

Washington State Barriers to Health Savings Accounts

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Changing state law would make health insurance more affordable for Washingtonians

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Introduction

Health Savings Accounts (HSAs) are a crucial tool for bringing consumerism to health care. An HSA allows an individual or family to put tax-free dollars in a savings account to use for future health care expenditures. Coupled with a high-deductible insurance policy, an HSA encourages individuals and families to consider price and quality when making health care decisions, and discourages over-consumption of health care.

HSAs also compel health care providers to compete for the business of patients. This results in innovation – finding ways to make health care both less expensive and more convenient for the patient.

Today, some 4.5 million Americans receive health coverage through this type of plan. The good news for HSAs keeps rolling in. In December, Congress passed legislation that permits people who have flexible spending accounts (FSAs), health reimbursement arrangements (HRAs), or individual retirement accounts (IRAs) to make a one-time transfer of funds from these accounts into an HSA.

More than a quarter of the people with an HSA were previously uninsured. United Health Group recently released a study that adds to the mounting evidence refuting the shopworn criticism of HSAs as primarily for the “healthy and wealthy.”

Community rating and guarantee issue rules

In Washington, though, HSAs are not as good a deal as they are for people in other states. This is because our state law artificially drives up the cost of HSAs.

Washington currently has both community rating and guaranteed issue laws. A community rating law requires insurance premiums charged by an insurance company to be an average of all premiums (for sick and healthy, young and old, etc.) in a given region. In a system of “pure” community rating, everyone in a region is charged the same price – the average – for health coverage, regardless of risk. A system of “banded” community rating permits insurance companies to charge different premiums based on some factors, such as age, but not others, such as health status.

Washington has slightly different banded community ratings for its group and individual policies. For group policies, health insurance companies may vary the price of a policy for geographic area, family size, age and wellness activity. For individual policies, insurers may vary the price of a policy using all of the previous factors but may also add a “tenure discount” of up to 10% for individuals continuing the policy for two or more years.

A strict guaranteed issue law requires insurance companies to sell any individual a policy at any time – the individual cannot be denied for any reason. In Washington guaranteed issue applies to group policies. For the individual market, a person denied a policy in the private market is guaranteed a policy through the state’s high-risk pool.

State rules create perverse incentives

When put together, community rating and guaranteed issue rules create two perverse incentives. First, they encourage healthy people to avoid buying health insurance, since the

average rate they will pay is higher than what they would pay in an unregulated market.

Second, they encourage people to wait until they get sick to buy insurance. Community rating makes the price less than what a sick person would pay in a unregulated market and guaranteed issue forces insurance companies to sell a sick person, after a waiting period, a policy without taking all the medical risks involved into account. These rules result in higher insurance prices, including higher HSA-based insurance premiums, for everyone.

Health insurance costs more in Washington

To see the effect that these policies have on Washington's market, it is instructive to use the search function at the internet site eHealthInsurance.com. The search function allows a comparison of Pacific County in Washington with Clatsop County, just across the border in Oregon.

For a male age 35, [eHealthInsurance](http://eHealthInsurance.com) shows that in Pacific County there are only seven HSA policies available from just three companies. Indeed, [eHealthInsurance](http://eHealthInsurance.com) shows that no county in Washington has more than nine HSA policies available from more than four companies.

By contrast, in Clatsop County there are 16 HSA policies available from five companies for a male age 35. Not surprisingly, Oregon's health insurance market, though not ideal, is less regulated than Washington's and produces more choice, better prices and improved service for the consumer.

A comparison for a family of four reveals a similar price and choice advantage in Oregon's less-regulated market. A family of four in Washington would have 45 health plans to choose from, while the same family in Oregon would have more than twice as many plans, 105, to choose from.

In Washington, a typical health plan with a low deductible and \$20 co-payment

would cost a family of four, or an employer if offered as a job benefit, \$665 a month. In Oregon, the same plan would cost that family or its employer only \$475 a month.

Conclusion

Washington is taking important steps toward making HSAs more available. Including HSAs among the health insurance options for public employees and those in the high-risk pools are positive steps. However, more can be done. State policymakers should make the following policy changes, which would reduce the number of uninsured by making HSAs more affordable for everyone:

- Repeal community rating and guaranteed issue laws, and reduce the number of benefit mandates;
- Enact a low-cost, low-mandate benefit plan that can go with individual and employer-provided HSAs;
- Introduce HSAs into the state Medicaid system, to provide a permanent, personal and portable health benefit to low-income families;
- Reduce the tax on insurance policies.

By taking these steps – easing regulations, reducing taxes and loosening mandates – state policymakers would more quickly bring consumerism to health care in Washington.

Making HSAs as good a deal in Washington as they are in other states would result in more health coverage choices, fewer uninsured, better quality and lower prices for all Washington residents.

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