source	Average age of HSA-eligible plan enrollees	Average age of comparison group	Comparison group
All Markets			
IRS ^{a,b}	47 ^c	39	All tax filers under 65 years of age
eHealthInsurance ^d	38	33	Traditional plan enrollees ^e
Group market			
FEHBP ^f	44	47 ^g	All FEHBP enrollees
Employer 1 ^f	40	46	Traditional plan enrollees
Employer 2 ^f	44	50	Traditional plan enrollees
Employer 3 ^f	42	44	Traditional plan enrollees

Source: GAO analysis of data from IRS, eHealthInsurance, the Office of Personnel Management, and three employers we reviewed.

Note: All data are for 2005 unless otherwise noted.

^aData are based on a sample of 2004 tax returns processed by IRS, and the average age is for the primary taxpayer filing the income tax return in 2004. Most HSA-eligible plans were sold in the individual market in 2004.

^bThe average age of tax filers reporting HSA contributions was about 9 years higher than that of all tax filers under age 65. The average ages listed in the table are rounded.

^cAverage age of tax filers reporting an HSA contribution.

^dEnrollees under 65 years of age.

^eTraditional plans offered through eHealthInsurance include both PPO plans and other major medical plans that do not meet the federal criteria for HSA-eligible plans.

^fExcludes retirees.

^gAverage age of all FEHBP enrollees, excluding retirees, in 2004.

Just over Half of Enrollees and Most Employers Contributed to HSAs, and Account Holders Used HSA Funds to Pay for Medical Care and to Accumulate Savings

Just over Half of Enrollees Opened and Contributed to HSAs

Just over half of HSA-eligible plan enrollees, and most employers, contributed to HSAs, and account holders used their HSA funds to pay for current medical care and to accumulate savings. About 55 percent of HSA-eligible plan enrollees reported HSA contributions in 2004. On average, tax filers claimed a deduction of about \$2,100 for their HSA contributions in 2004, and the average amount increased with income. Most employers offering HSA-eligible plans contributed to their employees' HSAs, and the average employer HSA contribution was about \$1,064 in 2004. HSA account holders used their funds to pay for medical care and to accumulate savings. About 45 percent of those reporting 2004 HSA contributions also reported withdrawing funds in 2004, and 90 percent of these funds were withdrawn for qualified medical expenses. The remaining 55 percent of those reporting HSA contributions in 2004 reported that they did not withdraw any funds from their HSA in 2004.

Not all HSA-eligible plan enrollees opened and contributed to an HSA. According to our analysis of publicly available survey data and data obtained from IRS, about 55 percent of HSA-eligible plan enrollees reported HSA contributions in 2004. Industry experts we spoke with also estimated that the share of all HSA-eligible plan enrollees that had opened and contributed to an HSA was about 50 percent to 60 percent. Similarly, one insurance carrier representative reported that about 60 percent of its HSA-eligible plan enrollees who obtained coverage through an employer opened and contributed to an HSA.

HSA-eligible plan enrollees from the employers we reviewed were more likely to contribute to an HSA when their employer also offered account contributions. Specifically, two employers we reviewed contributed to employees' HSAs and reported that 64 percent and 90 percent of employees enrolled in HSA-eligible plans contributed to an HSA in 2005. In contrast, the third employer did not contribute to its employees' HSAs and reported that 38 percent of its employees who were enrolled in HSA-eligible plans contributed to an HSA in 2005.⁴⁶

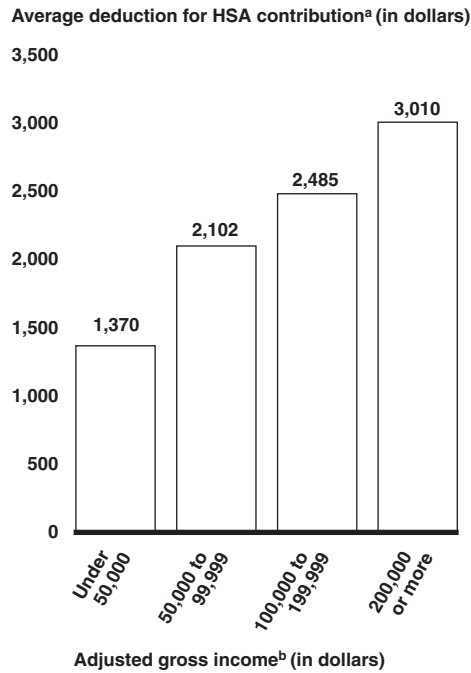
⁴⁶For the three employers we reviewed, these data represent only those individuals who contributed to their HSA through payroll deduction.

Tax filers claimed an average deduction of about \$2,100 for HSA contributions in 2004, and the average amount increased with income.⁴⁷ (See fig. 2.) The three employers we reviewed reported that employees enrolled in HSA-eligible plans contributed, on average, \$826, \$1,284, and \$1,544 to their HSAs in 2005.⁴⁸

⁴⁷Tax filers may claim an income tax deduction for contributions they, or someone other than their employer, make to their HSA. The average deduction amount does not include HSA contributions individuals may have made through pretax payroll deductions and therefore may understate the amount individuals contributed to their HSAs.

⁴⁸These data represent the contributions made by employees who contributed to their HSA through payroll deduction.

Figure 2: Average Deduction Claimed for HSA Contribution, 2004



Source: GAO analysis of IRS data.

Note: Data are based on a sample of 2004 tax returns processed by IRS.

^aHSA deductions represent the amount individuals claimed they, or someone other than their employer, contributed to their HSA. Deductions do not include employer contributions, although employers may contribute to employees' HSAs. Average deduction amounts do not include HSA contributions individuals may have made through pretax payroll deductions and therefore may understate the amount individuals contributed to their HSAs. In 2004, most HSA-eligible plan enrollees purchased coverage in the individual market rather than obtaining coverage through an employer. These data are reported on a per-return basis and thus could include contributions to more than one HSA in some instances. Moreover, the data do not distinguish between deductions claimed for HSA contributions made by enrollees with single and family coverage or between HSA-eligible coverage obtained in the group and individual market. The maximum allowable HSA contribution in 2004 was \$2,600 for single coverage and \$5,150 for family coverage; account holders aged 55 or over and not enrolled in Medicare could contribute an additional \$500.

^bAdjusted gross income may include income earned by family members who are not covered under HSA-eligible plans.

Most Employers Offering HSA-Eligible Plans Contributed to HSAs

About two-thirds of employers offering HSA-eligible plans contributed to their employees' HSAs. According to a national employer health benefits survey, about two-thirds of employers offering HSA-eligible plans—covering approximately 65 percent of workers in these plans—contributed

to HSAs for either single or family coverage in 2005.⁴⁹ Similarly, another national employer health benefits survey reported that 62 percent of large employers offering HSA-eligible plans contributed to their employees' HSAs in 2005.⁵⁰

The amounts contributed by employers to employees' HSAs varied. In 2004, the average employer HSA contribution reported to IRS was about \$1,064. Two national employer health benefits surveys reported that employers contributed different amounts to their employees' HSAs. Specifically, one national employer health benefits survey reported that the average annual employer contribution to HSAs in 2005 was \$553 for single coverage and \$1,185 for family coverage.⁵¹ Another survey reported that among large employers that contribute to employees' HSAs, the median employer contribution was \$100 for single coverage.⁵² Two of the three employers we reviewed contributed to their employees' HSAs in 2005. The employers' contribution amounts varied from \$100 to \$1,400 for

HSA Account Holders Used HSA Funds to Pay for Medical Care and to Accumulate Savings

Our review of available data showed that HSA account holders used HSA funds to pay for current medical care and to accumulate savings. Data from IRS indicate that about 45 percent of those reporting 2004 HSA contributions—made by themselves, others on their behalf, or their employers—also reported withdrawing funds from their HSA, and the average annual amount withdrawn by these tax filers was about \$1,910. Our analysis of data from IRS also indicates that about 90 percent of these withdrawn funds were used to pay for qualified medical expenses. Additionally, IRS data show that about 40 percent of all funds contributed to HSAs in 2004 were withdrawn from the accounts by the end of the year.

In addition to using HSAs to pay for medical and other expenses, account holders appeared to use their HSA as a savings vehicle. About 55 percent of those reporting HSA contributions to IRS in 2004 did not withdraw any funds from their account in 2004. We could not determine whether HSA-eligible plan enrollees accumulated balances because they did not need to use their account (that is, they paid for care from out-of-pocket sources or did not need health care during the year) or because they reduced their health care spending as a result of financial incentives associated with the HSA-eligible plan and HSA. However, many focus group participants reported using their HSA as a tax-advantaged savings vehicle, accumulating HSA funds for future use. For example, one focus group participant reported paying out of pocket for a costly surgery in order to save HSA funds for future use.

Focus Group Participants Generally Understood and Were Satisfied with HSA- Eligible Plans, but Would Not Recommend These Plans to All Consumers

Participants in our focus groups who were enrolled in HSA-eligible plans generally reported positive experiences, but most would not recommend these plans to all consumers. Participants generally understood the key attributes of their plan, such as low premiums, high deductibles, and the mechanics of using the HSA, but were confused about certain other features. Few participants researched the cost of hospital or physician services before obtaining care, although many participants researched the cost of prescription drugs. Most participants reported satisfaction with their HSA-eligible plan and account, but said they would not recommend these plans to everyone. Participants said they would recommend HSA-eligible plans to healthy consumers, but not to people who use maintenance medication, have a chronic condition, have children, or may not have the funds to meet the high deductible.

Focus Group Participants Generally Understood Key Attributes of HSA-Eligible Plans and Accounts, but Expressed Confusion about Certain Features

Many participants in our focus groups were able to describe key attributes of HSA-eligible plans, including low premiums, high deductibles, and how to pay for services using the HSA.⁵⁴ Participants understood that employers and employees can contribute to an HSA and were aware of the maximum contribution limits. Participants also understood the ability to accumulate savings over time and that their HSA was portable if they left their company.

Participants expressed confusion about certain other features of HSA-eligible plans and accounts. Regarding their HSA-eligible plan, many participants understood that certain preventive visits were covered free of charge,⁵⁵ but cited problems distinguishing between preventive services and other services provided during a preventive visit to a physician. In particular, participants noted that certain laboratory tests associated with a preventive visit were not considered a preventive service and thus were not paid for by the plan. Participants of one focus group also reported that they did not always know whether services were provided by an in- or out-of-network provider, particularly in emergency situations. For example, one participant had to pay \$1,800 for transporting his wife 10 miles in an ambulance because the ambulance that was dispatched was not an in-network provider. Regarding their HSAs, many participants were unsure what medical expenses qualified for payment using their HSA.⁵⁶ Some participants said that they were initially unaware of, or confused about, how having an HSA limited their use of flexible spending arrangement (FSA) funds to certain medical expenses.⁵⁷⁻⁵⁸ Participants from one

⁵⁴Unless otherwise noted, the participant experiences we report reflect multiple focus groups.

⁵⁵One employer's HSA-eligible plan required a copayment before paying 100 percent of the cost of covered preventive services.

⁵⁶According to Mercer Human Resource Consulting's briefing, "Mercer's National Survey of Employer-Sponsored Health Plans" (Feb. 24, 2006), about 70 percent of large employers offering CDHPs reported that their employees had at least some difficulty understanding what services may be paid from their account.

⁵⁷Health FSAs are employer-established benefit plans that allow employees to be reimbursed for medical expenses. According to IRS, employees with HSAs can have only a limited-purpose FSA, which is restricted to certain benefits, such as vision, dental, or preventive care, or a postdeductible FSA, which can be used only after a minimum annual deductible is met.

⁵⁸About 60 percent of large employers offering CDHPs reported that their employees had at least some difficulty understanding how their account coordinated with an FSA, according to "Mercer's National Survey of Employer-Sponsored Health Plans" briefing.

employer said that they were initially unaware of a monthly \$3 administrative bank fee for maintaining the HSA and felt that it diminished any potential savings from interest earned on their HSA balance.

Few Focus Group Participants Researched Cost before Obtaining Health Care Services

Few focus group participants enrolled in HSA-eligible plans researched the cost of services before obtaining care, although many researched the cost of prescription drugs. A few participants reported asking physicians about the cost of services, but others expressed discomfort with asking physicians about cost.⁵⁹ For example, one participant said, “Americans don’t negotiate. It’s not polite to question the value of [a provider’s] work.” Participants noted that physicians did not always know the cost of the services and that this information was generally handled through a billing office. Participants of one focus group also reported not initially understanding the extent to which they needed to manage and take responsibility for their health care as consumers, including by asking questions about the cost of services and medications.

Participants reported that only limited information was available regarding key quality measures for hospitals and physicians, such as the volume of procedures performed and the outcomes of those procedures.⁶⁰ Many participants relied on referrals from family, friends, or health care providers for recommendations on providers. Some participants continued going to physicians with whom they already had an established relationship. Most participants did research general information on health care issues, such as on health conditions or treatment options.

Focus Group Participants Were Generally Satisfied with HSA-Eligible Plans but Would Not Recommend These Plans to All Consumers

Most participants, who had voluntarily elected to enroll in the HSA-eligible plan as one of several choices offered by their employer, reported that they were generally satisfied with their health plan. Many participants cited the ability to accumulate savings, the tax advantages of having an HSA, and the ability to use an HSA debit card or online accounts as positive aspects of HSAs. Participants reported few problems obtaining care, and many used their health plan to obtain preventive services, visit

⁵⁹“Mercer’s National Survey of Employer-Sponsored Health Plans” briefing noted that 40 percent of all employers reported that they provided access to Web sites on provider quality and cost information.

⁶⁰In an earlier study, we reported on the challenges faced by carriers in providing cost and quality data. See [GAO-06-514](#).

an emergency room or urgent care clinic, or fill prescriptions. When given a choice of health plan options, many focus group participants reported that they reenrolled in an HSA-eligible plan for the following year.

Despite their general satisfaction with HSAs and HSA-eligible plans, some participants did not like certain aspects of their plan or account. Some participants said that they would prefer the ability to contribute more to the HSA to accumulate savings, while others noted that deductibles for HSA-eligible plans were too high and they would be willing to pay higher premiums for plans with lower deductibles. Participants also reported that the cost of prescription drugs was high under HSA-eligible plans. Under two employers' HSA-eligible plans, participants had to pay 100 percent of the plan's negotiated price for prescription drugs until meeting the deductible.⁶¹ In using the HSA, some participants said they encountered problems paying for services, such as billing errors for physician visits, and that the physician offices did not understand how to accept payment for services with an HSA debit card.

Most participants said they would recommend HSA-eligible plans to healthy consumers. Some participants said they enrolled in the HSA-eligible plan specifically because they did not anticipate getting sick, and many said they considered themselves and their families as being fairly healthy. However, participants would not recommend these plans to people who use maintenance medication, have a chronic condition, have children, or may not have the funds to meet the high deductible.

Focus Group Participants Enrolled in Traditional Plans Cited Several Reasons for Not Enrolling in HSA-Eligible Plans

Participants enrolled in traditional plans from all three employers reported that they received and reviewed information about their health care options, including HSA-eligible plans. Most participants easily understood the features of their traditional plan, including copayments, deductibles, and the differences between in- and out-of-network providers, and one group of participants characterized the information on HSA-eligible plans as confusing and complicated. Participants reported that they did not elect to enroll in an HSA-eligible plan because their costs under a traditional plan would be lower and they were concerned about meeting the high deductible for potentially high medical expenses. Most participants said

⁶¹Under these two employers' traditional plans, enrollees pay a portion of prescription drug costs through a copayment or coinsurance. A copayment is a fixed payment generally made at the time of service, while coinsurance is a payment representing a percentage of expenses.

they were satisfied with their traditional plan, citing steady monthly premiums, no unexpected costs or coverage limitations, no need to manage one's own health care, or an overall sense of comfort with traditional plans. If given a choice, most of the participants enrolled in traditional plans would reenroll in these plans. One group of participants, whose employer was planning to offer only CDHP options in the future, suggested they would consider seeking employment elsewhere if forced into a CDHP. Some participants said they might have considered enrolling in an HSA-eligible plan if they had been younger and healthier.

Concluding Observations

As more individuals face the choice of enrolling in HSA-eligible plans or other CDHPs, they will likely weigh the savings potential and financial risks associated with these plans in relation to their own health care needs and financial circumstances. We found that enrollees who use little health care could incur lower costs under HSA-eligible plans than under traditional plans, while those who use more extensive health care services could incur higher costs under HSA-eligible plans. Thus, when individuals are given a choice between HSA-eligible and traditional plans—as in the individual market and with employers offering multiple health plans—HSA-eligible plans may attract healthier individuals who use less health care or, as we found, higher-income individuals with the means to pay higher deductibles and the desire to accrue tax-free savings. While patterns evident during the first few years of HSA-eligible plan enrollment may not predict future trends and enrollment will depend on the particular choices available, it will be important to monitor enrollment trends and assess their implications for the cost of health care coverage for all HSA-eligible and traditional plan enrollees.

Contrary to the hopes of CDHP proponents, few of the HSA-eligible plan enrollees who participated in our focus groups researched cost before obtaining health care services. According to proponents, an increase in such health care consumerism is central to cost reductions that may occur under the plans. Any increase in consumerism that may be exhibited by CDHP enrollees will likely require time, education, and improved decision-support tools that provide enrollees with more information about the cost and quality of health care providers and services.

Finally, while HSA-eligible plan enrollees we spoke with were generally satisfied with their plan, it is notable that these enrollees each had a choice of health plans and voluntarily selected the HSA-eligible plan. Their caution that HSA-eligible plans may not be appropriate for everyone and the views of traditional plan enrollees who opted not to elect an HSA-

eligible plan suggest that satisfaction may be lower when employees are not given a choice or when employer contributions to premiums or accounts do not sufficiently offset the potentially greater costs faced by CDHP enrollees.

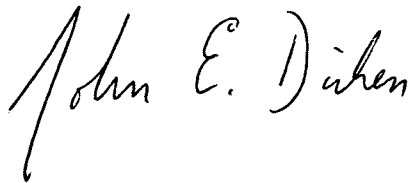
Agency Comments

We provided to IRS and eHealthInsurance portions of a draft of this report pertaining to the data each had provided us. We received technical comments from IRS and eHealthInsurance by email and incorporated these comments as appropriate.

As we agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days from the date of this letter. We will then send copies to others who are interested and make copies available to others who request them. The report will also be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-7119 or at dickenj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs can be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix II.

Sincerely yours,

A handwritten signature in black ink that reads "John E. Dicken". The signature is written in a cursive style with a large initial "J" and a stylized "D".

John E. Dicken
Director, Health Care

Appendix I: Scope and Methodology

To respond to our study objectives regarding health savings accounts (HSAs) and HSA-eligible plans, we examined (1) the financial features, covered services, and enrollees' annual costs of HSA-eligible plans in comparison with those of traditional plans; (2) the characteristics of HSA-eligible plan enrollees in comparison with those of other individuals and traditional plan enrollees; (3) the funding and use of HSAs; and (4) the experiences of enrollees with HSA-eligible plans. We reviewed all data for reasonableness and consistency and determined that the data were sufficiently reliable for our purposes. We performed our work from November 2004 through July 2006 in accordance with generally accepted government auditing standards.

Financial Features and Covered Services

We relied on several sources to compare the financial features—that is, the premiums, deductibles, and out-of-pocket spending limits—of HSA-eligible plans with those of traditional plans.¹ For the group market, we summarized data on financial features of HSA-eligible and traditional plans from two 2005 national employer health benefits surveys.² In addition, we hired a contractor, Hewitt Associates LLC, to contact employers, conduct focus groups with their employees, and obtain information about the employers' 2005 health plans. We judgmentally selected employers for review that (1) offered an HSA-eligible plan and a traditional plan in 2005, (2) had at least 500 enrollees in their HSA-eligible plan in 2005, and (3) allowed us to conduct focus groups with their employees. We selected three large employers in the public, utility, and insurance sectors that met these criteria, and we agreed not to identify these employers by name in this report. The three employers we reviewed offered HSA-eligible plans that were administered by different insurance carriers. We requested that each employer provide us with plan brochures and other documentation, including responses to a questionnaire describing its 2005 HSA-eligible and traditional plans.³

¹Unless otherwise noted, traditional plans refers to preferred provider organization (PPO) plans.

²Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2005 Annual Survey* (Menlo Park, Calif., and Chicago, Ill.: 2005); and Mercer Human Resource Consulting, *National Survey of Employer-Sponsored Health Plans: 2005 Survey Report* (New York, N.Y.: 2006).

³For the three employers, we reviewed the features of their PPO plan with the largest enrollment.

To examine the financial features of HSA-eligible and traditional plans in the individual market, we reviewed data for plans sold for 2005 by eHealthInsurance, a large, national broker of individual and small business health insurance that offers more than 5,600 plans for more than 140 health insurance carriers.⁴ Data reported from eHealthInsurance represent only the policies of individuals who purchased insurance in the individual market through the brokerage for 2005 and cannot be generalized to all enrollees. These data were based on a random sample of policies sold by eHealthInsurance as of December 31, 2005.

To examine the covered services and provider networks of HSA-eligible and traditional plans, we reviewed the three employers' plan brochures and spoke with employer and insurance carrier officials and industry experts.

To illustrate the potential health care costs faced by HSA-eligible and traditional plan enrollees, we estimated the total annual costs to enrollees of the three employers' HSA-eligible and preferred provider organization (PPO) plans in 2005. We considered the following annual costs associated with coverage under the plans:

- **Premiums.** HSA-eligible plans typically have lower premiums than PPO plans. We considered only enrollees' share of the premiums.
- **Deductibles.** HSA-eligible plans typically have higher deductibles than PPO plans. We considered all costs for covered services that enrollees incurred before meeting their deductible.
- **Out-of-pocket spending limits.** HSA-eligible plans typically have higher out-of-pocket spending limits than PPO plans. The out-of-pocket spending limit includes deductibles and other payments, but does not include premiums. We considered all copayments and coinsurance enrollees incurred before meeting their out-of-pocket spending limit.

We also considered the contributions employers made to employees' HSAs. Most employers contribute to their employees' HSAs. We assumed that when paying for their health care expenses, enrollees only used funds their employer contributed to their HSA in 2005 and paid for the rest out of pocket.

⁴Traditional plans offered through eHealthInsurance include both PPO plans and other major medical plans that do not meet the federal criteria for HSA-eligible plans.

When performing these calculations, we assumed that enrollees had single coverage and used in-network services. For the analysis of enrollees' total health care costs related to extensive use of health care, we examined the potential costs incurred by enrollees for an illness or injury resulting in a hospitalization costing \$20,000. For the analysis of costs related to low to moderate use of health care, we examined the potential costs incurred by enrollees for six doctor's office visits, classified as for low to moderate problems, and assumed the negotiated rate for each visit was \$80. We developed this assumption based on our analysis of one insurer's negotiated rates for office visits for low to moderate problems in the regions the three employers' plans were offered. We considered only the costs associated with medical care provided by a physician and did not consider any other costs that could be incurred by an enrollee, such as prescription drugs. We assumed that enrollees did not have HSA funds carried over from a prior year. If enrollees had used funds carried over from a prior year, their out-of-pocket costs could have been lower. We also did not consider the tax implications associated with enrollee spending for health care services; if HSA-eligible plan enrollees used tax-advantaged funds they or someone other than their employer contributed to their HSA, their costs could have been lower.

Characteristics of HSA-Eligible Enrollees

To compare the characteristics of HSA-eligible and traditional plan enrollees, we compared demographic data provided by the Internal Revenue Service (IRS) on adjusted gross income and age for tax filers who reported HSA contributions on their 2004 tax returns with the corresponding data for all tax filers less than 65 years of age. IRS data were based on a random probability sample of 200,295 individual income tax returns for 2004 from the IRS Statistics of Income (SOI) individual tax return file, of which a small proportion reported an HSA contribution. The SOI file is a stratified probability sample of income tax returns filed with IRS, weighted to represent an estimated population of about 132 million tax returns. Of the 115 million tax filers less than 65 years of age in 2004, approximately 0.1 percent—an estimated 108,000 tax filers—reported an HSA contribution. To assess the relative precision of IRS's data estimates, we reviewed the coefficients of variation for all estimates we used in our calculations.⁵ The coefficient of variation measures the magnitude of

⁵GAO, *Using Statistical Sampling*, [GAO/PEMD-10.1.6](#) (Washington, D.C.: Revised May 1992).

dispersion around the mean. In each instance, the coefficient of variation was less than 33 percent, indicating small to moderate variation.⁶

IRS data for tax filers reporting an HSA contribution are not generalizable to all HSA-eligible plan enrollees because the sample is not designed to capture individuals enrolled in a high-deductible health plan who did not have an associated HSA. IRS data depend on tax filing status (e.g., single, married filing jointly, married filing separately) and are not linked to plan size; a tax return reporting an HSA contribution therefore may include contributions to multiple HSAs that may represent single and family policies obtained in the group or individual market. With regard to specific data elements, adjusted gross income data may represent the income earned by other family members who may or may not be covered under the HSA-eligible plan, whereas age da

contributed to HSAs through pretax payroll deductions. We also conducted interviews with industry experts regarding the share of enrollees that opened HSAs. To examine individuals' HSA contributions, we analyzed IRS data on the average 2004 HSA tax deduction claimed by tax filers and reviewed 2005 data provided by the three employers regarding the contributions of employees enrolled in HSA-eligible plans. To examine employer HSA contributions, we analyzed IRS data on the average employer contribution among those who reported any HSA contribution on their 2004 tax return and summarized 2005 data reported by two national employer health benefits surveys⁹ and the three employers. To determine how HSAs are used, we analyzed IRS data on account withdrawals among those who reported HSA contributions made by themselves, others on their behalf, or their employers in 2004. We also obtained information regarding enrollee HSA funding and use through the focus groups with employees of the three employers we reviewed.¹⁰

Enrollee Experiences

To determine enrollees' experiences with HSA-eligible plans, we used focus groups of HSA-eligible plan enrollees to obtain qualitative information on enrollee education, plan comprehension, experience with obtaining care, use of decision-support tools, and plan satisfaction in 2005. We contracted with Hewitt Associates LLC, a human resources consulting firm, to screen and select participants and to moderate these focus groups. For each of the three employers selected, focus groups were conducted with employees enrolled in an HSA-eligible plan or, for comparison purposes, in a traditional plan in 2005. Across the three employers, eight focus groups were conducted, comprising 47 employees enrolled in HSA-eligible plans and 28 employees enrolled in traditional plans.¹¹ Each group consisted of 7 to 12 participants. In screening and selecting focus group participants, we requested that Hewitt Associates LLC attempt to balance the focus groups by demographic characteristics, including age, sex, and

⁹Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2005 Annual Survey*, and Mercer Human Resource Consulting, *National Survey of Employer-Sponsored Health Plans: 2005 Su*

type of coverage (i.e., single or family), and with regard to employee job title or position. In order to ensure that the focus groups could describe the experiences of both users and nonusers

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

John E. Dicken, (202) 512-7119 or dickenj@gao.gov

Acknowledgments

In addition to the contact named above, Randy DiRosa, Assistant Director; N. Rotimi Adebajo; Rashmi Agarwal; Martha R. W. Kelly; Roseanne Price; Pamela N. Roberto; and Patricia Roy made key contributions to this report.

Related GAO Products

Consumer-Directed Health Plans: Small but Growing Enrollment Fueled by Rising Cost of Health Care Coverage. [GAO-06-514](#). Washington, D.C.: April 28, 2006.

Federal Employees Health Benefits Program: First-Year Experience with High-Deductible Health Plans and Health Savings Accounts. [GAO-06-271](#). Washington, D.C.: January 31, 2006.

Federal Employees Health Benefits Program: Early Experience with a Consumer-Directed Health Plan. [GAO-06-143](#). Washington, D.C.: November 21, 2005.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548