



# Ten Things I Bet You Don't Know About Health Savings Accounts

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Is Rick Santorum the “Father of Health Savings Accounts”? No, according to the [Washington Post](#), which gave him [two pinocchios](#) for the claim. The appellation belongs to yours truly (along with a few of my colleagues) says the *Post*, which gives a pretty good legislative history of the idea.

There are now more than 30 million people managing some of their own health dollars in spend-it-or-save-it accounts. About half of those are Health Savings Accounts (HSAs) and about half are Health Reimbursement Arrangements (HRAs). These health plans are the fastest growing products in the health insurance marketplace.

So this may be an appropriate time to recount some other [interesting historical facts](#) that I believe most people – even those in health policy — probably don’t know.

## 1. **In the beginning, HSAs received almost no industry support.**

Almost every bill before Congress has support from industry groups who are affected by it. If no special interest is pushing for a bill, it will rarely ever become law. HSAs were an exception. What we originally called Medical Savings Accounts (MSAs) in the 1990s received support from not a single trade association. Not the Chamber of Commerce. Not the NFIB (small business). Not the insurance industry. Not the AMA. Not the hospitals. I could go on.

In most cases, the trade associations not only didn’t support the idea, they were vocally opposed.

There was only one insurance company that supported MSAs and wanted to offer them in the marketplace. That was Golden Rule. Its leader, Pat Rooney, was a tireless advocate.

But for the most part, Congress passed the original MSA pilot program in 1996 – not because special interests were pleading for it, but because a majority thought it was the right thing to do.

**2. In the beginning, HSAs received almost no support from conservative think tanks.**

The America Enterprise Institute weighed in early, with an [attack on the idea](#). The Heritage Foundation remained mum. In fact, Heritage didn't publish a [clear endorsement](#) of the concept until ten years after it was first proposed. The Cato Institute, mainly by promoting my book [Patient Power](#), was about the only think tank that aggressively baked the idea other than my own organization, the National Center for Policy Analysis.

**3. In the beginning, HSAs received no support from academic health economists.**

In the mid-1980s, the Independent Institute published a [multi-authored book](#) on health policy and wanted to include a chapter on Health Savings Accounts. Yet after an extensive nationwide search, the think tank found only one academic health economist in the entire country who would endorse the idea.

**4. HSAs were originally a bipartisan idea.**

The lead sponsors of the bill that passed in the House in 2006 were Bill Archer, the Republican Chairman of the Ways and Means Committee, and Andy Jacobs, a Democrat from Indianapolis. The bill was often referred to as the Archer/Jacobs bill. A Senate version of the bill included such Democrats as Tom Daschle, David Boren and John Breaux. It was only through time that the idea became associated exclusively with Republicans – perhaps because so many Republicans enthusiastically climbed on board, while most Democrats remained skeptical.

**5. One of the earliest adopters of an HSA-type plan was a labor union.**

In the early 1990s, the [United Mineworkers](#) were negotiating with the employers over their multiple-employer health plan. At the time they had first dollar coverage. The mine owners made an offer: If you will accept a \$1,000 deductible, we will write every worker a check for \$1,000 every year. The union agreed.

**6. HSAs are one of the earliest examples of behavioral economics applied in the workplace.**

The earliest policies sold by Golden Rule, including the company's health plan for its own employees, were not tax advantaged. Deposits to the accounts were made with after-tax dollars. That put them on a level playing field with wages. That in turn meant that the employer wasn't doing anything the employees could not have easily done on their own, with no employer involvement.

The employer made after-tax monthly deposits to a savings account, used by the employee to pay medical bills not covered by third party insurance. At the end of the year the employee got to withdraw any remaining funds. But, the employer could instead have increased the employee's

monthly wage and let the employee do her own saving. In fact, textbook economics would suggest that the latter alternative should be preferred by employees because if they manage their own accounts there are fewer restrictions on their access to the cash.

Yet the employees did not push to have the deposits converted into wages. This is one of the early examples of the willingness of employees to be “nudged.”

**7. The companies that have profited the most from HSAs have contributed almost nothing to their legislative creation, their public promotion and their political defense.**

A good idea is a public good. Once it's in the public domain, everyone is free to copy it – even if they contributed nothing to its production. Ideas like HSAs originate in non-profit think tanks, which require voluntary contributions for their survival. People and companies that take advantage of the idea but contribute nothing to its origin, promotion and defense are therefore “free riders.”

One of the truly eye-opening discoveries for me was the realization of how many people there are in the business world who are willing to free ride.

In the early 1990s, every major insurance company was committed to managed care and was an opponent of “consumer driven health care.” Not only were they not contributing to the HSA effort, they were making our job harder. But by the end of the decade every one of them had flipped. Today they are all selling HSA plans and making millions of dollars doing so. You would think that these companies would make some contribution just out of atonement for past sins. Yet with the exception of WellPoint, they contributed almost nothing.

The early exception was Golden Rule. Up until the passage of HSA legislation in 2003, Golden Rule's annual contribution to the NCPA averaged about \$100,000 in today's dollars. Pat Rooney was a member of our Board of Directors. He and I spent many, many hours working together to make HSAs a reality. After HSA legislation passed in 2003, the value of Golden Rule soared and Pat ultimately sold it to UnitedHealthcare for a great deal of money. Beginning in 2004, and as the company was becoming increasingly profitable, however, they cut their contribution to the NCPA by two-thirds and began paying quarterly – without any future guarantees. I sent the second check back with a note that said “you apparently need this more than I do.”

Pat remained a dear friend of mine until his death and he deserves enormous credit for what he did for the health care system and the country. He was definitely not a free rider. But we had no more financial relationship after that.

We never had much luck with employers either. Whole Foods CEO John Mackey says he designed the company health plan based on my book *Patient Power*. But Whole Foods never made a contribution to the NCPA.

**8. The HSA that works best with the Obamacare tax credits is a Roth HSA.**

Twenty years ago, [Mark Pauly and I](#) published a piece in *Health Affairs* in which we described the ideal way for government to subsidize health insurance. We proposed a fixed sum, refundable tax credit – much like the credit available in the Obamacare exchanges, except that our credit was independent of income (everyone gets the same amount). Beyond the credit amount, any additional premium payment must be made with after-tax dollars. The savings account we proposed to pair with that was what we would today call a Roth account: after-tax deposits and tax free withdrawals.

Since any additional premium payment and any additional deposit to the savings account would be made with after tax dollars, that puts third-party insurance and individual self-insurance on a level playing field. The choice of how much of one type of insurance vs how much of the other can then be made based on personal preference and competition in the marketplace rather than on the basis of tax law.

#### **9. The HSA Design that economists like is the one everyone else hates.**

I once tried to persuade Sen. Roth to propose Roth HSA legislation. He hesitated and for a long time, and I was convinced that had he followed my advice he would not have lost his last Senate election. Today I'm not so sure.

Almost everything the government does in health care creates distortions which create perverse incentives. Mark Pauly and I set out to eliminate those distortions. Since money withdrawn from a Roth account for non-health purposes is tax free, health and non-health goods and services trade on a level playing field. With today's HSA, withdrawals are taxed at ordinary income tax rates plus a 20% penalty. So if the account holder is in the 25% tax bracket, a dollar spent on health is trading against 65 cents for other goods and services. It makes sense to spend a dollar on health care even if it's worth only 66 cents. With our account, however, people won't spend a dollar on health care unless it's worth at least a dollar.

Since the Roth account grows tax free, current health trades on a level playing field against future health. And since future withdrawals are also tax free, current health and non-health trades against future health and future non-health on a level playing field. To an economist, it doesn't get any better than this.

Yet I believe this will never pass muster on Capitol Hill. "You mean people can take the money and go buy a boat?" I am asked. Sometimes they don't even wait around for the answer.

#### **10. President Obama could create 35 million more spend-it-or-save-it accounts by executive order.**

Flexible Spending Accounts are use-it-or-lose-it accounts. That's why people scurry around spending whatever is left in the account at year end – often in wasteful ways. Most people probably assume the use-it-or-lose-it feature is there because of an act of Congress. Not so. This is a Treasury Department ruling. And rules that Treasury imposes can be un-imposed. (See [my explanation](#) of all the accounts at *Health Affairs*.)

The Obama administration has decided that people can [roll over up to \\$500](#) of unspent funds. But that is way too timid. If people were allowed to roll over whatever is left in the account, we would have 35 million additional people with a full-fledged use-it-or-save-it account.