Written Statement of

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Chairman Roe, Ranking Member Andrews and the other members of this Committee, I would like to thank you for this opportunity to testify before the Subcommittee on Health, Employment, Labor and Pensions about the barriers to lower health care costs for workers and employers. My name is Roy Ramthun, and I am a private consultant in nearby Silver Spring, MD. My consulting practice focuses primarily on helping employers, financial institutions, and consumers to better understand and take advantage of the benefits offered by consumer-driven health care programs such as Health Savings Accounts (HSAs), Health Reimbursement Arrangements (HRAs), and their associated health insurance plans.

I have had the distinct honor to serve our country in positions at the Department of Health and Human Services (HHS), the Treasury Department, the White House, and the U.S. Senate Committee on Finance. While at the Treasury Department, I led the implementation of the Health Savings Account program after its enactment in 2003. I started my own consulting practice after leaving the White House in 2006 to devote my full time and attention to this program and related issues.

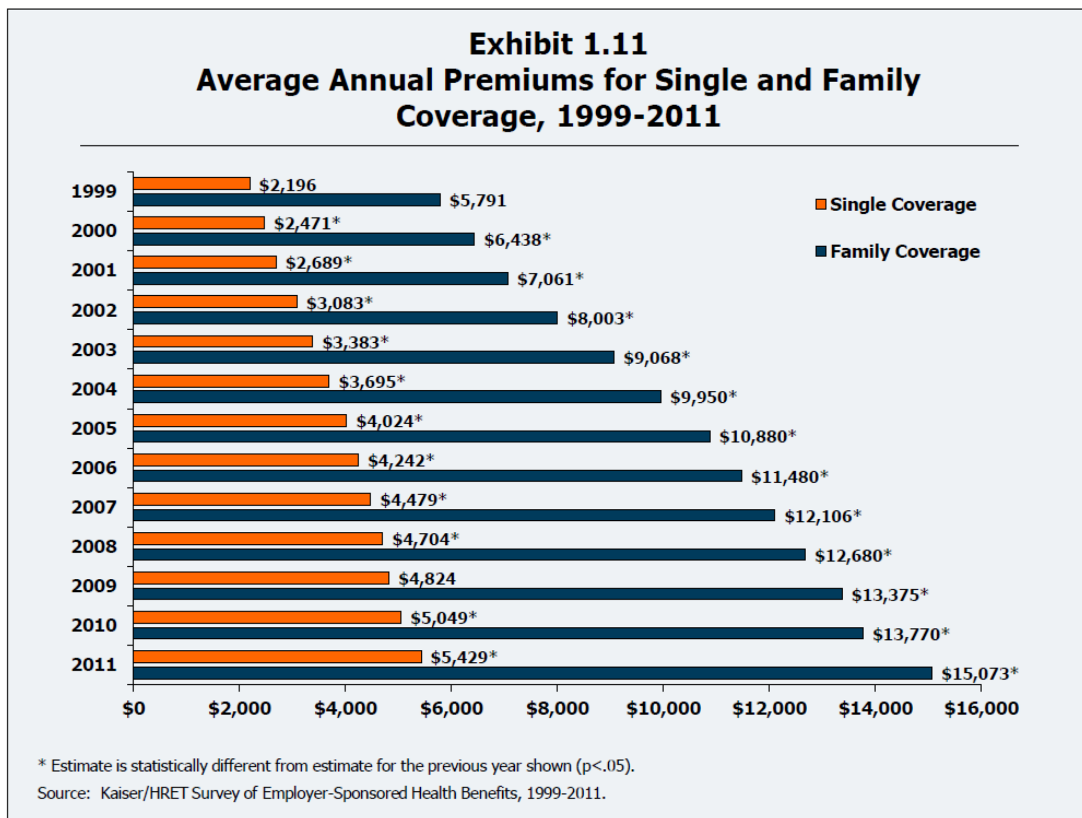
Account-based health plans--health insurance plans paired with HSAs and HRAs--are the fastest growing product in the market for employer-based group health plans. There is no disputing the fact that the number of employers offering group health plan coverage to their employees has declined as the cost of providing coverage has increased. It is my opinion that account-based health plans have helped arrest this decline. That said, as employers wrestle with the decisions whether or not to continue sponsoring health insurance benefits, I am uncertain that even account-based health plans can overcome the new employer responsibilities and costs of complying with the Patient Protection and Affordable Care Act. I will touch on some of those issues during my testimony today.

Account-based health plans are approximately 10 years old, but have grown substantially over the past decade. Estimates vary, but account-based health plans now account for about 15 percent of all employer-sponsored health coverage. The Employee Benefit Research Institute (EBRI) says approximately 21 million Americans were covered by an account-based health plan in 2011, up 40 percent from 2010. The number is certainly higher for this year as the number of Americans covered by HSA-based plans is approximately 13.5 million, as reported just this week

by America's Health Insurance Plans (AHIP). There is no reliable survey of HRA-based plans, but my best guess is that another 11-12 million Americans are covered by these plans.

The consulting firm Towers Watson states that nearly 60 percent of employers have implemented account-based health plans, and that number will increase to 70 percent by 2013. Twelve percent of employers now offer "total replacement" plans—where account-based health plans are the only option offered to employees—up from 7.6 percent in 2010. Enrollment by employees in account-based plans has nearly doubled in the past two years, from 15 percent in 2010 to 27 percent in 2012.

What is fueling this growth? Certainly one of the reasons is the dramatic increase in health insurance costs over the past decade. According to the 2011 Kaiser Family Foundation/Health Research & Educational Trust annual survey of employer benefits, the cost of family coverage more than doubled over the previous 10 years (see exhibit below). Other



surveys suggest that costs may be even higher. For example, Milliman Inc. recently reported that health care costs for the typical family of four are projected to reach $20,728 through an employer-sponsored preferred provider organization (PPO) plan this year. The 6.9 percent increase over 2011 is actually the lowest rate of increase Milliman has seen in the 10 years of this study.

Contrast that to the experience of employers who have account-based health plans. According to Towers Watson and the National Business Group on Health, companies that

successfully move their employees into account-based health plans can achieve significant savings on their health benefit costs. For example, companies with at least half of their workers enrolled in an account-based health plan report that their per-employee costs are over $1,000 lower than companies without an account-based health plan. This is hard evidence for "bending the cost curve" that is so elusive for the rest of our nation's health care system.

Similarly, Aetna reported late last year that employers who switched to account-based health plans as their only plan option had saved $21.8 million per 10,000 members over the past five years. Aetna found that employers who offered an account-based health plan along with other traditional plan options (e.g., PPO, HMO) also had realized savings, but not as significant—only $8 million per 10,000 members over five years.

Finally, Cigna published a study earlier this year concluding that employers can save an average of $9,700 per employee over five years by switching to account-based health plans. Given these results, Cigna believes that if the share of Americans enrolled in account-based health plans rose to 50 percent and achieved the same results as this study, the U.S. could save $350 billion over 10 years and the level of patient care would improve.

This potential for reducing health care spending was recently confirmed when researchers at the RAND Corporation published in the journal *Health Affairs* the results of their analysis of the potential impact of account-based health plans on the American health care system. The RAND analysis suggests that if account-based health plans grow to represent half of all employer-sponsored insurance in the United States, health care spending could drop by $57 billion annually—about 4 percent of all health care spending among non-elderly Americans. The study acknowledges that HSAs are far more cost-effective, and estimates that if all of these people were in HSA plans, the annual savings would be as high as $73.6 billion. I believe that is a conservative estimate.

But account-based health plans are not just about saving money. It's also about *how* the money is saved—by changing how employees think about their health and taking action to improve it. I would like to take a few moments to clear up some common misperceptions about account-based health plans.

First, research is increasingly suggesting that lifestyle behaviors account for approximately three-quarters of health care spending in the U.S. This is likely to only get worse as diet, obesity, lack of exercise, and smoking take its toll on our bodies and our health care system. Fortunately, account-based health plans cover preventive care services and usually do so without applying a deductible or other out-of-pocket expense. In fact, preventive care was included in the original design of HSAs, long before the PPACA made it a requirement of all health plans. Data from Aetna, Cigna, EBRI, and others suggests that utilization of preventive care services is higher when individuals are enrolled in account-based health plans. Additional data suggests higher compliance with disease management and treatment regimens for individuals with chronic conditions. While there is always a risk that people will seek less care when spending their own money (several studies have raised this concern), I am not aware of any evidence to suggest that the health status of individuals enrolled in account-based health plans

has declined, and in most cases it appears to be improving. Obviously, this is an issue to monitor for the future.

Second, individuals enrolled in account-based health plans are more engaged in their health care. The most recent survey by EBRI suggests that enrollees in account-based health plans are more likely to: (1) check whether their plan would cover their care; (2) talk to their doctor about treatment options and costs; (3) talk to their doctor about prescription drug options and costs; (4) ask for a generic drug; (5) check the price of service before seeking care; (6) use an online cost-tracking tool; and (7) develop a budget to manage health care expenses. Similar findings have been reported by insurance carriers.

Third, HSA-qualified account-based health plans provide true catastrophic protection by virtue of their annual limits on out-of-pocket expenses. Under the PPACA, these limits will be applied to all plans starting in 2014, but account-based health plans already provide this protection and have been doing so since 2004. These limits apply both to medical and pharmacy expenses and therefore provide an extremely important benefit to people with chronic conditions and/or high annual health care expenses. Most people don't understand that their traditional pharmacy coverage likely does not have any limit on out-of-pocket prescription expenses.

Fourth, covered benefits and services are generally identical to traditional plans, not "skimpier" as some critics believe. What is different is the amount of covered benefits paid by the account-based health plan. So while the exact same benefits may be covered by each plan, the account-based health plan may only cover 60 or 70 percent of the cost of covered benefits, whereas a traditional HMO or PPO plan may cover 80 or 90 percent of the cost of covered benefits, on average. However, the difference in out-of-pocket costs for covered benefits is typically offset almost dollar-for-dollar by a difference in premiums. For example, a plan with a higher deductible (by $2,000) will typically have a premium that is $2,000 lower. Many people understand this concept when applied to their auto and homeowners insurance policies, but the concept is relatively new to many people for their health insurance.

Fifth, even though individuals enrolled in account-based health plans typically have higher out-of-pocket expenses, they still receive the benefit of the discounted prices for medical services negotiated by their insurance plan. For example, a patient may have an office visit with his or her personal physician. While the physician may charge $150 for each office visit, he usually accepts a discounted fee of $70 to $100 depending on the insurance plan. In these cases, the patient would pay only $70 to $100, not the full $150 charged by the physician.

Sixth, there is a growing industry of companies providing complementary information and services to help people manage their medical care and health care finances. Companies like Compass, Medibid, BidRx, Direct Labs, Healthcare Blue Book, change:healthcare, IF Technologies, INSNET, and others are responding to the needs of patients by providing better information about the price and quality of health care services. Another industry is responding to the demand for "wellness" services to help people maintain and improve their health to avoid disease and chronic conditions. These companies would likely not exist without the growing consumer demand for better value for their health care dollar.

Finally, even though individuals enrolled in account-based health plans are typically subject to higher up-front deductibles, most employers are providing a contribution of funds to the associated HSA or HRA which helps lessen the sting of the deductible. Data from the most recent Kaiser Family Foundation/HRET survey indicates that workers enrolled in HRA plans receive an annual employer contribution to their HRA of $861 for single coverage and $1,539 for family coverage, on average. Workers enrolled in HSA plans receive an annual employer contribution to their HSA of $886 for single coverage and $1,559 for family coverage. With HSAs, unspent funds automatically roll over each year. However, approximately 30 percent of workers enrolled in HSA plans receive no contributions from their employer. Although I believe these individuals primarily work for smaller companies, we all should be mindful of government policies that may discourage employer contributions in the future, such as changes to tax policy and how health plan actuarial values are calculated.

Why isn't every company offering account-based health plans? They may have to if the so-called "Cadillac plan" tax in PPACA goes into effect in 2018. I believe that companies have few other options as effective as account-based health plans to keep their costs below the thresholds where the excise tax will affect them ($10,200 for single coverage; $27,500 for family coverage). The recent surveys suggest that private employers are taking action and moving to account-based health plans, but public and non-profit employers appear to be lagging.

The one exception is the State of Indiana. Indiana has been offering account-based health plans to state employees since 2006. In 2012, its seventh year for account-based plans, 90 percent of Indiana state workers with its health insurance coverage participate in an account-based health plan. The state says these plans have already reduced the state's overall health benefit costs by more than 10 percent, and only 2 percent have switched back to a traditional plan.

In the 22 other states where enrollment in account-based health plans is voluntary, only 2 percent of government employees have signed up. Last year, Arizona, Louisiana, Minnesota, Utah and West Virginia joined 18 other states that already offer an account-based health plan. If Indiana's program continues to hold down costs while satisfying state employees, more states can be expected to try account-based health plans.

Barriers to Future Growth

For larger employers, cost pressures will continue under the PPACA as the "Cadillac plan" tax looms in 2018. However, other issues are or will create challenges much sooner than 2018. For example, employees with HSAs, HRAs, and even Flexible Spending Accounts (FSAs) must obtain a prescription from their doctor to seek reimbursement for over-the-counter medicines. The irony is that these medications have been approved by the U.S. Food and Drug Administration (FDA) as safe and effective for purchase without a prescription. But a provision in the PPACA requires individuals to obtain a prescription for these products or they will have to pay income tax plus a 20 percent penalty if they use their HSA, HRA, or FSA funds to pay for these medicines. This provision has been in effect since January 1, 2011.

In 2014, the PPACA will require employer-based health plans to limit their plan deductibles to no more than $2,000 for single persons and $4,000 for family policies. Many employers are already offering account-based health plans with deductibles above these limits, especially employers that have been offering account-based health plans for several years. If companies are required to lower their deductibles, they will likely see their costs go up and will have to raise their premiums offset the lower out-of-pocket costs. This would send account-based health plans in the wrong direction!

Also in 2014, the PPACA will require employer-based health plans to provide a minimum actuarial value of at least 60 percent. This means the plan must be designed to pay at least 60 percent of the cost of the benefits covered by the plan, and the employee/patient must pay the remaining 40 percent. While this sounds reasonable, recent guidance issued by the Internal Revenue Service (IRS) and HHS reflects a bias against account-based plans in favor of traditional first-dollar coverage plans. The guidance proposes to devalue the typical employer contributions to HSAs and HRAs when determining whether a plan provides the minimum actuarial value. Thus, even if an employer is providing the same amount of total contributions, the plan might not meet the minimum 60 percent standard.

Here is an example of how this could happen. Consider an employer that is providing coverage through a traditional PPO group health plan at a cost of $5,000 per employee. The company then chooses to switch to an account-based health plan and lowers its per-employee premium costs to $4,000 but contributes the $1,000 savings to each employee's health savings account. From the employer's perspective, his total costs remain $5,000 per employee. But under the IRS/HHS guidance, the employer's $1,000 contributions to employees' HSAs will not receive full credit (e.g. might be cut in half or more) towards the plan's actuarial value, putting the employer at risk of not meeting the minimum actuarial value of 60 percent. This again sends the wrong message to employers about account-based health plans.

In its comment letter to HHS dated May 16, 2012, the American Academy of Actuaries said the following:

> "This adjustment . . . could have the effect of discouraging employers from contributing to HSAs/HRAs. For a given amount of employer spending toward health insurance, a higher [actuarial value] likely would be achieved by devoting more of those dollars directly toward a health insurance program than to an HSA/HRA. To the extent that HSAs encourage plan enrollees to seek cost-effective care, discouraging this option may run counter to goals of achieving more effective use of health care dollars."

Likewise, in its 2008 report analyzing major health insurance proposals, the Congressional Budget Office (CBO) said that:

> ". . . the actuarial value of consumer-directed plans would include the expected value of any contributions that an insurer or employer sponsoring the plan would make to an enrollee's account—so that contribution could be set to make the overall actuarial value of the consumer-directed plan equal to the value of a conventional health plan."

I agree completely with the Academy and CBO. I believe that employer contributions to HSAs should be valued at the full amount of the contribution, not "adjusted." In addition, employee contributions made through payroll deduction should be counted as well and in full (not "adjusted"). Currently, the guidance does not provide any credit for employee contributions.

Another issue that will impact the availability of account-based health plans to some companies is the new minimum medical loss ratio (MLR) requirements under the PPACA. This issue impacts plans sold by insurance carriers to small and medium-size companies. Unfortunately, the MLR regulations do not take into account HSA or HRA contributions, thus making it extremely challenging for account-based health plans to meet requirements they were not designed to meet. I have been seeking changes to the regulations to reflect the unique circumstances of account-based health plans, but no changes have been made so far.

In closing, we should all keep in mind that premiums paid by employers for workers' health benefits are another form of compensation in lieu of wages earned by employees. Strategies like account-based health plans that reduce employer health benefit costs free up money that companies can use to stimulate the economy by raising wages, creating jobs, or making critical investments for the future. We also need to ensure that workers will be permitted to keep the coverage they have¸ as was promised throughout the health reform debate.

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to provide this testimony today. I look forward to the opportunity to discuss these issues in greater detail with you. I would be pleased to answer any questions you have.

Thank you.