How expanding health savings accounts could cure America's sick health care system

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September 21, 2019

Since World War II or even earlier, the US tax code has offered workers the following deal: Either (A) let your employer control thousands of dollars of your earnings, which your employer will use to enroll you in a health plan of your employer's choosing; or (B) take those earnings as taxable cash wages instead, in which case you will lose thousands to additional payroll and income taxes. In effect, those additional taxes penalize anyone who doesn't let their employer control their money and health-insurance decisions.

It's an effective incentive. An estimated 180 million US residents, or 56 percent of the population, surrender control of a total $828 billion of their earnings each year to employers because Uncle Sam otherwise threatens them with $203 billion in higher taxes. Workers with employer-sponsored family coverage surrender an average $14,069 to avoid paying $4,500 or so in additional taxes. Workers with self-only coverage surrender an average $5,711 to avoid paying $1,800 or so in additional taxes.

For 70 years, that tax penalty has fueled the problem of preexisting conditions. Unlike coverage you purchase directly, employer coverage drops you when you leave your job. Data show workers with expensive illnesses were therefore more likely to wind up uninsured if they had employer coverage versus coverage they purchased directly. This tax penalty thus took what otherwise would have been insured medical conditions and turned them into uninsured and uninsurable preexisting conditions.

The Trump administration has taken a small step in the right direction. Starting in 2020, new rules for health reimbursement arrangements (HRAs) will let certain workers avoid that penalty when purchasing portable coverage directly from insurers — whether a costly ObamaCare plan or (in limited cases) affordable, renewable-term health insurance that is exempt from ObamaCare's hidden taxes.

But HRAs don't let workers save that money and take it with them from job to job.

Congress should go further and totally eliminate this tax penalty by expanding health savings accounts (HSAs) — tax-free accounts that consumers own and can take with them from job to job. Congress should apply the tax exclusion that exists for employer premium payments instead to HSA contributions; increase HSA contribution limits so employers and/or workers can contribute, say, $18,000 per year tax-free; let workers use these “large” HSA funds to buy coverage tax-free; and eliminate any requirement that HSA holders carry health insurance.

With these changes, the tax code would no longer force workers into health plans they don’t want. Workers would be free to remain in their employer’s plan; to buy ObamaCare plans; to buy ObamaCare-exempt plans that make coverage more secure for the sick; or just to save their money tax-free for future medical expenses.

If employers want to stay in business, they would have to give that $828 billion back to the workers who earned it, either as tax-free HSA contributions or higher wages. When a tax change leaves workers with more control over their earnings, that’s a tax cut. Workers with family coverage would see their cash compensation rise an average $14,069. The effective tax cut would be 38 percent bigger than Ronald Reagan’s 1981 tax cuts and four times the size of Trump’s 2017 tax cuts.

Congress can deliver this enormous, effective tax cut without increasing the deficit. HSA contribution limits would act as an adjustable cap on what is currently an uncapped tax exclusion.

Economists of all political stripes agree the tax preference for employer coverage is ailing America. Large HSAs are the cure.

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