Important Facts for State Policymakers
Deficit Reduction Act

November 5, 2007

Health Opportunity Accounts

The Deficit Reduction Act of 2005 establishes a new demonstration program that allows States to offer "Health Opportunity Accounts" – savings accounts that can be used to pay for medical expenses in conjunction with a high deductible health plan.

Background

The private sector increasingly allows health care consumers to have more control in their health care by determining how their health care dollars are spent. Private sector health insurance companies do this by offering savings products (health savings accounts) in combination with high deductible health plans. The Deficit Reduction Act (DRA) of 2005 included a demonstration program to provide a new type of these consumer-controlled health care accounts ("Health Opportunity Accounts") to Medicaid beneficiaries.

The Demonstration Program for Health Opportunity Accounts

This demonstration tests alternative systems of delivering Medicaid benefits through a savings account in combination with a high deductible health plan. The new option allows States to set up accounts for Medicaid enrollees that can be used to pay for out of pocket costs for medical expenses. These Medicaid enrollees will be offered insurance plans that include at least the State Medicaid benefits.

The demonstration allows up to ten states to test Health Opportunity Accounts (HOAs) over a five-year demonstration period. The State and Federal government will contribute up to a total of $2,500 for an eligible adult and $1,000 for a child towards deposits in the beneficiary's HOA.[1]

Who May Participate?

Enrollment in Health Opportunity Accounts is voluntary and will last for a period of 12 months. Individuals who are eligible to participate in the demonstration are primarily healthy adults and healthy children. Below are groups of Medicaid beneficiaries that are not eligible to participate in the demonstration programs. States may choose to further limit eligibility.

Beneficiaries Not Eligible for HOAs

- Individuals 65 and older
- Individuals who are blind or disabled
- Pregnant women
- Individuals who have been eligible for medical assistance for less than three months;
- Certain individuals in hospitals, nursing homes and other medical institutions

[1] People who become ineligible for Medicaid, but have remaining balances in their Health Opportunity Account, can use the balance (less 25 percent) for up to three years to cover the cost of such things as medical expenses or to purchase private health insurance coverage. Individuals who have had a Health Opportunity Account for more than one year before becoming ineligible may use any surplus funds for such things as job training programs or tuition payments, if permitted by the State.

- Individuals entitled to any part of Medicare
- Individuals who are terminally ill and are receiving benefits for hospice care
- Certain individuals who are medically frail or have special medical needs
- Children receiving Title IV-E foster care or adoption assistance

What Should the Demonstration Look Like?

States' Health Opportunity Account demonstrations must:

1. Create patient awareness of the high cost of medical care;
2. Provide incentives to patients to seek preventive care services;
3. Reduce inappropriate use of health care services;
4. Enable patients to take responsibility for health outcomes;
5. Provide enrollment counselors and ongoing education activities;
6. Allow transactions involving Health Opportunity Accounts to be conducted electronically and without cash; and,
7. Provide access to negotiated provider payment rates.

How Do HOAs Work?

Health Opportunity Accounts work in combination with a high-deductible health plan (HDHP).

- A beneficiary voluntarily enrolls in the State's HOA demonstration.
- Up to $2,500 for an eligible adult and $1,000 for a child are deposited in the individual's HOA. The State's contribution is matched by a Federal contribution based on the State's Federal Medical Assistance Percentage (FMAP).
- The State simultaneously enrolls the individual in the HDHP.
- Reimbursement for medical expenses incurred which are not covered by the HDHP (including premiums, co-payments and co-insurance) are from an individuals HOA account. States must establish electronic systems to reimburse the providers for the service.

Applying for a HOA Demonstration

States interested in operating a HOA demonstration program must submit a State plan amendment (SPA) to the Centers for Medicare & Medicaid Services (CMS). CMS will evaluate each HOA submission to assure that every element is addressed before the SPA will be approved. CMS will approve the first 10 demonstration requests that fully address the seven criteria listed above, and meet other programmatic requirements that are detailed in the State Medicaid Director Letter issued on January 10, 2007. As of June 2007, one demonstration has been approved. Only 10 State projects may be approved during the first five years of the program.

Important Links

State Medicaid Director Letter on DRA Health Opportunity Accounts
http://www.cms.hhs.gov/smdl/downloads/SMD011007.pdf
Health Opportunity Accounts State Plan Amendment Preprint template
http://www.cms.hhs.gov/smdl/downloads/HOApreprintfinal112906.pdf