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## Most Households' Medical Expenses Exceed HSA Deductibles

By Linda Blumberg and  
Leonard E. Burman

The 2003 Medicare prescription drug bill created Health Savings Accounts (HSAs), tax-free savings accounts for people who are covered by a "high-deductible health insurance plan," either purchased directly or on their behalf by an employer. The qualifying health insurance plan must have a deductible of at least \$1,000 for single coverage and \$2,000 for family coverage. Some preventative care may be covered by insurance, but all elective procedures and medicine is subject to the deductibles. Contributions to HSAs up to the deductibles are excluded from income and payroll tax if made by an employer, and deductible from income tax if made by the individual. The maximum contributions in 2004 are \$2,600 for single coverage and \$5,150 for families, and are indexed for inflation. Taxpayers between 55 and 65 can contribute an additional \$500 in 2004 (phasing up to \$1,000 in 2009 and later). Withdrawals are tax-free if used to pay for qualifying medical expenses. Other withdrawals are subject to income tax, plus a 10 percent penalty tax if taken before age 65, death, or disability.

The idea behind HSAs is that they will discourage unnecessary medical spending since people will be more careful if they, rather than an insurer, are paying for care. HSAs' effectiveness thus depends on how much care is purchased by people with expenses below the HSA deductibles. The answer is: not much. Although it is true that more than half of working-aged singles and nearly a third of families spent less than the HSA deductible in 2004 according to our estimates, they accounted for only a tiny fraction of medical spending. (See table.) People who spent less than the deductible accounted for less than 6 percent of expenditures by singles and 4 percent of families' expenditures. Put differently, more than 95 percent of medical expenditures by insured working-aged households were made by those who spent above the HSA deductibles.

As a result, even if HSAs were to eventually cover all working-aged households, they would have little effect

on medical spending. Households spending more than the deductible are, on the margin, reimbursed by insurance — just like current insureds — and would face little or no additional incentive to economize. Even if some people who ultimately exceed the deductibles restrain their spending until they get there, almost four-fifths of medical spending is above the deductibles.

Total Health Care Expenses, by Relationship To HSA Deductibles, for Nonelderly Households Covered by Health Insurance, 2004		
	Type of Household	
	Individual	Family
Minimum HSA Deductible	\$1,000	\$2,000
Total Expenses (\$ billions)	\$97.6	\$354.3
% with expense < deductible	58.0	32.6
Expenses for these units (\$ billions)	\$5.7	\$13.5
% of total expenses	5.8	3.8
% with expense > deductible	42.0	67.4
Expenses for these units (\$ billions)	\$91.9	\$340.9
% of total expenses	94.2	96.2
% of dollars falling below the deductible	21.2	21.5
% of dollars exceeding the deductible	78.8	78.5

*Source:* Urban Institute tabulations of pooled data from the 1998, 1999, and 2000 waves of the household samples of the Medical Expenditure Panel Survey. Expenditures are adjusted to be in 2004 dollars. The sample includes all non-elderly health insurance units (households with some private health insurance), excluding child-only units. Medical expenses include both out-of-pocket expenditures and those reimbursed by insurance.



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