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HEALTH SAVINGS ACCOUNTS**
Overview and Background


Health Savings Accounts (HSAs), introduced by Congress in 2003, are portable, tax-sheltered savings accounts linked to high-deductible health insurance plans (HDHPs) and dedicated to covering out-of-pocket medical expenses. HSAs are part of a policy initiative to control health care costs through consumer-driven health care (CDHC). This document provides a brief history of the HSA concept and its growth. Names of key figures and events are identified. The National Center for Policy Analysis and its president, John Goodman, have been instrumental in promoting HSAs and CDHC policy. Additional relevant NCPA publications can be found at its web site http://www.ncpa.org/pub/hea.html


This paper provides a good introduction to HSAs, including information about their development and some concrete examples that illustrate how they function. It discusses their market position as of 2005 and also addresses the possible impact on the employer-based system for providing health insurance. A substantial bibliography of background sources is included. For another overview that addresses practical issues from an employee benefits perspective, see Health savings accounts and other account-based health plans by Paul Fronstin. [Washington, D. C. 20037-1896. Employee Benefit Research Institute (2121 K Street, NW, Suite 600). 2004. 20 pp. (Issue Brief # 273). Available in electronic format at: http://www.ebri.org/pdf/briefspdf/0904ib1.pdf]


Understanding both the philosophical underpinnings and the policy issues relating to HSAs requires some background knowledge about the history and current state of health care as an economic concern. While this complex issue has generated an extensive literature, this comparatively brief essay will suffice to give the neophyte some grounding in the topic.

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RESEARCH, THEORY, AND DEBATE


This article looks at the impact of tax policy on health care spending, and the potential of HSAs and high-deductible insurance plans to ameliorate the cost of health care. Statistics and modeling are used to illustrate the projected savings, and suggestions are made for making the current policy more effective.


Bond, Dobeck and Knapp consider HSAs to be a viable alternative to managed care for containing health care costs. Drawing on their own research, the authors introduce at least one important point into the debate over the impact of HSA/HDHP policy on extremely unhealthy individuals. Unfortunately, their study is not cited specifically, making it difficult to assess the validity of their argument.


Prepared for the Cato Institute, this report examines many of the criticisms that have been leveled at HSAs. Cannon concludes that some of these criticisms have validity, but suggests that the negative effects are due to underlying causes, and are not inherent to HSAs. He proposes that further expansion of HSAs will counteract these negative effects. Michael Cannon publishes extensively on health policy issues for conservative journals and think tanks.


This brief article criticizes the theoretical underpinnings of HSAs, and suggests that inefficiencies, lack of organization, and misdirected financial incentives for health care providers play a significantly greater role in the high cost of health care than any putative effect from moral hazard. Davis suggests that the financial and health impact of consumer-directed health policy on low income families will be significantly detrimental. A broad range of alternative strategies is suggested.


In a study comparing the benefits of HSAs and traditional insurance plans for the individual insurance market, Eastman examines the economic impact of
two different plans at varying levels of expenditure. He concludes that HSAs favor higher income households significantly, and that plans may be configured in ways that are highly detrimental to low income workers with high medical expenses.


Based on data from three national surveys of health care coverage, this study seeks to estimate the probable take-up rate of HSAs under various conditions. Through complex statistical modeling, the authors make tentative predictions of how HSAs might fare in the market under a variety of conditions. Additional research by Feldman, Parente et al. can be found in the August 2004 issue of Health Services Research, discussed below.


Results reported from the first national study of the impact of HSAs on consumers include information about consumer satisfaction, out-of-pocket costs, the impact of HSAs on cost consciousness and on avoidance/delay in seeking health care, and the availability of information to support informed decision making about health care expenditures. Fronstin and Collins also compare health care status and demographics between selectors of high-deductible and low-deductible plans. Many charts and tables are included.


HSAs have been touted as a means of saving money to cover health care expenses in retirement. Fronstin and Salisbury examine the impact of HSAs on funding for post-retirement care and demonstrate that, under prevailing conditions, it is structurally impossible for older workers to accumulate enough money to make a significant contribution toward their future health care needs.


This report raises key issues regarding HSAs as tax policy. Furman criticizes HSAs on four major points: impact on the current insurance system, potential
to reduce health care expenditures, inequitable distribution of benefits, and impact on the present and future Federal budget. Statistics and examples bolster the analysis. Additional reports of interest can be found on the Center on Budget and Policy Priorities Web site (www.cbpp.org).


Proponents of HSAs assert that they have significant potential to reduce the number of uninsured persons in the U. S. This study poses a challenge to that assumption. Glied and Remler's analysis predicts an insignificant take-up rate by uninsured individuals, and warns that HSAs may have a destabilizing effect on the existing small-group market. Additional reports are available from the Commonwealth Fund (http://www.cmwf.org/publications/publications.htm).

This special issue provides 13 articles on CDHC and defined-contribution health plans. A mixture of commentary and research covers theory and philosophy, early experiences of consumers and employers, satisfaction levels, risk segmentation, expenditures, and utilization. Multiple viewpoints are represented, and the research was conducted variously by noted academics and industry associates.


Spiegel reviews HSAs in the context of employer-based health insurance, and looks at both the benefits and the risks. She concludes that HSAs will be detrimental to the common good if expected to provide a solution to the ills of American health care, but that they have benefits that might legitimately be combined with other means of addressing the issue of health care reform.


This six-chapter report from the Congressional Budget Office does not describe original research, but provides a fairly comprehensive critical summary of existing thought on HSAs and CDHPs in regard to their potential to reduce health care spending, and the probability of adverse impacts on health outcomes. Statistics, tables, and a bibliography are provided. The compilers determine that the evidence is too tentative, contradictory, and limited in applicability to support any firm conclusions at this time.