



Health Savings Accounts (HSAs) are now three years old. It's estimated that more than 3 million Americans have this combination of insurance and savings accounts.¹ This report reviews the accumulation of savings by Golden Rule Insurance Company's MSA/HSA customers over the last 9 years, and whether or not the insureds use the savings to pay the higher deductibles and receive first-dollar care.

The Concept

The idea behind Health Savings Accounts is to provide more affordable health coverage and to empower patients to become health care consumers by giving them more control of their health care dollars. Under federal law, HSAs combine a qualified high deductible health insurance plan with a tax-advantaged savings account.

High deductible coverage usually costs less than traditional low deductible plans or copay plans. Compare the average annual premium for an employer-sponsored family health plan in 2005 of \$10,880² to the average annual premium for a family HSA plan of \$3,132 sold through *ehealthinsurance.com*.³

The savings can then be placed into a tax-advantaged savings account. The account is very much like an Individual Retirement Account – with the significant advantage that dollars may be withdrawn at any time to pay for qualified medical expenses, tax free.⁴

The History

Golden Rule introduced the forerunner to today's Health Savings Account in 1992. The product was called Medical Savings Accounts (MSAs).

In 1996, a tax-advantaged version of MSAs became federal law. This pilot program allowed the self-employed and small groups to: buy high deductible health insurance; build tax-deferred savings; take a tax deduction for that savings; and use the savings tax free for medical care.

¹ Center for Policy and Research. America's Health Insurance Plans. January 2006. *January 2006 Census Shows 3.2 Million People Covered By HSA Plans*.

² Kaiser Family Foundation. *Employer Health Benefits 2005 Annual Survey*. September 2005.

³ *ehealthinsurance.com*. May 10, 2006. *Health Savings Accounts: January 2005 – December 2005*. (More than 60% of the purchasers chose HSA deductibles of \$3,000 or more.)

⁴ The amount that can be saved is governed by federal law. The effect of state law, if any, is not considered in this paper.

Late in 2003, Congress enacted and President Bush signed into law Medicare Prescription Drug legislation which included the creation of Health Savings Accounts. For the first time, anyone can establish a HSA, as long as, they are not eligible for Medicare, maintain a qualified high deductible health plan, are not someone else's dependent for tax purposes, and are not covered by other insurance. In December 2006, legislation was signed into law that improved HSAs – increasing annual deposit maximums and broadening sources for funding the accounts.

The new health plans have grown steadily, over 3 million Americans own an HSA.

The Income Issue

Detractors often complain that HSAs are only for the “healthy and wealthy” – claiming that only higher-income earners would be able to fund any savings. Plus, insureds would forgo routine medical care since they would be forced to pay for it out of savings due to the higher deductible health plan.

About income, studies by *ehealthinsurance.com*, the largest Internet broker of health insurance, have consistently found that “nearly half of HSA plan purchasers have annual incomes of \$50,000 or less.”⁵ The latest information shows U.S. median income at \$44,389.⁶ Clearly, these are middle-income Americans buying HSAs.

The Savings Issue

As for the savings issue and if or how the dollars are used by insureds, the evidence is clear: yes they are saving and yes they are spending on health care.

As of June 30, 2006, Golden Rule's HSA customers have a total of over \$170 million dollars in their accounts. The dollars belong to the insureds, not the insurance company. The money grows tax-deferred, and it's up to the customers to determine how and when to spend the money.

It should be noted that there is a substantial disincentive to spend HSA savings on anything other than health care. As with an IRA, there are penalties for early or nonqualified withdrawals. With a Health Savings Account, non-medical withdrawals, under age 65, are subject to income taxes and a 10% penalty.

We reviewed savings deposits made by Golden Rule's Health Savings Account customers from January 1997 through December 2005. The findings dispute the

⁵ *ehealthinsurance.com*. May 10, 2006. *Health Savings Accounts: January 2005 – December 2005*.

⁶ U.S. Census Bureau. August 30, 2005. *Income Stable, Poverty Rate Increases, Percentage of Americans Without Health Insurance Unchanged*.

claim that people forgo medical treatment and instead opt to leave the savings in the bank.

Golden Rule's customers have consistently saved and each year spent a significant portion of their savings. In 1997, the first year tax-advantaged Medical Savings Accounts were available, Golden Rule's customers placed over \$15.8 million into their MSA/HSA savings. By the end of the first year, they had spent over \$5 million on their health care. At the end of 2005 or 9 years later, this same group of HSA customers had made \$120.3 million in total gross contributions with \$24.1 million remaining in their accounts (see table). In subsequent years, the deposits and year-end balances of new customers, show this pattern continuing. This data clearly dispel the notion that persons with HSAs forgo medical care.

Golden Rule Insurance Company	
MSA/HSA Savings Contributions For Customers Who Opened Accounts in 1997	
MSA/HSA Contributions – 9 year total*	\$120,306,065
Year End Balance as of 12-31-05	\$ 24,116,687
Average Balance as of 12-31-05	\$ 6,287
*Jan. 1997 through Dec. 2005	

Golden Rule Insurance Company		
MSA/HSA Savings Growth in 2005		
	Total Balance	Average Balance
2004 & Prior Accounts – End of 2004	\$117,829,590	\$1,991.00
2004 & Prior Accounts – End of 2005	\$134,751,188	\$2,803.11
Growth in 2005	\$ 16,921,598	\$ 812.11

One HSA Family

A look at one family's use of their HSA makes the point clearly. Bob Brow⁷ (age 44) of Zionsville purchased an MSA/HSA for his wife (age 38) and daughter and son (ages 9 and 8) in 2003. This year the family has a \$5,450 health insurance deductible. They try to save the maximum allowed by law every year.

Brow estimates that he's placed a total of \$15,000 into MSA/HSA savings since 2003. They've used approximately \$4,500 in the last three and a half years on prescription drugs, visits to the doctor and dentist, and \$1,500 in annual tests for his second son.

"HSAs are especially good for families," says Bob Brow. "Putting away savings has been very helpful for us. Especially, since my youngest son must have tests every year at Riley Hospital for his heart and kidney conditions. We've got it covered. I'm planning on saving enough money for braces that we're sure the kids will need."

The Brow's figure they save \$200 every month on their health insurance premiums thanks to the high deductible insurance with their HSA plan. They put the savings right into tax-deductible HSA savings.

"Because our kids are pretty young and go to the doctor a few times a year, we could have gone with a conventional copay plan. It would have cost \$200 more each month. With our HSA plan, we not only save \$2,400 a year in premium (which is almost \$10,000 every 4 years), but our risk for something catastrophic is actually less, because the HSA plan has a family deductible and NOT a per person deductible like the copay plan. Plus you've got coinsurance. When you add it up, we'd have more out-of-pocket with the copay plan if something "big" happened to our family. The HSA just makes a lot more sense."

(Brow is an independent insurance broker. He and his second son (age 6) are NOT on the HSA plan due to their medical history. They participate in Indiana's state risk pool. However, they do use, as federal law allows, HSAs dollars for their son's annual tests.)

Conclusion

Health Savings Accounts work to help families get affordable health coverage, build savings, and get first-dollar health care. Since 1997, Golden Rule's first group of MSA/HSA customers has spent over \$96 million dollars on their health care. This same group had more than \$24 million in savings at the end of 2005. The money belongs to the customers and they decide how and when to best spend those dollars for their health care.

⁷ Mr. Brow is an independent insurance provider authorized to market Golden Rule health insurance products as well as those of other insurers.