NEWS RELEASE

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CENTER ON BUDGET AND POLICY PRIORITIES

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"HEALTH SAVINGS SECURITY ACCOUNTS" PROPOSAL IN HOUSE COULD WEAKEN EMPLOYER-BASED HEALTH COVERAGE

A bill before the House would establish a costly new tax cut that would swell deficits by $163 billion over the next ten years and also weaken the employer-based system through which the vast majority of Americans obtain health coverage, a new Center report finds. The bill would establish tax-advantaged personal savings accounts called Health Savings Security Accounts (HSSAs), which could be used to pay for out-of-pocket medical expenses. Employers could offer these accounts only in conjunction with high-deductible insurance policies: deductibles must be at least $500 for individuals and $1,000 for families.

> The full report, *Health Savings Security Accounts: A Costly Tax Cut That Could Weaken Employer-Based Health Insurance*, is posted to http://www.cbpp.org/6-25-03tax.htm

Congress' Joint Tax Committee reported that under the version of this bill the House Ways and Means Committee approved last week, the majority of employers would alter their health plans by 2013 to conform to HSSA requirements, and 30 million HSSA accounts would be established. The bill coming to the House floor today expands the HSSAs that the Ways and Means Committee approved to cover millions of additional higher-income families and more than doubles the cost of the Ways and Means measure. This suggests even more employers would alter their employer-based health insurance plans.

"This legislation would lead many employers to move away from providing low-deductible comprehensive insurance," noted Edwin Park, a senior health policy analyst at the Center and the report's lead author. "Policies with deductibles of $1,000 or more, higher co-payments for medical services, and coverage for a narrower array of health services could well become the norm for employer-sponsored coverage, with employers expecting their workers to pay uncovered costs out of their tax-favored Health Savings Security Accounts," Park stated.

"Low- and moderate-income workers, who would benefit little from the tax breaks that the new accounts would provide, and older and sicker workers, who could face large increases in out-of-pocket health care costs as a result of the loss of comprehensive insurance, could be sharply affected," he added.

The measure also would worsen the federal budget picture. All $163 billion of its cost, plus $11 billion in additional health insurance-related tax cuts included in the legislation, would be financed by running still larger federal budget deficits. The cost would be even higher over the long run, as is shown by the fact that nearly three-quarters of the $163 billion cost occurs in the second half of the decade. In the second ten years, the measure would cost more than $300 billion.

Approved June 19 by the Ways and Means Committee on a party-line vote and expanded on June 25 by the House Rules Committee, the HSSA bill is being considered by the full House today, June 26. The proposal was unveiled only the night before the Ways and Means Committee voted on it last week and has received almost no public scrutiny despite its cost and far-reaching nature.

How the New Accounts Would Work

HSSAs would be available to taxpayers who are uninsured or are covered by a high-deductible policy and whose income does not exceed the HSSA income limit, which would be set at $170,000 for a couple. People with HSSAs could make tax-deductible contributions to these accounts each year. Earnings in the accounts would grow tax-free, and withdrawals would not be taxed if used for qualified medical expenses. Uninsured individuals could use HSSA funds to purchase health insurance.

Higher Deductibles, Less-Comprehensive Coverage Would Result

Creation of HSSAs would encourage employers to replace traditional health insurance plans with plans that offer fewer benefits and impose higher deductibles and co-payments, and to offer these plans in conjunction with HSSAs. High-deductible, less-comprehensive health plans are less costly for employers than traditional plans are, since more of the costs are shifted to workers. In the context of rising health care costs, employers are likely to move in this direction both because HSSAs could be used only in conjunction with high-deductible policies and because employers likely would justify the shift to these policies on the grounds that employees could defray the added out-of-pocket costs at least in part out of their tax-favored HSSAs.

Low-Income, Older, and Sicker Workers Most Likely to Be Harmed

Enactment of the HSSA legislation is likely to create substantial winners and losers. Younger, healthy individuals (i.e., those with lower health costs) would tend to come out ahead, since they could make tax-deductible contributions to HSSAs and accumulate funds in those accounts. In contrast, older and sicker individuals could incur a substantial increase in their out-of-pocket health costs under the less-comprehensive, high-deductible health plans that many employers would substitute for their current plans, with the increase in such costs often exceeding the tax benefits of HSSAs. In such cases, HSSAs would leave workers worse off.

People with low incomes also would tend to lose out, since their increase in out-of-pocket health costs would likely outweigh any tax break they receive from HSSAs. Individuals who do not earn enough to owe income tax would receive no tax benefit at all from HSSAs. Those who are in the 10 percent or 15 percent tax brackets would receive only a small benefit.

Employers would be free to offer employees a choice between a traditional plan and a high-deductible plan plus an HSSA. If such a choice were offered, though, younger and healthier workers would likely opt out of the traditional plan. That would make the pool of workers in the traditional plan older and sicker, on average, which in turn would raise the employer’s cost of providing the traditional plan and create pressure for the employer to drop that form of coverage.

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