

HEALTH SAVINGS ACCOUNTS OFF TO A FAST START IN THE INDIVIDUAL MARKET

Preliminary data from AHIP members show 438,000 people covered by September 2004

By Teresa Chovan and Hannah Yoo¹

Health Savings Accounts (HSAs) are designed to give consumers financial incentives and information to choose their health care providers and manage their own health expenses. HSAs were created in December 2003 as part of the Medicare Modernization Act of 2003, and regulatory guidance was released by the Internal Revenue Service mid-year 2004. Modeled after Archer Medical Savings Accounts (MSAs), individuals' HSAs must be coupled with a High Deductible Health Plan (HDHP) to cover current and future health care costs.

AHIP has embarked on an ongoing project to monitor and report on the emerging HSA/HDHP health insurance market through a series of member surveys. This report contains data from the first two surveys conducted in June and September 2004, containing data from 29 companies. The next survey will be conducted in March of 2005.

Market Overview

According to responding companies, HSA/HDHP products covered 438,000 people by the third quarter of 2004. By comparison, the initial take up for MSAs was roughly 40,000 by 1997, 60,000 by 1998 and 90,000 in 1999.²

Table 1. HSA/HDHP Sales as of 3rd Quarter 2004	
	Total Covered Lives
Individual Market	346,000
Small Group Market	79,000
Large Group Market	13,000
Total	438,000

The individual market appears to have adopted HSA/HDHP coverage more rapidly than either the small group or large group markets. As of September 2004, AHIP member companies had 346,000 covered lives in the individual market. In the small-group market, 79,000 people were covered by

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² Internal Revenue Service, Individual Master File System. Data reported are for "tax units" as counted by the IRS, which may include more than one individual.

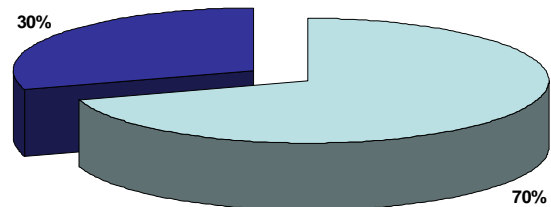
HSAs/HDHPs, and in the large-group market, the number of covered persons was about 13,000. Table 1 shows the total number of covered lives as reported in the survey.

In general, preliminary data suggest that HSA/HDHP coverage is not limited to a single age or gender. Consumers over age 40 represent nearly half of the market.

Individual Market

Responding companies reported a total of 346,000 people covered by individually purchased HSA/HDHPs in September 2004. A subgroup of companies reported the percentage of policies that were sold to previously uninsured people, compared to those that were replacement policies. For those providing this data³, the survey showed that 30% of policies were purchased by individuals who previously did not have coverage. (Figure 1)

Figure 1. 30% of HSA/HDHP policies sold in the individual market were purchased by persons previously uninsured.

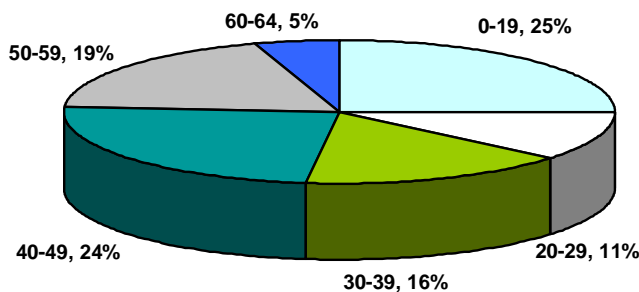


AHIP. Data as of 3rd Q 2004, weighted by covered lives

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The age distribution of people covered by HSA/HDHPs in the individual market appears to be evenly allocated among major age groups: 25% of covered people are younger than 20 years of age, 27% are between ages 20 and 39, 24% are between ages 40 and 49 years, and 24% are between ages 50 and 64. (Figure 2) Fifty-one percent of people covered were male; 49% were female.

Figure 2. Age Distribution of Covered Lives Individual Market for HSA/HDHP Products



AHIP. Data as of 3rd Q 2004, weighted by covered lives

AHIP asked companies to report sales figures for all HSA products, and also for their best selling HSA product. In the individual market, 58% of policies sold were for the companies' most popular product.

³ Companies responding to this question reported HSA/HDHP enrollment of 132,000 in the individual market.

Table 2 provides information on deductibles, out-of-pocket limits and maximum lifetime benefits for the individual market.

Table 2. Description of HSA/HDHP Policies Individual Market – Best Selling Product		
	Single	Family
Average Annual Deductible	\$2,856	\$5,425
Average Annual Out-Of-Pocket Limit	\$3,068	\$5,781
Average Lifetime Maximum Benefit	\$3.8 Million	\$3.8 Million

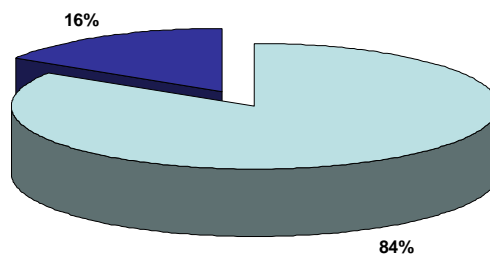
Premiums for best selling policies in the individual market, by age group, are provided in Table 3.

Table 3. Average Premiums of HSA/HDHP Policies, by Age Group Individual Market – Best Selling Product				
	Age 0-19	Age 20-29	Age 30-54	Age 55-64
Average Annual Premium, Single Policy	\$1,013	\$978	\$1,902	\$3,440
Average Annual Premium, Family Policy	\$1,310	\$1,515	\$2,641	\$4,581

Employer Market: Small Group Policies

The small group insurance market was defined as serving firms with up to 50 employees. AHIP members selling HSA/HDHP products reported enrollment of 79,000 people in the small group market as of September 2004. Sixteen percent of small group policies (1,900) were sold to employers that previously offered no health care coverage to their workforce prior to the HSA/HDHP policy, and these “new” policies covered 22,000 employees. (Figure 3)

Figure 3. 16% of Small Group HSA/HDHP policies were sold to employers that previously offered no health care coverage.



America's Health Insurance Plans
Data as of 3rd Q 2004

The age distribution for covered lives in the small group market is similar to that seen in the individual market. In the small group market 47% of individuals covered by an HSA/HDHP are age 40 or older; 52% are male and 48% are female.

Average deductibles for the best-selling HSA/HDHPs in the small group market were lower than those in the individual market, as were the average annual out-of-pocket limits. The average lifetime maximum benefit for small group policies was in the \$4 million range.

Data regarding deductibles, out-of-pocket limits and lifetime maximum benefits for the small group market, as well as average annual premiums, are provided in Table 4.

Table 4. Description of HSA/HDHP Policies Small Group Market – Best Selling Product		
	Single	Family
Average Annual Deductible	\$1,850	\$4,007
Average Annual Out-of-Pocket Limit	\$2,207	\$4,793
Average Lifetime Maximum Benefit	\$4.1 Million	\$4.4 Million
Average Annual Premium	\$2,224	\$5,496

Employer Market: Large Group Policies

Data reported on the large group market – defined as having more than 50 employees - were quite limited and do not allow for extensive reporting. Even though 54% of responding companies currently selling HSA/HDHP coverage were in the large group market as of September 2004, only a few were able to provide data. According to the survey, large group policies cover approximately 13,000 people. The lack of data on policies in the large group market may be attributed to the fact that HSAs were created in December 2003 – too late to be incorporated in most companies’ open enrollment policies for employees’ coverage in 2004.

Table 5 provides the average annual deductibles, out-of-pocket limits, and lifetime maximum benefits for single and family policies in the large group market.

Table 5. Description of HSA/HDHP Policies Large Group Market – Best Selling Product		
	Single	Family
Average Annual Deductible	\$1,607	\$3,000
Average Annual Out-of-Pocket Limit	\$2,550	\$4,736
Average Lifetime Maximum Benefit	\$3.2 million	\$4.8 million

Many large employers may currently offer Health Reimbursement Arrangements (HRA) plans, which have features similar to HSAs and have been available since 2002. This survey focused on the HSA product only and does not take into account HRA enrollment.

Looking Ahead

Many companies responding to the survey stated they intend to offer HSA/HDHP coverage in the individual and employer markets in 2005. As the market matures over the next six to twelve months and more insurers and health plans introduce HSA products, additional data will become available through AHIP's Center for Policy and Research, www.ahipresearch.org.

For further information on HSAs visit www.HSADecisions.org, AHIP's new clearinghouse of information for consumers and small businesses, cosponsored by the U.S. Small Business Association.



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