ARKANSAS CENTER FOR HEALTH IMPROVEMENT

Health Independence Accounts

FACT SHEET ● June 2015

The Health Care Independence Act of 2013 (Act) authorized the state to extend healthcare coverage to low-income Arkansans with earnings up to 138 percent of the federal poverty level (FPL) through an innovative premium assistance program called the Health Care Independence Program (HCIP). The Act also called for the creation of Health Independence Accounts (HIAs) that operate similar to consumer-driven health care (CDHC) products but have distinct characteristics. The goal of HIAs is to promote cost-effective use of the healthcare system. The enabling Act required—and the federal government approved in waiver amendments—the enrollment of non-elderly, non-disabled HCIP enrollees earning more than 50 percent of the FPL in HIAs and use of the account to pay for cost sharing. CDHC products like HIAs are designed to involve consumers financially and incentivize them to make more conscientious healthcare choices. The purpose of this fact sheet is to describe CDHC products and compare these products to HIAs. Importantly, although the federal government approved cost sharing and HIA participation for individuals earning from 50 to 99 percent FPL, the state did not implement this requirement due to subsequent changes in state law.

CONSUMER-DRIVEN HEALTH CARE

Consumer-driven health care (CDHC) gained popularity in the early 2000s shortly after the 1990's concept of managed care lost public favor. CDHC products have been endorsed by policymakers and employers facing rising healthcare costs and failed healthcare system interventions to contain costs. Common CDHC products include health savings accounts (HSAs), health reimbursement accounts (HRAs), and flexible spending accounts (FSAs). HIAs will operate similar to other CDHC products, allowing consumers to make contributions to be used to cover copayments and deductibles. Opponents suggest that CDHC products may cause low-income individuals to forego needed medical care.

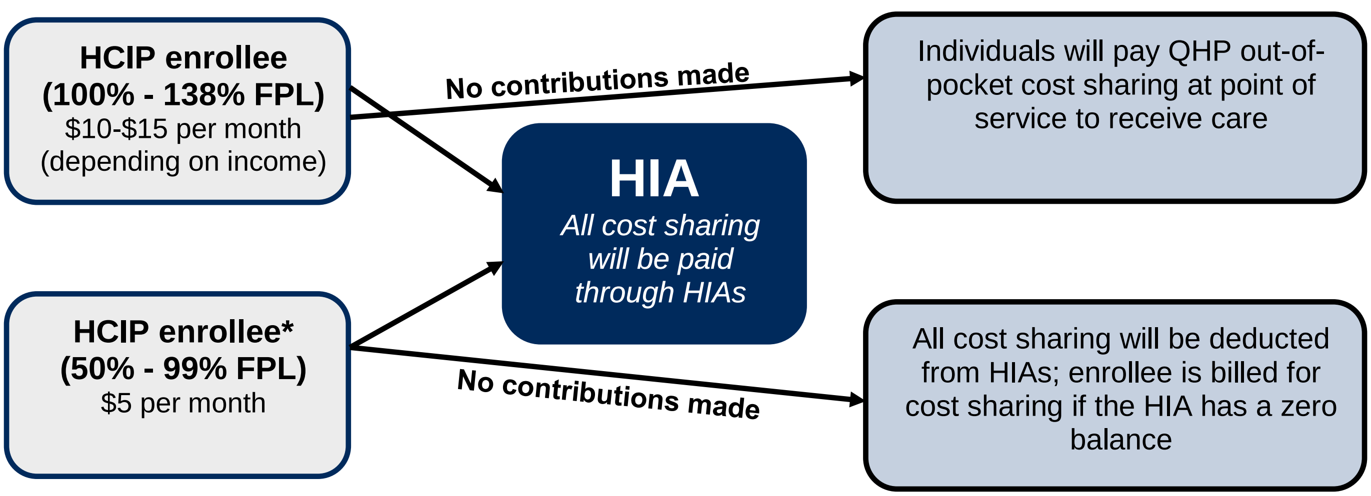
HEALTH INDEPENDENCE ACCOUNTS

HIAs are expected to help HCIP enrollees:[1]

- Gain knowledge about appropriate healthcare services and how much those services cost
- Gain experience paying costsharing requirements and introduce the concept of paying premiums for insurance
- Take personal responsibility for their health care
- Accrue funds to be used to offset cost-sharing requirements in the Marketplace when their incomes rise above 138 percent of the FPL

The implementation of cost sharing for individuals earning below 138 percent of the FPL in the HIA program required submission and approval of an amendment to the state's HCIP demonstration waiver.

COST-SHARING OBLIGATION[1]



*This graphic depicts how cost sharing and HIAs would have been applied under the program. The Arkansas Health Reform Act of 2015 suspended cost sharing and HIA program participation for individuals with incomes of 50-99 percent of FPL.

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COMPARISON OF CONSUMER-DRIVEN HEALTH CARE (CDHC) PRODUCTS[2]

Health Savings Accounts: Financial accounts used by employees with high-deductible health insurance plans (HDHP) to save for out-of-pocket expenses for qualified medical care and prescription drugs
- Account is owned by the employee
- Employer and employee—either directly or through payroll deferral—may contribute to the account
- Account must be combined with an high deductible health plan
- Funds in account earn interest and can be invested by employee
- Funds may be used for qualifying medical expenses and may be withdrawn subject to a 10 percent penalty[3]
- Funds can roll over from year to year
- Employee keeps account funds upon termination

Health Reimbursement Accounts: Employer-funded arrangement used to reimburse employees for out-of-pocket qualified medical expenses
- Account owned by the employer
- Employee does not contribute to the account directly or through payroll deferral
- Funds in account are for employee's cost-sharing expenses not covered by health plan
- Employer pays after qualifying expenses are incurred
- Employer decides whether account funds can roll over from year to year
- Funds in the account are not portable by the employee upon termination

Flexible Spending Accounts: Employer-established, tax-advantaged account funded by an employee to pay for qualified medical expenses with pre-tax dollars
- Account owned by the employer
- Employer and employee may contribute, but employee's contribution must be through payroll deferral
- Funds in account may be used for qualifying medical expenses
- Employer decides whether funds roll over from year to year; if not, the funds revert to the employer
- Funds in the account are not portable upon termination

HOW ARE HEALTH INDEPENDENCE ACCOUNTS DIFFERENT?

- Account is owned by the individual and is independent of employment
- Depending on income, individual contributes up to $15 for protection from cost sharing in the following month
- State matches the individual's contribution (capped at $200) only if the individual makes six timely contributions
- The state's contribution is reduced if the individual fails to make a timely payment and utilizes care
- Funds in the account can roll over from year to year

RISK MITIGATION STRATEGIES FROM OTHER STATES

Michigan: MI Health Accounts are used by beneficiaries enrolled in the Healthy Michigan program to pay cost-sharing requirements. Contribution levels are based on income and family size. Some individuals are exempt from premium contributions, and others may make reduced contribution levels by participating in a Health Risk Assessment and agreeing to work on or maintain healthy behaviors.[4]

Indiana: Individuals eligible for the Healthy Indiana Plan 2.0 will have Personal Wellness and Responsibility (POWER) accounts, funded in part through premium contributions. Beneficiaries who contribute have no cost sharing, except for emergency department visits, and may reduce contributions by receiving preventive care. Some beneficiaries above the FPL who fail to make contributions may be locked out of coverage for six months.[5]

REFERENCES

[1] "2015 Changes to Arkansas's Private Option: Independence Accounts, Cost Sharing, and Non-Emergency Medical Transportation." www.medicaid.state.ar.us/Download/general/comment/HCIWPresentation2015.pdf

[2] "Tax-Advantaged Accounts for Health Care Expenses: Side-by-Side Comparison, 2013." *Congressional Research Service*, November 8, 2013. www.fas.org/sgp/crs/misc/RS21573.pdf.

[3] "State Legislation And Actions On Health Savings Accounts (HSAs) and Consumer-Directed Health Plans, 2004-2015." *National Conference of State Legislatures*. www.ncsl.org/research/health/hsas-health-savings-accounts.aspx. Updated: January 2015.

[4] "MI Health Account." *State of Michigan*. www.michigan.gov/healthymiplan/0,5668,7-326-67957_69564---,00.html; accessed June 15, 2015.

[5] "CMS and Indiana Agree on Medicaid Expansion." *The Centers for Medicare & Medicaid Services*, January 27, 2015. www.cms.gov/Newsroom/MediaReleaseDatabase/Press-releases/2015-Press-releases-items/2015-01-27.html.

