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NEWS RELEASE

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ADMINISTRATION'S HEALTH SAVINGS ACCOUNTS PROPOSALS WOULD CAUSE NET INCREASE IN NUMBER OF UNINSURED

Decline in Employer-Sponsored Coverage Would Offset Gain in Individual Coverage, New Study by Noted Economist Finds

A new analysis by one of the nation's leading health economists finds that the Administration's proposals to expand tax breaks for Health Savings Accounts (HSAs) would cause a net increase in the number of uninsured Americans.

The analysis, conducted by Jonathan Gruber of M.I.T., projects that while 3.8 million previously uninsured people would gain health coverage through HSAs as a result of the President's proposals, 4.4 million people would become uninsured because their employers would respond to the new tax breaks by dropping coverage and they would not secure coverage on their own. The net effect would be to increase the number of uninsured Americans by 600,000.

"The Administration estimates that its HSA-related tax proposals would cost $156 billion over the next ten years, which would worsen the nation's fiscal problems," Robert Greenstein, the Center's executive director, noted. "Professor Gruber's study raises very serious questions about the wisdom of these proposals."

Under current law, individuals who enroll in high-deductible health plans (at least $1,050 for individuals or $2,100 for families) can contribute to a HSA. Contributions to HSAs are tax deductible, earnings on the HSA accounts accumulate tax free, and withdrawals from the accounts are tax free if used for qualified medical expenses.

In its new budget, the Administration proposes substantial additional tax subsidies designed to encourage more people to open HSAs, such as providing a tax credit as well as a deduction for contributions to HSAs, making the premium costs for HSA-related health plans purchased in the individual market tax deductible (and providing a tax credit for them as well), providing a tax credit for low-income households that purchase high-deductible insurance in the individual market in conjunction with an HSA, and increasing the amount that can be deposited in a HSA each year to $5,250 for an individual and $10,500 for a couple or family.

These proposals would eliminate all tax advantages for employer-sponsored coverage (as compared to coverage purchased in the individual health insurance market). Those tax advantages were designed to encourage employers to provide insurance to their workers. As a result, some employers — typically, small business owners — would respond to the new HSA tax breaks by dropping coverage for their workers or (in the case of new businesses) electing not to offer coverage in the first place.

To estimate the impact of these proposals on health coverage, Professor Gruber employed a micro-simulation model that is very similar to models used by the Congressional Budget Office, the Joint Committee on Taxation, and the Treasury Department. His findings include:

- Under the proposed tax breaks, the number of people with individual health coverage would increase by 8.3 million when the proposals were fully in effect. Some 3.8 million of these people would previously have been uninsured; about 4 million of them would have switched from employer-sponsored coverage to individual coverage coupled with an HSA; and 500,000 would previously have received coverage through Medicaid.

- Some 8.9 million people would lose employer-sponsored coverage as a result of the tax breaks. About half of them — 4.4 million people — would become uninsured, while another 4 million would switch to individual coverage coupled with an HSA, and 500,000 would enroll in Medicaid.

Adding to the concerns that Professor Gruber's paper raises, Greenstein said, is the strong probability that the currently uninsured people who would be most likely to gain coverage as a result of the Administration's proposals would be relatively healthy, since they would best be able (with the help of the new tax subsidies) to obtain affordable coverage in the individual market. In contrast, the people most likely to become uninsured would be less-healthy employees in small businesses that dropped coverage, since less-healthy people have the most difficult time obtaining affordable coverage in the individual market.

In addition to his position at M.I.T., Professor Gruber is Director of the Program on Children at the National Bureau of Economic Research, a co-editor of the *Journal of Health Economics,* Associate Editor of the *Journal of Public Economics,* and the recipient of numerous awards for outstanding work in the economics field.

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