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TO THE SENATE COMMITTEE ON WAYS AND MEANS

TWENTY-FIFTH LEGISLATURE
Regular Session of 2010

Tuesday, February 23, 2010
10:05 a.m.

TESTIMONY ON SENATE BILL NO. 2885, SD1 – RELATING TO HEALTH SAVINGS ACCOUNTS.

TO THE HONORABLE DONNA MERCADO KIM, CHAIR, AND MEMBERS OF THE COMMITTEE:

My name is J.P. Schmidt, State Insurance Commissioner testifying on behalf of the Department of Commerce and Consumer Affairs (“Department”). The Department supports this bill which establishes a task force to evaluate the current state of health savings accounts options in Hawaii’s health insurance market and to explore ways to expand access to these accounts in Hawaii.

Health savings accounts are a good idea because a high deductible policy can reduce premium costs and encourage the policyholder to use healthcare services more efficiently. The Department was an early supporter of health savings accounts at the beginning of the Lingle Administration, but we were told that the Prepaid Health Care Act’s requirement for health plans to follow the prevalent plan was part of the impediment to using a high deductible product for group plans which constitute all but a fraction of the fully insured market. If this is true the work of the proposed task force may turn out to be unproductive. Some initial investigation along these lines therefore may be warranted before this bill is passed.

We thank the Committee for the opportunity to present testimony on this matter and ask for your favorable consideration.



HAWAII MEDICAL ASSOCIATION

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Tuesday, February 23, 2010, 10:05am, Conference Room 211

To: COMMITTEE ON WAYS AND MEANS
 Senator Donna Mercado Kim, Chair
 Senator Shan S. Tsutsui, Vice Chair

From: Hawaii Medical Association
 Gary A. Okamoto, MD, Legislative Co-Chair
 Linda Rasmussen, MD, Legislative Co-Chair
 April Donahue, Executive Director
 Lauren Zirbel, Government Affairs
 Dick Botti, Government Affairs

Re: SB2885 RELATING TO HEALTH SAVINGS ACCOUNTS

In Support

Chairs & Committee Members:

Hawaii Medical Association believes that Health Savings Accounts (HSAs) are a health plan option that may be attractive and beneficial to many individuals in Hawaii and thus would support the formation of a taskforce to explore the ways in which HSAs could be expanded as a health insurance option for the citizens of Hawaii.

HSAs are another way to pay for healthcare costs. Instead of relying on health insurance coverage alone, an individual buys a high-deductible insurance policy to cover major healthcare needs, and then sets aside money each year in a tax-free personal account, the HSA, to pay for smaller health expenditures.

Account balances can be used for a wide variety of medical expenses, and money not used one year can be carried over to the next, as well as from job to job. Like an individual retirement account, or IRA, at retirement the funds can be used for any purpose.

The January 2009 Census shows that 8 million people are covered by HSA/High-Deductible Health Plans. This taskforce will provide a venue for healthcare and business leaders to come together to discuss ways in which HSAs can make up a more meaningful part of healthcare coverage in Hawaii.

Under the Hawaii Prepaid Health Care Law, all health insurance plans offered by Hawaii employers must be approved as a qualified plan by the state government's Hawaii Prepaid Health Care Council. Issues with the Hawaii Prepaid Health Care Act need to be addressed in order to explore the place HSAs can take in Hawaii's Health Insurance market.

HSAs are currently an Employer-Union Health Benefits Trust Fund option, as well as an option for sole proprietors, self-employed individuals, and those working as part-time employees. EUTF's HSA/HDHP option is offered by Hawaii Medical Service Association, which has partnered with Sterling HSA to administer accounts (funds are held at First Hawaiian Bank). HMSA has also partnered with BlueHealthCare Bank to administer accounts. HMSA also has a

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HSA qualifying Catastrophic Care Plan for individuals which covers some screenings and exams before the \$2,500 deductible is met.

The potential for savings can be seen by this example. Providing healthcare to an individual employee is about \$3,204 for an HMSA HMO plan, \$648 of which the employee would typically pay and \$2,556 of which the employer would typically be pay. In contrast, the annual premium for a single HDHP (\$2,500 deductible) offered through HMSA is about \$1,107. The \$2,097 annual savings in premiums per individual employee could potentially be placed in a tax exempt HSA for an employee. If the employee does not use all of these funds they will roll over to the next year and accrue interest.

As outlined in an article published by Newsweek Magazine's January 4, 2010 issue, Indiana Gov. Mitch Daniels Insured 50,000 low-income residents through a budget-neutral combination of health savings accounts and catastrophic coverage. Former U.S. Health and Human Services Secretary Mike Leavitt praised the legislation, saying, "There is no other program out there as innovative as what I'm seeing here in Indiana."

The rapidly rising cost of health care is crippling businesses, forcing layoffs and reductions in pay. It is important that businesses and healthcare consumers have access to all health plan options in order to bring down cost and increase quality of care. Allowing consumers the option to enroll in a Health Savings Account is one step that can be taken to bring down the cost of health care, encourage healthier lifestyles, allow for more patient and physician control of health care decisions and save money for employers and employees alike.

Thank you for the opportunity to testify.