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Becoming American with Health Savings Accounts

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HIGHLIGHT

Health savings accounts (HSAs) put more money in your pocket for medical expenses and give you better control of your medical care. We need to improve our access to HSAs, how much we can save in them, and what we can pay for with them. Our results will be more affordable care, better doctor and patient control, and better access to the care we need.

INTRODUCTION

Although the United States is the land of the free, we are mostly not free to know what we have to pay for healthcare treatment. This means we are sometimes swindled into ridiculously high prices, and consequently saddled with debt we can't afford. Hospital systems—the growing monopoly among healthcare providers—are incentivized to prioritize their relationships with insurers over those with their patients. Insurance middlemen are incentivized to set the prices of care without the pocketbooks of patients in mind—in fact, they make more money if the providers charge more, as long as the patient picks up the bill. But then the prices are so high that people are told they cannot afford them without hefty insurance coverage. This has created a vicious cycle and perverted incentives in our political system as well.

Americans are finding it more and more difficult to pay for the health care we need. According to the Cicero Institute, "Despite 91% of Americans having health insurance, almost half of insured adults report difficulty paying out-of-pocket costs, while one in three patients report not being able to cover their deductible." We can't keep going like this. We need more personal power over how much money we spend and to whom it goes.

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Solution: Increase our freedom and reduce our debts with health reforms that foster a stronger healthcare market. These reforms include greater price transparency and competition, as well as greater control and personal choice for patients. One such reform would be to allow all Americans to use HSAs to help pay for our medical expenses.

MORE INFORMATION

Today, about 10 percent of Americans are able to use HSAs because they have an "HSA-eligible" insurance plan. HSAs are personal health savings accounts that some of your pre-taxed income can go into, along with possible contributions from your employer and family members, to cover certain medical bills. This account stays with *you* for life, not with your employer. Why is this a good thing? Several reasons.

> **One**: With this healthcare provision account being tied to *you*, you are potentially *no longer tied to a specific job* in order to better afford health care.
>
> **Two**: It gives you more control of your healthcare—how you spend your money and for what.
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> **Three**: It's, well, free money—and who doesn't need that to help with unpayable bills?

You see, HSAs are "triple tax" advantaged because the money is not taxed as it goes into the account (except in California and New Jersey), as it accrues interest in the account, and at the point of use from the account. So, you save the money you would have paid in income tax on the amount you put into the HSA and get the interest off of it—that's money in your pocket that you otherwise would not have. Furthermore, you can even invest your HSA holdings into untaxed "annuities, stocks, mutual funds, bonds, etc." So really, it's quadruple-tax advantaged.

Let's set up an example as if you live in Virginia and you earn $70,000 a year. Virginia, like the federal government, excludes HSA contributions from income tax. So, off of a $70,000 annual salary, you pay $16,831 in taxes (combined federal and state) and get to keep $53,170. But what if you could put $1,000 per month into your HSA, which would reduce your taxable income to $58,000? You would then pay $12,583 in taxes and keep $45,418. You just paid $4,248 less in taxes, which means you got $4,248 in "free" money. You didn't lose any money because the $12,000 you put aside could potentially be used on health insurance premiums, deductibles, coinsurance, and other out-of-pocket costs and provide savings that accrue year after year.

The average family premium with a high deductible health plan (HDHP) costs $21,079 per year, divided into $5,188 paid by the worker and $15,891 paid by the employer. By contributing to an HSA, you get most of your premium covered for "free" via your tax savings. If you find that later on you really need this money for something else, you can withdraw it from your HSA and pay taxes on it at that point, but you'll also get a nasty 20 percent penalty from the IRS. However, if you use the HSA money for non-eligible expenses *after you turn 65*, you *only* pay income tax on it, with no extra penalty. So, if you're not sure about whether you'll need to use this money for health expenses throughout your life, rest assured that you can use it for anything else, and all that it earns, once you reach retirement age.

This sounds great, right? But our government won't let us do it—at least, not all of us and not for all of these expenditures. We have the highest-priced health care in the world and only *some of us* are allowed to save untaxed money for it. That doesn't sound very American.

In fact, with HSAs, Singapore is far more American than we are. With the best healthcare system in Asia that even rivals ours, they spend a quarter (in ratio to their GDP) of what we do. Their doctors are just as good as ours and earn comparable incomes. How does Singapore pull this off? **They do catastrophic high-deductible health plans (HDHPs) with HSAs *very well*.** They have other factors that keep patient bills affordable that the U.S. is also not doing, but a key component of their healthcare affordability is their reserving insurance for catastrophic care and providing robust HSAs for every working adult. This reserves the role of insurance to the only way insurance works well: pooled risk-sharing for "complex and unpredictable events" instead of bloated application to all healthcare spending, which balloons the price of care. With insurance out of the way for most healthcare choices, patients pay providers directly from their HSAs—which helps to keep costs affordable and allows doctors to choose to practice exactly how they see fit for their patients instead of having insurance bureaucrats dictate what they can do.

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Singaporeans can also better shop around with this money than we Americans can. Their government mandates providers post prices of care (price transparency) and publishes benchmark care rates so that patients can be informed to shop around to find how to most efficiently use their HSA funds.

The Singapore government manages the national health insurance program

(Medishield Life), the HSAs (MediSave), and safety net programs that have better designs than our Medicare and Medicaid. Mandated portions from people's paychecks and contributions from employers go into continually accruing MediSave accounts that are tied to the employee, not the employer—**so large companies are not given favorable tax treatment as they are in the U.S.** The government contributes extra money ("top-ups") to the accounts of lower-income and eligible elderly people and starts out MediSave accounts for newborns with nearly $3,000 (U.S. dollars) in them. From the MediSave HSA funds, patients can pay insurance (both public and private) premiums, deductibles, coinsurance, and eight other expenditure categories that cover many of their healthcare needs. Singapore is also struggling with rising healthcare costs but has a long way to go before it gets as bad as the U.S.

California basically penalizes its residents for using HSAs. Not only does it apply state income tax to account contributions, but it also requires account owners to adjust their income up by the sum of what they *and their employers* put into the HSA, plus any interest earned on it. So, Californians *pay* triple to quadruple taxes on their HSA contributions *instead of saving* that money. California seems to be deliberately trying to prevent the usage of HSAs.

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OUR FREEDOM IS LIMITED

Americans don't have the freedom that Singaporeans have when it comes to healthcare choices and spending. We can't pay our insurance premiums out of our HSAs as they can.[1] Additionally, our HSAs can ONLY be paired with high deductible health plans (HDHPs), and you cannot have any other insurance plan in addition to the HDHP. Not even all HDHPs are eligible; there are specific levels for deductible minimums and out-of-pocket maximums. And you can't be enrolled in Medicare or Medicaid—though you can still use the funds from an HSA that you had *before* joining Medicare.

Furthermore, Americans are not allowed to put much away for savings, especially considering the high prices of care in the U.S. The IRS allows individuals to put $3,850, and families $7,750, into their HSAs. These numbers aren't nearly enough to cover the premiums, deductibles, and out-of-pocket costs for people considering major treatments, not to mention saving for the future if you need to use any money now.

Lastly, in the U.S. there's not one system for HSAs; they could be managed by an insurer, a bank, etc. This factor unnecessarily complicates transferring HSA funds as you move through life and different jobs. Since the account is still tied to the worker, it is possible to switch accounts, but it is not seamless like in Singapore and takes work.

1 The following premiums can be paid by HSA funds: "(1) long-term care insurance, (2) health insurance premiums during periods of continuation coverage required by federal law (i.e., Consolidated Omnibus Budget Reconciliation Act coverage, or COBRA), (3) health insurance premiums during periods in which the individual is receiving unemployment compensation, and (4) for individuals aged 65 years and older, any health insurance premiums (including Medicare Part B premiums) other than a Medicare supplemental policy."

IMPROVING OUR HSA OPPORTUNITIES

Drawing lessons from Singapore, the U.S. could overhaul our HSA regulations to allow us to save our hard-earned money, increase it, and use it to get the health care we need (and that so many of us cannot currently afford). An essential component to the success of Singapore's MediSave (HSA) system is that it's mandatory. This forces people to start saving when they are young and healthy so that they have money to cover medical expenses later when they need them. However, as shown with the ACA debacle, health care- and health insurance-related mandates don't go over well in the U.S. Though mandatory health savings accounts may never fly here, much of what Singapore does with HSAs could. Let's look at some examples.

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#1. Who Can Get HSAs

Singapore doesn't limit who can have an active HSA—and all working adults are required to have one. Why are we hamstringing our ability to pay for our medical care by only permitting people with certain HDHPs to have HSAs? It's ridiculous that Medicaid and Medicare users are not permitted to save pre-tax money to help cover their expenses—it makes the *most sense* to allow low-income and fixed-income people to save pre-tax dollars for care. Everyone should be able to have an HSA, even if they don't have an HDHP (or any conventional health insurance for that matter).

#2. How Much Can Be Saved

Since HSAs are untaxed, earn interest, and can be invested, it does make sense to have limits on how much money we can store away in them. But the U.S. annual contribution limits are ridiculously low considering our healthcare prices. In 2023, the annual contribution limits were $3,850 for individuals and $7,750 for families. Singapore does not limit the annual amount you can put away in your HSA. Instead, they limit how much you can accrue in your account based on your age—called the Basic Healthcare Sum (BHS). If you're under 65, your BHS is $68,500 for your personal account. It would take an American 17 years to build that amount (due to our regulations) without using any of their savings for bills. Furthermore, $68,500 goes A LOT farther in the Singapore health system than in the U.S. system because their prices are so much lower, and they have significant government subsidies for hospital care. So, a comparable account maximum would be much higher in the U.S. and could be annually adjusted based on the average prices of care. This makes a lot more sense than a yearly contribution maximum. But if the contribution is what gets limited, a better annual max would be $12,000 for family coverage. Still, it could be higher, like $15,000 for families and $5,000 for individuals to enable covering current expenses and saving for future ones.

Another potential HSA funding improvement borrowed from Singapore could be our government providing "top-ups" to the HSAs of lower-income people and the elderly. Some U.S. lawmakers have proposed allowing Americans to contribute their ACA insurance subsidies to an HSA instead.

#3. What HSAs Cover

Monopolies aren't American—they go against so many of our cultural values. But our HSA regulations over the qualified medical expenses (QMEs) favor our monopolized hospital systems and the dominating conventional insurance companies. We need to broaden our allowed expenditure categories. Like our Singaporean friends, we should be able to use our account savings to pay for our insurance premiums (public and private). In addition to the insurance premiums, we should expand the QMEs to allow paying for health-sharing ministries and medical expenses that typical insurance may not cover (like insurance-dictated treatment models such as step therapy). Furthermore, permitting spending on more affordable direct care models, like direct care surgery centers and direct primary care subscriptions (DPC), will put treatment choices back into the hands of doctors and patients and make their dollars go further.

#4. Success Extras: Ease of Use

Singapore's MediSave program is easier to use than our HSA system. First, it is run by the government's Central Provident Fund (CPF), so no hassle is necessary to maintain a consistent HSA account as you transition through life. Singaporeans are still allowed to personally invest with these monies even though the government houses the HSA accounts. Second, as noted earlier, Singapore already has achieved price transparency, so people are well-equipped to make cost- and value-conscious decisions with their money. The U.S. has started down the path of price transparency but has a considerable way to go before everyone has the information they need to choose the best care for the value that fits their needs.

CONCLUSION

Our current unequal access to HSAs just isn't American, and it blocks us from using this promising asset to improve our healthcare affordability and access. Allowing universal and robust HSAs can be a large factor in improving provider and treatment options and making sure we have the money we need to access necessary care. First, the triple-tax advantages of saved tax monies, untaxed interest and investments, and untaxed health spending put more money in your pocket—**money you don't have without an HSA**. Second, employers could put their contributions into HSAs instead of expensive Cadillac insurance plans, providing people with even more money for choosing their best options. The more control we have over our own healthcare dollars, and the more alternative insurance models, provider models (like DPCs), and price-comparison shopping we can use, the more downward pressure we can put on our currently out-of-control healthcare prices. These alternative choices also help return treatment decisions to the hands of doctors and patients instead of overreaching insurance agencies and government programs. Furthermore, allowing DPC subscriptions and insurance premiums to be qualified expenses could allow many people to cover all their annual costs with their HSAs, and still save for when they're older and need more treatment. All of these factors, and more, are reasons to use HSAs to improve Americans' access to the care they need.

In fact, it's hard to think of a reason *not* to have universal, robust HSAs in America.

WHAT YOU CAN DO

Get Informed

Learn more about our arbitrarily limited HSA system and what it could be. Check out:

- Congressional Research Service - HSAs
- Superb Healthcare At Ultra-Low Prices? How Singapore Does It
- Government And Corporations Are Colluding To Kill Our Nation's Health Care

Talk to Your Friends

Help your friends and family understand these important issues. Share this information, tell them about what's going on and encourage them to join you in getting involved.

Become a Leader in the Community

Start an Independent Women's Network chapter group so you can get together with friends each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

Remain Engaged Politically

Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

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