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KENNEDY: BUSH'S HEALTH SAVINGS ACCOUNTS WILL MAKE A BAD SITUATION WORSE

Like Privatizing Social Security, HSA's Will Fail to Solve the Problem

Washington, DC: After five years of ignoring our nation's healthcare crisis, President Bush is expected to announce at the State of the Union proposals to encourage health savings accounts (HAS). Last year, the White House launched a failed privatization social security plan and now they want to do the same to healthcare. Senator Kennedy believes that HSAs benefit the wealthiest and healthiest Americans but leave ordinary working families with higher medical costs and more people uninsured. The expanded use of tax deductions for health care would also primarily benefit high-income houses.

Senator Kennedy said, "With 2,000 more Americans becoming uninsured every day, the Medicare drug plan failing, and health costs sky rocketing, it's absurd for the Bush Administration to make a bad situation even worse. Its health proposals will fatten the bank accounts of HMOs and the drug industry and lavish more tax giveaways on the wealthy, but will do nothing to make health care more available and affordable for millions of average families."

For example, a single woman suffering from breast cancer who makes $37,000 a year could face $32,000 in medical bills for cancer treatment and surgery in a single year. Right now, she's likely to buy an individual health plan for $2500 that provides full coverage of her costs after she pays a $2000 deductible – so her total costs would be $4,500 and insurance picks up the remaining $27,500. However, under the Bush health care proposal, her health insurance will cost $2000, but it will carry a $8000 spending limit, so her total costs would be $10,000 -- $5,500 more than under her old plan. She may have some money saved in her HSA, but with a costly illness like cancer, she won't have time to save enough for her treatments, and would likely go into debt.

As another example, today, the average single mother of three who makes $31,000 a year will pay $2200 for an employer-sponsored health plan, with an "out-of-pocket" spending limit of $2000. If one of her children has an unexpected illness or injury, she wouldn't have to pay more than $2000 in extra medical expenses. Under the Bush health care proposal, she'll pay just $1800 for her HSA health plan, but that plan has a $10,000 deductible. So if her child gets sick under the Bush proposal, she could end up spending over $11,800 - more than 30% of her income on health care – forcing her to cut back on other essential needs.

Below are the facts on HSA's:

Health savings accounts don't work for those who are not healthy.
Persons with chronic health conditions or who are hit with illness or injury will experience significantly greater out-of-pocket expenses than for traditional, comprehensive insurance.

Persons with high-deductible health plans are significantly more likely to avoid, skip or delay health care because of cost than those in comprehensive health insurance. This problem is most commonly seen in individuals with health problems or incomes below $50,000. Thirty-one percent (31%) of individuals in high-deductible health plans reported delaying or avoiding care, compared to 17% in comprehensive health plans.

Most health spending is by those with multiple chronic conditions. These individuals will never be able to accumulate funds in a health savings account and will have to find the funds to cover all their care before meeting their high-deductible plan begins to cover them.

Health savings accounts put coverage for low-income and less healthy individuals at risk.
Traditional insurance spreads risk among large groups. While those who are young and healthy may pay a bit more than they otherwise would, they know that if they are hit by illness or injury, have a baby born with health problems, or as they age, they will still be able to purchase insurance at a more affordable price. With health savings accounts, it's each man for himself, and those who need insurance most will face the greatest risk.

Several studies have found that if those who are young, healthy or wealthy move to health savings accounts while those who are not remain in the traditional insurance plans that provide the benefits and security they need, traditional insurance will become unaffordable, leaving those who most need protection at greater risk of becoming uninsured or underinsured.

Health savings accounts are not a solution for the uninsured. They are regressive, favoring the wealthy, while most of the uninsured have low or moderate-incomes.
Most of the uninsured are in low tax brackets so they don't receive much, if any benefit, from the health savings account deductions. More than half of the uninsured receive no benefit from tax-deductibility. The higher an account holder's income, the more benefit received from the tax deduction.

Health savings accounts allow wealthy individuals to shelter funds.
Funds grow over time and offer tax advantages regular savings vehicles -- including 401ks and IRAs -- don't provide. Individuals can fund a health savings account and receive tax-favored treatment regardless of income. The tax deduction available for contributions has no phase-out for high-income individuals.

This allows an additional tax-favored savings vehicle for high-income individuals who have maximized their contributions to retirement savings accounts or have incomes to high to qualify for a deduction.

Once an account holder turns 65, funds that have accrued tax free may be withdrawn for any reason with no penalty. For example, if an account holder wants to buy a sports car with their health savings account funds, there is no penalty.

Health savings accounts are another way of shifting costs.
Early evidence is that one-third of all businesses offering health savings accounts with a high-deductible plan to their workers make no contribution to the account. For firms that do make contributions, the average contribution is only $533 for individuals and $1,185 for families, while the average deductible for an individual was $1,901 and the average deductible for a family was $4,070.

Despite similar rates of health care use, individuals in consumer directed health plans and high deductible health plans are significantly more likely to spend a large share of their income on out-of-pocket health expenses than those in comprehensive health plans. Forty-two percent (42%) of those in high-deductible health plans spent 5% or more of their income on out-of-pocket expenses and premiums, compared to 12% of those in comprehensive health plans.

Health savings accounts already receive more favorable tax treatment than other health plans and retirement accounts.
Contributions to health savings accounts made by an employer are not considered income and are not taxed. They are deductible, whether or not a taxpayer chooses to itemize. Earnings in a health savings account accrue on a tax-free basis, and withdrawals for medical expenses are not taxed. All other similar accounts, including IRAs and 401(k) plans, are subject to tax either on contributions or withdrawals.

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