

# **A Market Update on Health Savings Account-eligible Health Insurance**

## **Testimony of Mr. Gary Lauer**

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#### **To the U.S. House of Representatives Committee on Ways and Means**

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#### **Introduction**

Chairman Thomas and Congressman Rangel, thank you for the opportunity to testify today and let me thank you both, and the Members of this Committee, for your interest in, and work on behalf of, the nation's small businesses and uninsured. I am present today to tell you about the experience of eHealthInsurance with Health Savings Account-eligible health insurance plans and to provide information to help you address enhancements which may assist more individuals, families, and small businesses in taking advantage of these new plans.

If I may, I'd like to take just a moment to tell you my background and the reasons I saw such great opportunities at the intersection of the Internet and health insurance. I come from a long background in technology. I spent many years with IBM, Silicon Graphics, and Meta Creations before becoming CEO of eHealth almost seven years ago at the company's beginning. I have seen advanced technologies bring new efficiencies to old industries, and provide expanded access to new products and services for consumers who may have been excluded from markets in the past.

At eHealthInsurance's inception, we saw the opportunity to use the Internet to reach people who previously may not have known where to go to get health insurance, or who assumed health insurance was just too expensive. I became passionate about the chance to be part of the solution for one of the most debated issues confronting our great nation today. Just as I've come to believe that eHealthInsurance can be part of the solution by helping consumers find the right health insurance, I also believe that Health Savings Accounts can be a viable solution for many small businesses and families who are looking for a simple and affordable health insurance option. HSAs allow these small businesses and families to take more control over how and where their health care dollars are spent.

## **Helping Real People in Need**

eHealthInsurance is the leading online source of health insurance for individuals, families, and small businesses. We are licensed to market and sell health insurance in all 50 states and the District of Columbia. Given our unique experience marketing various types of health insurance across the nation, we have been invited here to share our experience with HSA-eligible health insurance plans. As a company, we have invested significant time and resources in building a scalable, proprietary e-commerce platform, and we have developed partnerships with over 140 of the nation's leading health insurance carriers, enabling us to offer more than 5,000 health insurance products online. Our e-commerce platform can be accessed directly through our Web site addresses at [www.eHealth.com](http://www.eHealth.com) and [www.ehealthinsurance.com](http://www.ehealthinsurance.com), as well as through our broad network of partners. We organize and present voluminous and complex health insurance information in a user-friendly and understandable format, enabling individuals, families, and small businesses to research, analyze, compare, and purchase health insurance products that best meet their needs.

Forty percent of the people who purchase plans through eHealthInsurance state on their application that they have been uninsured for a significant period of time. A number of people approach eHealthInsurance with the misperception that health insurance is prohibitively expensive, but when they see the range of options, starting with some very low prices, many of them find they can afford health insurance.

After using our Web site to find and compare various HSA plans, many of our customers have become champions of this innovative solution.

### **Here are some of their actual stories:**

1. **Greg Heloski**, 37-year old construction worker from Philadelphia, knew he was throwing the dice for more than four years when he didn't have health insurance. He was concerned something "major" would happen but thought the high cost of health insurance outweighed the benefits. Greg has seen accidents on the job and even on the neighborhood basketball court where he plays regularly. Greg was surprised to find an HSA-eligible plan for \$120 a month with a \$2,600 deductible. Greg has put enough money away to cover his deductible. So far, he hasn't needed his HSA funds, but he's comforted knowing they are readily available should he need to cover any qualified expenses before his deductible is met.

2. **Mark and Noreen Eccleston** from Greenwood, Ark. bought their own health insurance ever since Mark left his job to start his own business, some 20 years ago. They found a low-cost plan through an association for the self-employed. Over the years, the Ecclestons saw their premiums rise from \$250 per month to \$1,000 per month.

Now in their 60s and sick of the spiraling costs, they went to eHealthInsurance.com to shop for individual policies. They chose an HSA-eligible plan with a \$2,500 deductible for about \$330 a month and are making tax-favored contributions to their Health Savings Account to pay for out-of-pocket expenses. Because they've had few medical expenses since buying the policy, they've been able to save money they can use over the next few years, even after they qualify for Medicare.

3. **Bill Lomel**, who owns a roofing company in Atlanta, Ga., was an early convert to HSAs. "I was just so discouraged about the cost of health insurance," he told Kiplinger's. He was already struggling to pay \$750 a month for insurance for himself and his three children when he got a notice that the cost of the group policy for his employees was going to soar. "I thought, 'There's no way I can charge enough for anything in my business to cover that expense. I want to offer good competitive benefits to my employees, but I can't.'"

Now he knows that he can. Bill started by searching eHealthInsurance.com for his options for his family. He selected an HSA-eligible plan, and is currently paying \$250 per month for himself, his wife and three children. The deductible is \$5,000 per year, but Bill is saving at least \$6,000 a year in premiums from his previous health insurance. In more than two years of fully funding his HSA, Bill has saved about \$8,000 in his Health Savings Account. He uses the HSA to pay for some extra out-of-pocket expenses, but since his family has been healthy, he is mostly using it to save for future healthcare expenses.

Bill was so impressed with his HSA experience that he offered an HSA-eligible insurance plan as an option to his employees alongside a "traditional" health insurance plan. For the majority who selected the HSA-eligible insurance plan, he gave them the money saved on the premiums plus some additional money to help fund their HSAs to use for out-of-pocket costs, or savings for the long term.

4. **Roman Botcharnikov** of Maryville, Tenn., is the business director for his family-owned hair salon. Roman was concerned about the rising cost of healthcare and when he kept receiving increases to his family health plan, he decided to shop around. Roman's prior health insurance that he had more than two years ago covering himself, his wife and his teenage son, was \$485 a month, totaling \$5,820 per year.

Roman went on eHealthInsurance.com in early 2004, learned about HSAs and purchased a health insurance plan. Today he pays \$305.23 a month, or \$3,662.76 a year, to cover his family with a \$3,600 deductible plan. He contributes the maximum amount to his HSA bank account. Roman remains a staunch HSA supporter, appreciative of his health plan's simplicity and opportunity for savings. "I go to the dentist and I just write him a check from the HSA account, and I don't have to mess with the insurance," he said. Last year, Roman was especially grateful to have his HSA when his wife needed surgery. While it required them to use money from the HSA to pay the deductible, after that their health insurance paid 100% of the bills, saving thousands of dollars.

Roman has advocated switching his employees to HSA plans, but admits it's been a tough sell gaining support for change in something as complex as health insurance. In particular, Roman said his employees in lower-income brackets don't yet see an advantage in switching to HSAs.

### **Real Data about Real People Purchasing HSA-Eligible Health Insurance**

eHealthInsurance serves individuals, families, and small businesses as they search for quality, affordable health insurance solutions. Our strategy and business model has always been to present products in an unbiased, objective way. Our goal is to help people find a health insurance product which best meets their needs. Because of this, we have had a keen interest, for many years, in the development of public policy and legislation related to health insurance, and the plight of the uninsured in America.

Several years ago we found that policymakers and influencers seeking to help uninsured individuals, families and small businesses have a real need for accurate information about the cost and benefits of health insurance offered and purchased in the market. Consequently, we survey our national

member base on a semi-annual and annual basis to ascertain what people are really spending for health insurance, and what benefits they really get.

When HSAs were first introduced and the market was responding with new products following HSA guidelines, we knew it would be beneficial to those same policymakers and influencers to have information available on the adoption of HSA-eligible plans. Therefore, we have produced semi-annual and annual reports on the characteristics of those individuals and families across the U.S. purchasing HSA-eligible plans from eHealthInsurance since they were first introduced to the market.

This leads me to new information I would like to share with the Committee today. In May 2006, eHealthInsurance released its most recent report providing a snapshot of the HSA market, defined as HSA-eligible plans sold by eHealthInsurance to individuals and families from January 1 through December 31, 2005. This report was created:

- To identify and compare key demographics of HSA-eligible health insurance plans;
- To present and compare the monthly premiums for HSA-eligible health insurance plans;
- To outline the health insurance benefit levels included in the HSA-eligible plans purchased by consumers from January 1, through December 31, 2005; and
- To compare the latest figures to those provided previously, highlighting key changes in 2005.

The report is based on a sample of more than 12,000 HSA-eligible plans purchased between January 1 and December 31, 2005 through eHealthInsurance.com by individuals and families across the United States. In our report, an HSA-eligible health insurance plan is defined as those health insurance plans designated by health insurance companies to be in concurrence with the U.S. Department of the Treasury's HSA guidelines. In 2005, these included:

- Deductibles of a minimum of \$1,000 for individuals and \$2,000 for families; and
- Out of pocket limits of \$5,100 for individuals and \$10,200 for families per year.

Premium data included in the report is based on actual premiums paid by the individuals and families who purchased plans through eHealthInsurance.

The premiums shown in this report are not quoted premiums, but represent what real people paid in real premiums.

This report does not address consumers' participation in the Health Savings Account banking portion of the HSA solution, although my company is presently working on compiling survey results on our customers' HSA banking activities. We will, of course, make that information available as soon as it is ready.

### **HSA-Eligible Plans in 2005**

#### Characteristics of HSA-Eligible Plan Purchasers

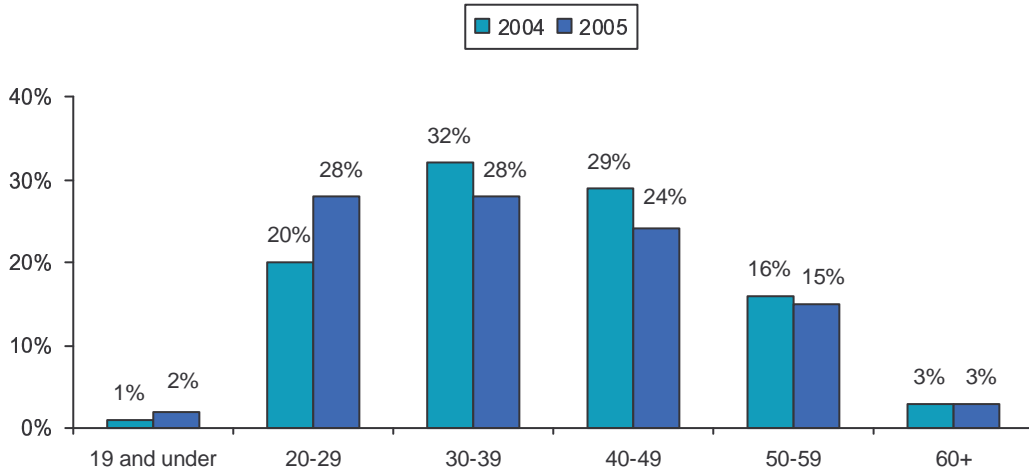
I am encouraged and somewhat surprised by the growing acceptance of HSAs in the market across many age and income brackets. When HSAs were first introduced in January 2004, many believed these products would be for the young and the wealthy. The results of our most recent study show HSAs have a much wider appeal.

#### **Across 2005:**

- 42% of purchasers are at least 40-years-old
- 45% of purchasers have household incomes of \$50,000 or less
- 25% of purchasers have household incomes of \$35,000 or less
- Overall, 41% of purchasers were uninsured previous to buying their HSA plan. Note, the lower the income level, the higher the rate of being previously uninsured.
- Nationally, individual purchasers paid \$114 monthly in 2005 for an HSA plan, and a family paid \$261. I'd also like to note that premiums paid in 2005 were less than premiums paid in 2004.

I realize that HSAs may not be for everyone. For those in the lowest income brackets these products may not be the solution without some kind of subsidy, but certainly these data indicate that HSA products can serve the needs of a broad segment of the American population.

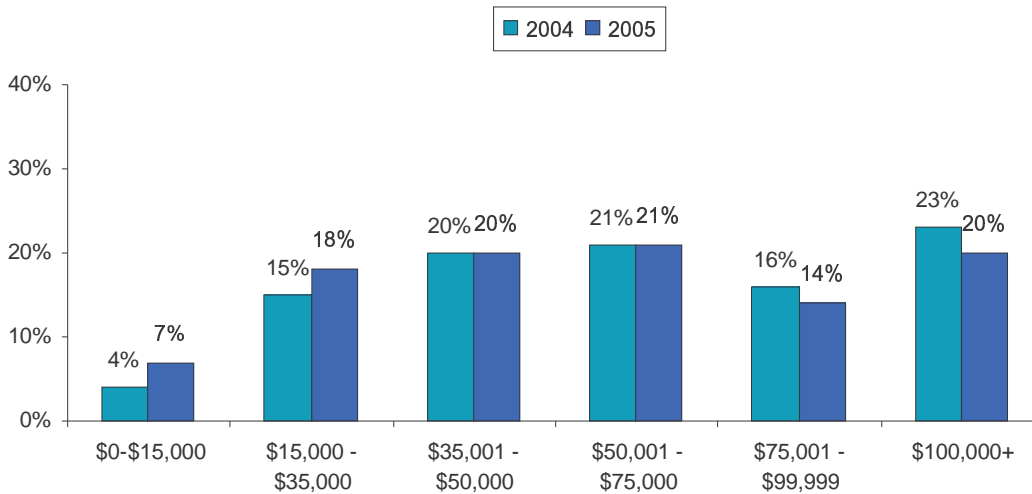
### Age Distribution of HSA-Eligible Plan Purchasers



Forty-two percent of HSA-eligible plan purchasers in 2005 were age 40 or older.

HSA plan purchases have been growing most rapidly among the 20-29 year-old age group.

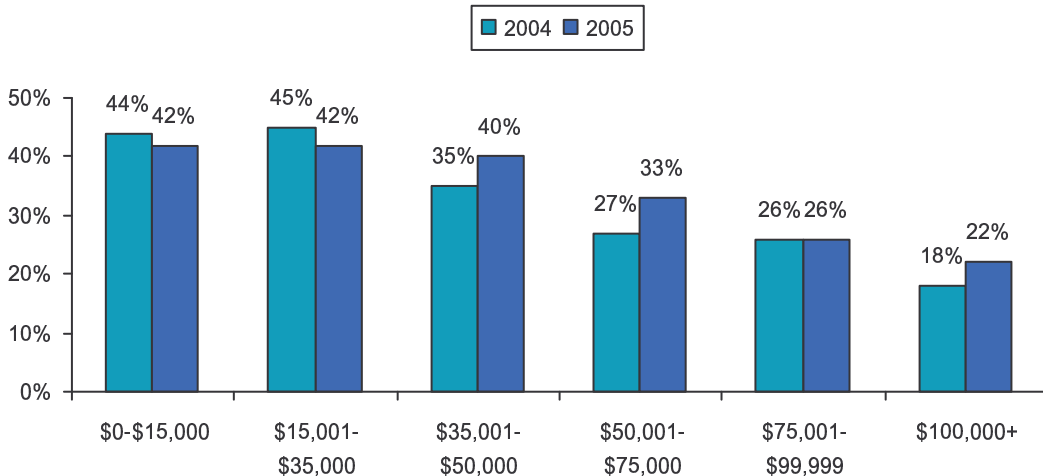
### Annual Income Level of HSA-Eligible Plan Purchasers



Forty-five percent of HSA-eligible plan purchasers earn \$50,000 or less annually.

In 2005, 25% of HSA plan purchasers earned \$35,000 or less compared to 19% in 2004.

### Percent of Previously Uninsured HSA-Eligible Plan Purchasers By Income Category



Overall, 41% of 2005 HSA-eligible plan purchasers did not have prior health insurance.

The \$35,001 - \$75,000 income brackets showed the largest increase in previously uninsured HSA plan buyers.

## HSA-Eligible Plan Costs and Benefits

Key findings on pricing also indicate some encouraging news. Individuals paid 17% less for their HSA coverage in 2005 than consumers buying plans in 2004. These savings were achieved because more plans were introduced into the market, which provided individuals and families more choices and lower premium rates. In 2005, many consumers chose higher deductibles which resulted in lower monthly premiums.

### Average Monthly Premiums for HSA-Eligible Plans

	Average 2004 Premium	Average 2005 Premium	% Change in Premium
Plans covering Individuals	\$138	\$114	-17%
Plans covering families	\$277	\$261	-6%

The plans consumers purchased in 2005 continue to provide comprehensive benefits once the deductible is met. More than two-thirds of HSA plans cover regular office visits, and three-fourths cover OB/GYN office visits at 100% after the annual deductible is met. Nearly 80% of plans provide prescription drug benefits, and over 70% of plans cover benefits at 100% once the annual deductible is met.

### Benefits Typically Included in HSA-Eligible Plans

Benefit	0% Co-Insurance	20% Co-Insurance	30% Co-Insurance	50% Co-Insurance	No Coverage	Other
Office Visits	69%	16%	3%	-	12%	-
Prescription Drug Benefits	71%	5%	3%	1%	17%	3%
Hospitalization, Lab and X-Ray Services	79%	18%	3%	-	-	-
OB/GYN Visits	79%	18%	3%	-	-	-
Emergency Room Service	79%	18%	3%	-	-	-



## **Recommendations**

Seven out of ten uninsured Americans cite affordability as the main reason they are uninsured. (Source: Harvard School of Public Health, May 2004) Any action that makes health insurance more affordable, we believe, will result in more uninsured people finding coverage. I believe our data supports this.

My ideas today are focused on the affordability issue:

1. Employers are allowed to deduct the cost of health insurance from their taxes, yet individuals who purchase their own health insurance cannot. I suggest equal tax treatment of health insurance premiums for everyone. All individuals and families should be able to deduct the cost of health insurance from their taxes, just like business can. This would make health insurance more affordable for individuals and families who must purchase health insurance on their own. It seems only fair that people who need the health insurance the most have the same tax treatment as employers.
2. Provide tax credits to low-income people who buy their own health insurance but don't earn enough to make the deduction a viable option. This refundable credit should be provided regardless of the type of health insurance they buy. The point is to get these families covered.
3. Finally, 56.8% of small businesses don't offer any health insurance coverage to their employees. (Source: Kaiser Family Foundation, 2003) They may be willing to make a contribution to their employees' health coverage, but many small businesses simply don't want the hassle of offering employee benefits or they find it is too expensive to offer. Many small businesses simply avoid employee benefits because they fear they will be exposed to double-digit premium increases in the future.

Today, both employers and employees can contribute to an HSA tax free, but the savings in the HSA cannot be used to pay for individual health insurance premiums. Allowing employees to use this money to pay for health insurance they buy would encourage more small businesses to provide simple, affordable, and predictable funding to their employees, who would then have the opportunity to use their savings account to pay for their health insurance premiums.

It's a simple and affordable solution for small businesses to get in the game of helping to fund health care for their employees. And it assists employees by providing an additional funding mechanism for their health insurance premiums. It is my understanding that this solution is essentially tax revenue neutral.

## **Conclusion**

The debate over how to provide cost effective health care for all Americans continues. I don't see a universal solution to the problem. While HSAs may not meet the needs of every American, they appear to have broad appeal to a fairly large segment of the American population. HSAs more and more appear to be a viable solution for many people and businesses looking to have affordable access to care, while insuring themselves against catastrophic financial loss.