

# High Deductible Health Plans and Health Savings Accounts



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# High Deductible Health Plans (HDHP) with Health Savings Accounts (HSA)

Put your premium savings into an HSA to pay for qualified medical expenses.



**Traditional Plan**  
Low or no deductible, higher monthly premiums



**HDHP**  
High deductible, lower monthly premiums



**Health Savings Account**

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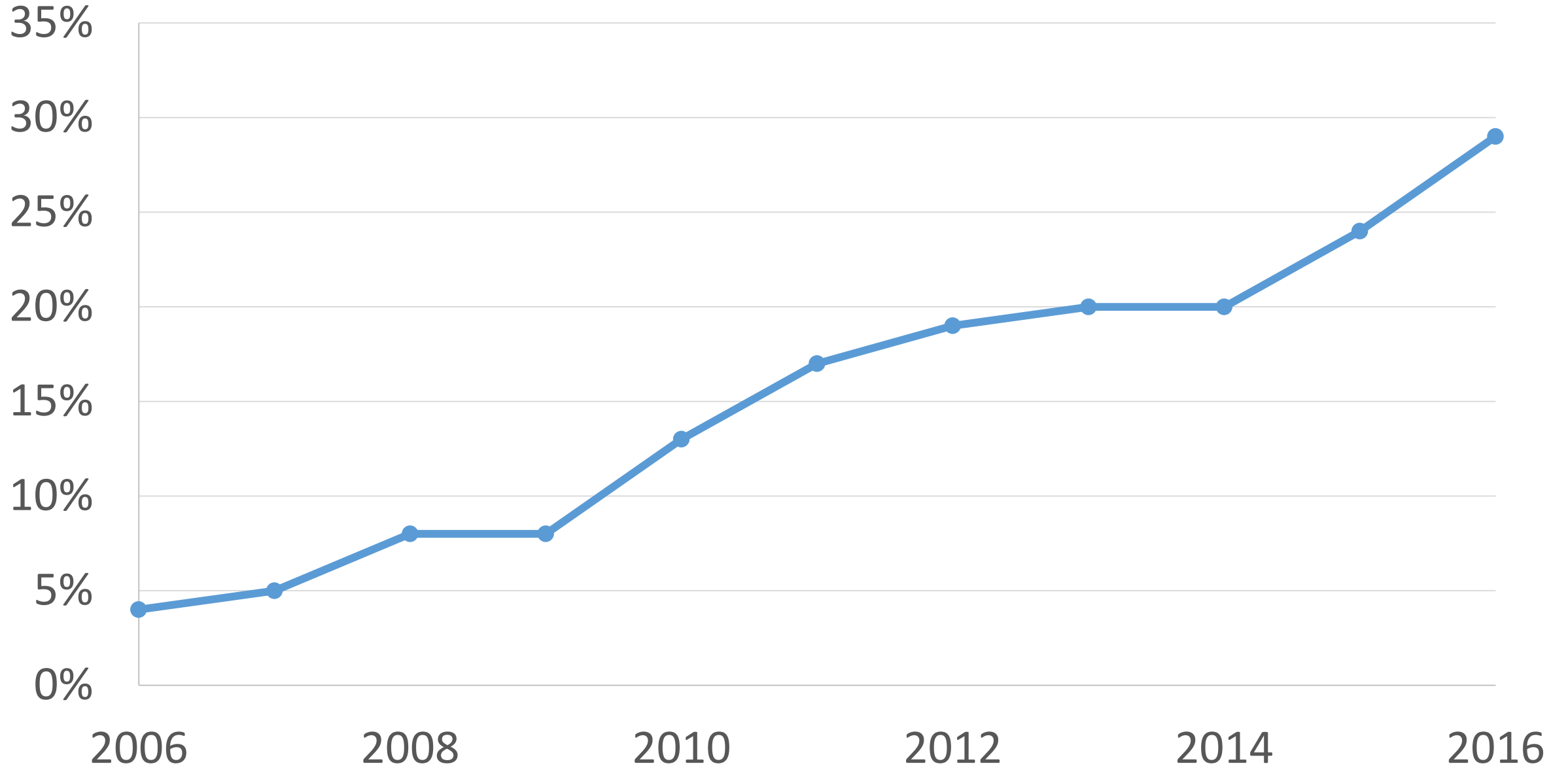
**HDHP**  
High deductible, lower monthly premiums

**Health Savings Account**

## Special Features of HSA Account

- Deposits into it are tax exempt
- Use for medical expenses
- Unused funds roll over indefinitely
- Interest earnings also tax exempt.

# Fraction of Employees Enrolled in HDHPs with Savings Option



Source: Kaiser Family Foundation 2016 Employer Health Benefits Survey

## Potential **Reasons** for Using HDHP + HSA Structure

- 1. Optimal Insurance Levels:** Avoid paying insurer for costs you can cover.
- 2. Reduce health spending:** Incentives to avoid lower-value care.
- 3. Reduce health spending:** Encourage comparison shopping.

## Potential **Concerns** with Using HDHP + HSA Structure

- 1. Financial risk:** Low savings in HSA can leave substantial risk.
- 2. Inefficient risk pooling:** If deductible too high, excess need for saving.
- 3. Chronic disease management:** If people pull back, has societal costs too.
- 4. Under-developed market tools:** Price and option transparency is new.

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Total annual employee Premium:	<b>\$2,640</b>
Out of pocket limit:	<b>\$2,500</b>
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Total spending in "worst case":	<b>\$5,104</b>



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## It's Your Choice HDHP (Family Plan) :

Total annual employee Premium: **\$972**

Out of pocket limit: **\$5,000**

State HSA contribution: **- \$1,500**

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Total spending in "worst case": **\$4,472**

# Do HDHPs + HSAs Increase Financial Risk? **Answer = Not Necessarily**

## **Systematic Review of Employer Plans with HDHP Option**

**(Data from Kaiser Family Foundation Employer Benefits Survey)**

- 2/3 of firms offering both HDHP and Standard Plans have dominant HDHP option
- Employees would save on average of \$500 per year with HDHP Option
- Savings is similar to average HSA contribution by employers

### **Lesson for policy-makers:**

- **How HDHP/HSA affects risk depends on premium savings and HSA contributions**

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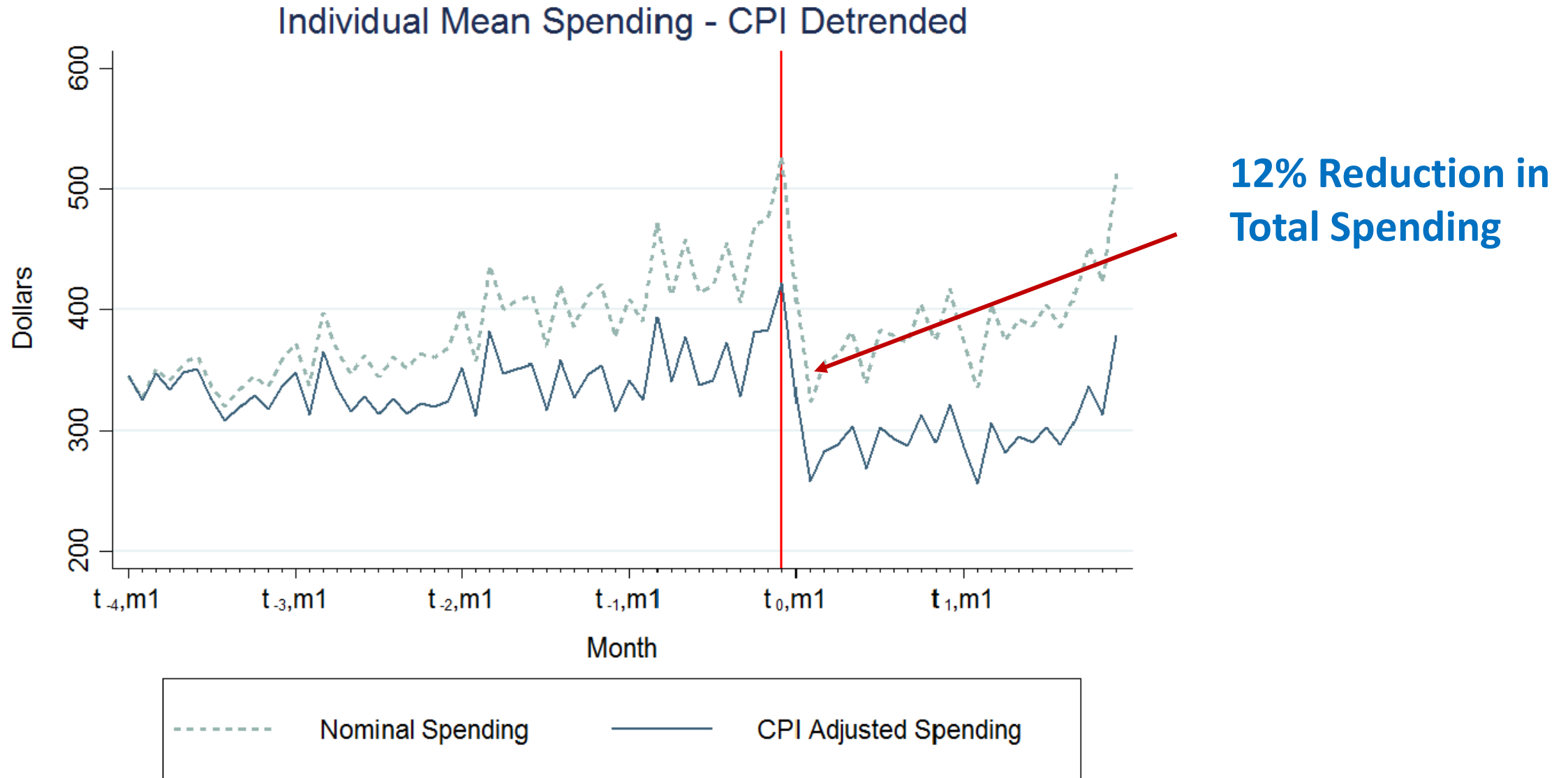
## Original Generous Plan

- Full coverage with no cost sharing

## Switch to HDHP Plan

- \$3,000 deductible
- \$6,000 max out of pocket
- Firm contributes \$3,000 to HSA
- Cutting-edge tool to search for lower medical prices before care

# The Switch to HDHP with HSA Reduced Medical Spending



# But ... How Was Spending Reduced?

## Key Findings:

Source: “What Does a Deductible Do?” Brot-Goldberg et al. forthcoming *Quarterly Journal of Economics*

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- **Instead there was a broad pull back on use of medical care**
  - Reductions in use of preventative care (even though covered)
  - Reductions in chronic care
- **Created inefficient patterns of health care across the year:**
  - Pull back early while under deductible
  - Spend later in year when deductible had been hit

Source: "What Does a Deductible Do?" Brot-Goldberg et al. forthcoming *Quarterly Journal of Economics*

# Survey studies corroborate

## Use of price-shopping tools is quite limited

- Sinaiko et al. *JAMA Internal Medicine*, 2016
- However, can be effective when used: Whaley et al., *JAMA*, 2014.

## Low awareness of preventative services being covered in HDHP

- Reed et al. *Health Affairs*, 2012
  - **50%** wrongly thought preventative services were not covered

# Open questions and challenges for policy-makers

## Issues Highlighted by Existing Research

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## Issues Where We Have Little Existing Research

1. How will increased use of HDHPs affect how insurers and plan administrators negotiate prices with providers?
2. How will increased reliance on HDHPs and HSAs affect medical bankruptcy and uncompensated care?