Issue BRIEF

From Minority Health Initiatives

An Unequal Burden:
The True Cost of High-Deductible Health Plans for Communities of Color

September 2008

Introduction

During 2006 and 2007, one out of every three Americans was uninsured for some period of time. These nearly 90 million Americans faced significant barriers to care, worse health outcomes, and even a higher risk of premature death.[1] The heavy burden of uninsurance was especially harmful for communities of color. Although racial and ethnic minorities represent a third of the U.S. population, people of color made up more than half of the uninsured in 2006 and 2007.[2]

As the United States grapples with providing equal access to health care for all Americans, some policy makers have touted using high-deductible health plans as a way to expand coverage. High-deductible health plans are often coupled with health savings accounts (see "Health Savings Accounts" on page 7) and may be attractive because of their lower premiums. However, the full costs associated with high-deductible plans far exceed their premiums, and these expenses are disproportionately unaffordable for racial and ethnic minorities.

This issue brief discusses three serious concerns that make high-deductible health plans less helpful—or even potentially harmful—for racial and ethnic minorities:

1. Out-of-pocket costs in high-deductible plans are simply unaffordable for many racial and ethnic minorities.
2. The heavy costs of high-deductible plans will force many minorities to delay or avoid necessary care.
3. The barriers created by high-deductible plans will aggravate the health disparities that already plague many minority communities.

Considering these problems, high-deductible health plans cannot be viewed as a solution for the health disparities faced by communities of color. In fact, high-deductible plans might actually exacerbate health inequalities, despite proponents' promises of so-called "consumer choice."

FamiliesUSA
The Voice for Health Care Consumers

Glossary

Deductible: A set dollar amount that must be paid, in addition to premiums, before insurance coverage begins.

High-deductible health plan: Generally, a health insurance policy with a deductible of more than $1,100 for an individual or $2,100 for a family in 2008.

Health savings account (HSA): A tax-preferred savings account that must be coupled with a high-deductible health plan. (See "What Is an HSA?" on page 7.)

Premium: The charge, usually monthly, that enrollees must pay for health insurance. Deductibles and copayments must be paid in addition to premiums.

1 Out-of-pocket costs in high-deductible health plans are simply unaffordable for many racial and ethnic minorities.

High-deductible plans may appear to be affordable because their premiums are often lower compared to those for other kinds of health insurance. However, it is important to note that these plans do not cover needed health care until a family has spent thousands of *additional* dollars to cover the plan's deductible. Thus, even if a family makes monthly payments toward health insurance, a high-deductible plan would not cover any medical costs until a family had paid an average of $4,000 to $5,000 out of pocket, in addition to premiums. These expenses are already difficult for many families to afford. However, they are especially burdensome for racial and ethnic minorities, who generally earn less and who are less likely to have sufficient savings to pay for out-of-pocket costs.

The Facts:

- High-deductible health plans require extremely high out-of-pocket spending—even after premiums are paid. When employers offer high-deductible health plans, the policies require families to spend an average of nearly $4,000 out of pocket before coverage begins.[3] Half of working families with HSA-qualified high-deductible plans are offered no other insurance options by their employers. And nearly half of employers do not contribute any money to employees' HSAs, thus leaving families on their own to pay the high deductibles out of pocket.[4] Families that purchase high-deductible insurance on their own face an even higher average deductible of more than $5,000.[5]

- **Racial and ethnic minorities face disproportionate barriers to paying expenses associated with high-deductible health plans.** African American, American Indian and Alaska Native, and Hispanic households earn less than 75 percent of what white households earn (see Figure 1). Furthermore, African American, American Indian and Alaska Native, Asian, Hispanic, and Pacific Islander communities experience significantly higher rates of poverty (see Figure 2).[6] Therefore, many racial and ethnic minorities would find it difficult to pay for the many costs that come with high-deductible health plans.

Figure 1.[7]

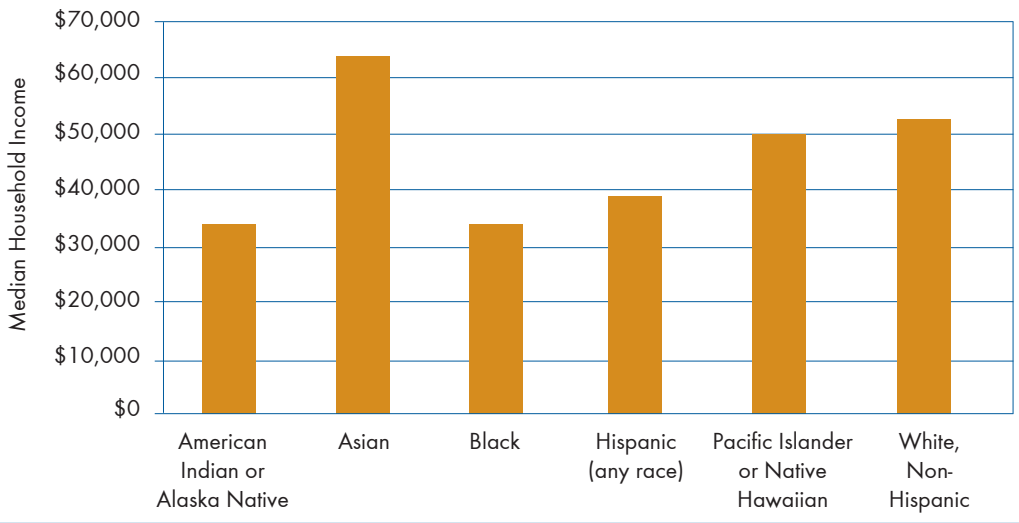
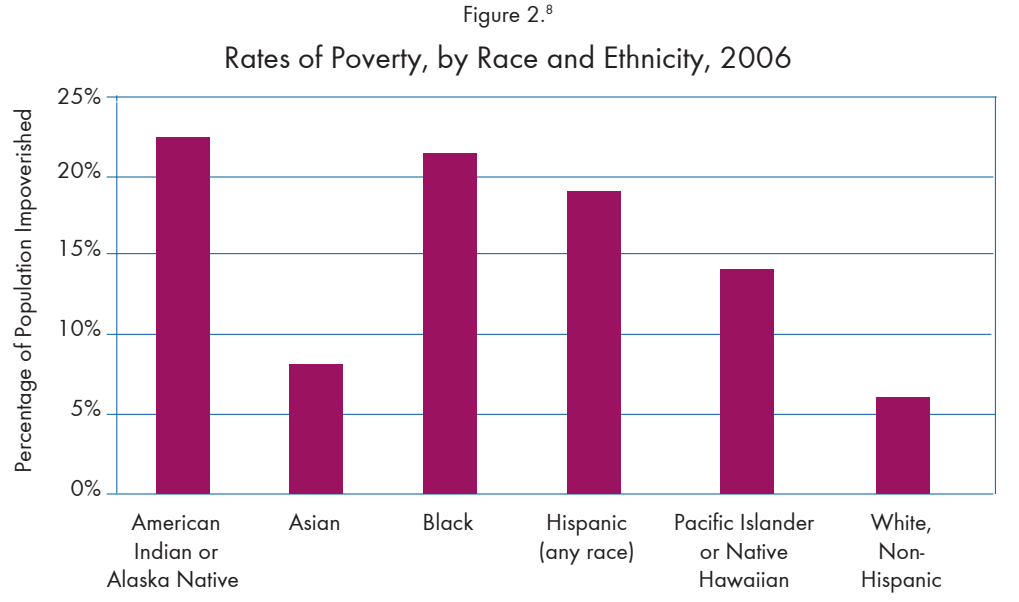


Figure 2.[8]



- **High-deductible health plans would force many minority families into debt before the plans had even covered any health care services.** Eight out of 10 families earning about $52,000 annually (about 300 percent of poverty) did not have enough savings to pay the minimum deductible for a high-deductible plan. Only one in 10 families with incomes up to this amount could afford to pay the higher average deductible with their savings. It's important to note that this is well above the average income of African American, American Indian and Alaska Native, and Hispanic households, which is about $35,000.[9]
- **An African American, American Indian and Alaska Native, or Hispanic family with average income could spend one-third of its income on health care under a high-deductible plan.**[10] A family with a high-deductible health plan may be required to pay as much as $11,200 out of pocket for costs such as their deductible, copayments, and co-insurance.[11]

2 The significant out-of-pocket costs of high-deductible plans will force many racial and ethnic minorities to delay or avoid necessary care.

By saddling consumers with high out-of-pocket expenses, high-deductible health plans create strong disincentives to seeking care. Increased cost-sharing often causes individuals to avoid care even when they need it. Racial and ethnic minorities are already more likely to avoid care due to cost, and evidence suggests that high-deductible health plans could make health care *even less accessible* for these communities.

The Facts:

- **Forcing consumers to pay a greater share of health care costs discourages them from using health care—even when it's needed.** Increased cost-sharing can keep people from ever seeing a doctor, and it discourages the use of services that can prevent or treat illness.[12]
- **Racial and ethnic minorities are especially sensitive to higher health care costs.** In 2007, African Americans and Hispanics were almost 20 percent more likely than whites to forgo care due to cost.[13]
- **Avoiding necessary and recommended care has serious health consequences.** Sixty percent of uninsured, low-income parents who had to forgo care due to cost saw their conditions worsen, and 13 percent experienced a disability as a result.[14]

- **Racial and ethnic minorities are already more likely to experience the negative consequences of not receiving timely, appropriate care.** For instance, African Americans, Asian Americans, and Hispanics with diabetes are significantly more likely than members of other racial or ethnic groups to see their disease become so severe that dialysis or kidney transplant is needed.[15] Further, African Americans and Hispanics are more likely to be readmitted to the hospital for acute diabetic complications that are preventable with proper medical care.[16]
- **High-deductible health plans could make it even harder for racial and ethnic minorities to obtain necessary health care.** Research shows that adults with high-deductible health plans experience more problems with obtaining care; get less preventive care, such as cancer screenings; and have more difficulties paying for care that they have received. More than four out of 10 adults with high-deductible plans spent 10 percent or more of their income on out-of-pocket expenses and premiums.[17]

3 The barriers created by high-deductible health plans will aggravate the health disparities that affect minority communities.

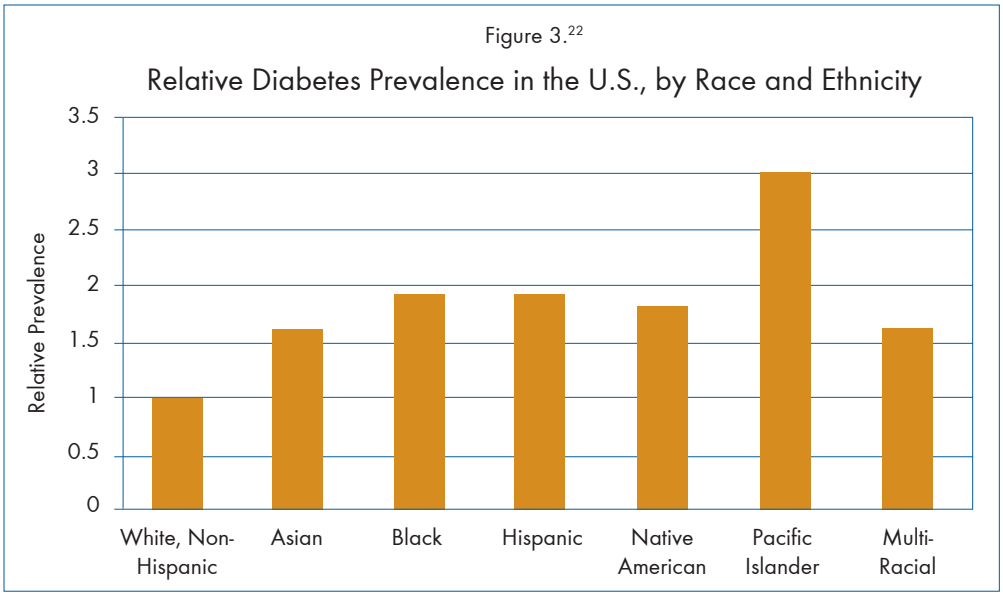
Racial and ethnic minorities are more likely to report being in poor health and face disproportionate burdens from several chronic illnesses. High-deductible health plans are most likely to benefit healthy individuals who do not have significant health care needs or expenses. Because racial and ethnic minorities are disproportionately more likely to have health problems, they are more likely to require health care—care that high-deductible plans would not cover until they have racked up thousands of dollars in medical bills. Research shows that high-deductible plans are not geared toward individuals who suffer from chronic illnesses. These individuals often need to see a physician or specialist more frequently, and they often take multiple medications or need several kinds of treatments on a regular basis. For these reasons, these plans could worsen gaps in health status between racial and ethnic minorities and whites.

The Facts:

- **Racial and ethnic minorities report being in poorer health than whites.** African Americans, American Indians, Alaska Natives, and Hispanics are more likely to report being in fair or poor health.[18]
- **Racial and ethnic minorities are disproportionately affected by several chronic illnesses that require regular and consistent care.** Many racial and ethnic minorities experience higher rates of diabetes (see Figure 3), asthma, heart disease, and cancer.[19]

- **Shifting costs onto consumers disproportionately harms sicker and lower-income Americans.** As discussed above, racial and ethnic minorities experience higher rates of poverty and also report higher rates of poor health. Adding the burden of high cost-sharing negatively affects how low-income and sick individuals manage illnesses such as high blood pressure.[20]
- **High-deductible health plans could worsen existing rates of chronic disease within communities of color.** New research shows that individuals with high-deductible health plans are more likely to stop using the medications that help them control their chronic illnesses, especially those used to control high blood pressure and high cholesterol, both of which are risk factors for cardiovascular disease.[21]

Figure 3.[22]



Conclusion

High-deductible health plans raise questions about cost-sharing and its place in a fair and equitable health care system. These plans are often advertised as being more affordable, but our analysis shows that many racial and ethnic minorities would find these plans to be anything but affordable. In many communities of color, high-deductible plans would require enrollees to incur significant debt before they had received meaningful coverage of any health care services. These financial hurdles are especially high for racial and ethnic minorities, many of whom may opt to skip necessary health care altogether due to cost. Tragically, delaying or avoiding care can lead to worsened illness, disability, and even death. For these reasons, high-deductible health plans may actually increase the health inequalities faced by racial and ethnic minorities.

Health Savings Accounts

Aside from the many areas of concern regarding high-deductible health plans, there are also numerous concerns about the health savings accounts (HSAs) that are often coupled with these plans. Below we provide a brief overview of HSAs and the challenges they pose to achieving health care equity.

What Is an HSA?

Health Savings Accounts (HSAs) are tax-preferred savings accounts that were created as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA). HSAs offer tax benefits for people who purchase insurance policies with high deductibles. To qualify for the HSA tax break, the policy must have a deductible of at least $1,100 for an individual or $2,100 for a family in 2008. (In some plans, preventive services such as annual checkups are not subject to the deductible.) However, out-of-pocket costs, including deductibles and copayments, may be much higher than those amounts. For instance, the maximum out-of-pocket costs for a family with an HSA-qualified high-deductible health plan in 2008 are $11,200. In addition to this amount, the family may incur other medical expenses that are not covered by the high-deductible health plan at all.

Contributions to an HSA can be made by an individual, an employer, or both. Deposits in an HSA may be deducted from income for federal income taxes. A maximum of $2,900 for an individual or $5,800 for a family can be deducted in 2008. Individuals aged 55 or older may deduct higher amounts: $3,800 for an individual or $6,700 for a family. It is important to keep in mind that federal income tax brackets are progressive, meaning that individuals with higher incomes are subject to higher income taxes. For this reason, wealthier individuals whose incomes are taxed at a higher percentage save more money for each dollar placed into an HSA than individuals earning lower incomes.

Withdrawals from HSAs that are used to pay for out-of-pocket health care costs are tax-free, and money in an HSA that is not used can be rolled over from one year to the next.

Myths & Facts about HSAs

High-deductible health plans are often coupled with health savings accounts. These tax-preferred accounts are advertised as a way for consumers to "take control" of their health care. However, not all consumers benefit equally from the tax breaks that HSAs provide. The following addresses several myths about HSAs in order to show that many racial and ethnic minorities are less able to reap the benefits of health savings accounts.

Myth **Health savings accounts provide equal tax benefits to all Americans.**

Fact **Racial and ethnic minorities are less likely to have the extra income to deposit into an HSA, and they are likely to receive less in the way of tax benefits from HSAs compared to whites.** Many racial and ethnic minority groups earn lower incomes, on average, than whites. Because they earn lower wages, racial and ethnic minorities are less likely to have extra income to place into an HSA. Furthermore, people of color are more likely to be in lower income tax brackets. HSAs shelter income from federal income tax. Because people of color are generally taxed at lower rates, they consequently save less money when they make deposits into health savings accounts. Thus, middle-class working families do not receive the same tax benefits that wealthier families receive.

Myth **Health savings accounts will allow all Americans to pay lower health insurance premiums.**

Fact **High-deductible plans with health savings accounts will shift costs onto sicker Americans.** Racial and ethnic minorities report being in poorer health than whites, and they also face greater burdens from several chronic illnesses. Consequently, they are more likely to need comprehensive health coverage. However, as healthier, wealthier individuals leave the comprehensive insurance market in order to buy high-deductible plans, insurance premiums for sicker individuals who need comprehensive benefits will increase. The higher costs of comprehensive plans will disproportionately hurt sicker people, including racial and ethnic minorities.

Myth **Health savings accounts give everyone the same opportunity to save money for future medical expenses.**

Fact **Racial and ethnic minorities are less likely to have money to "roll over" in health savings accounts.** Racial and ethnic minorities are more likely to have any of several chronic illnesses. Individuals with chronic illnesses need consistent medical care and are more likely to exhaust the funds deposited in HSAs, leaving them without money to roll over from one year to the next.[23] This means that racial and ethnic minorities are less likely to have money in their HSAs to save for future medical needs.

Myth **Most people with high-deductible health plans have set aside enough money to pay their medical expenses.**

Fact **Most people with high-deductible plans through their jobs do not have enough money in savings accounts to pay for their medical needs.**[24] It may sound attractive for an employer to offer a low-premium, high-deductible plan and an opportunity to set aside money in a tax-free account to pay for medical needs. However, many people with such plans do not actually have enough money to set aside savings for their medical care and are thus at financial risk. Survey data show that most workers with high-deductible plans have not actually opened HSAs.

Endnotes

[1] During the two-year period of 2006 to 2007, 89.6 million people under the age of 65 went without health insurance for at least one month. Kim Bailey, *Wrong Direction: One out of Three Americans Are Uninsured* (Washington: Families USA, September 2007).

[2] Kim Bailey, op. cit.

[3] HSA-qualified plans offered by employers had deductibles of $1,923 and $3,883, for individuals and families, respectively. Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2007 Annual Survey* (Washington: Kaiser Family Foundation and Health Research and Educational Trust, September 2007).

[4] Fifty percent of individuals with high-deductible health plans from employment (with no attached savings account) reported receiving no choice of health plan. Kaiser Family Foundation and Health Research and Educational Trust, op. cit. Forty-seven percent of employers that offer HSA-qualified high-deductible plans do not make a contribution to HSAs for family coverage, while two-thirds of such employers do not make a contribution to HSAs for individual coverage. Paul Fronstin and Sara R. Collins, *Findings from the 2007 EBRI/Commonwealth Fund Consumerism in Health Survey* (Washington: Employee Benefit Research Institute and Commonwealth Fund, March 2008).

[5] In 2007, non-group HSA-qualified plans had an average deductible of $2,905 for individuals and $5,329 for families. America's Health Insurance Plans, *Individual Health Insurance 2006-2007: A Comprehensive Survey of Affordability, Access, and Benefits* (Washington: America's Health Insurance Plans, December 2007).

[6] U.S. Census Bureau, *2006 Current Population Survey* (Washington: Census Bureau, August 2007), available online at http://factfinder.census.gov/.

[7] Ibid.

[8] Ibid.

[9] This study examined the ability of families earning below 300 percent of poverty ($52,800 for a family of three in 2008) to afford the deductibles of high-deductible health plans with their savings. Numbers reported represent the net financial assets of families, figures that consider liquid assets, stock and bond equity, and unsecured debt. It is important to note that average incomes for African American and Hispanic households actually fall well below 300 percent of poverty, at 182 percent and 215 percent, respectively. Paul D. Jacobs and Gary Claxton, "Comparing the Assets of Uninsured Households to Cost Sharing under High Deductible Health Plans," *Health Affairs* 27, no. 3 (2008): W215-W221. Income data were taken from the U.S. Census Bureau, op. cit.

[10] This calculation is based on median household incomes in 2006. Source: U.S. Census Bureau, op. cit. The legal maximums for out-of-pocket expenses of high-deductible health plans with health savings accounts are $5,600 for individuals or $11,200 for families in 2008. U.S. Department of the Treasury, *Health Savings Accounts* (Washington: U.S. Department of the Treasury, January 2008).

[11] U.S. Department of the Treasury, op. cit

[12] Robert H. Brook, Emmett B. Keeler, Kathleen N. Lohr, et al., *The Health Insurance Experiment: A Classic RAND Study Speaks to the Current Health Care Reform Debate* (Santa Monica: RAND Corporation, 2006).

[13] Centers for Disease Control and Prevention, *Early Release of Selected Estimates Based on Data from the January–September 2007 National Health Interview Survey* (Atlanta, GA: CDC, March 2008).

[14] Karyn Schwartz, *Spotlight on Uninsured Parents: How Lack of Coverage Affects Parents and Their Families* (Washington: Kaiser Commission on Medicaid and the Uninsured, June 2007).

[15] This study found that Asian Americans, African Americans, and Hispanics with diabetes were 85 percent, 103 percent, and 46 percent more likely, respectively, to experience end-stage renal disease than whites. Andrew Karter, Assiamira Ferrara, Jennifer Liu, et al., "Ethnic Disparities in Diabetic Complications in an Insured Population," *Journal of the American Medical Association* 287, no. 15 (2002): 2,519-2,527.

[16] H. Joanna Jiang, Roxanne Andrews, Daniel Stryer, et al., "Racial/Ethnic Disparities in Potentially Preventable Readmissions: The Case of Diabetes," *American Journal of Public Health* 95, no. 9 (2005): 1,561-1,567.

[17] Trends reported compare insurance plans with high deductibles ($1,000 or more) to insurance plans with lower deductibles ($999 or less). Adults with high-deductible plans report higher rates of not filling a prescription, skipping a specialist visit, skipping recommended treatment, and not seeing a doctor due to cost. Sarah R. Collins, Jennifer L. Kriss, Karen Davis, Michelle M. Doty, and Alyssa L. Holmgren, *Squeezed: Why Rising Exposure to Health Care Costs Threatens the Health and Financial Well-Being of American Families* (Washington: Commonwealth Fund, September 2006).

[18] Patricia F. Adams, Jacqueline Wilson Lucas, and Patricia M. Barnes, "Summary Health Statistics for the U.S. Population," *National Health Interview Survey, 2006* (Atlanta, GA: National Center for Health Statistics, Centers for Disease Control and Prevention, 2008).

[19] Kaiser Family Foundation, *Key Facts: Race, Ethnicity, & Medical Care* (Washington: Kaiser Family Foundation, January 2007).

[20] Robert H. Brook, Emmett B. Keeler, Kathleen N. Lohr, et al., op. cit.

[21] Jessica Greene, Judith Hibbard, James F. Murray, et al., "The Impact of Consumer-Directed Health Plans on Prescription Drug Use," *Health Affairs* 27, no. 4 (2008): 1,111-1,119.

[22] Odds ratios depicted account for age, sex, BMI, and health insurance status. Marguerite J. McNeely and Edward J. Boyko, "Type 2 Diabetes Prevalence in Asian Americans," *Diabetes Care* 27 (2004): 66-69.

[23] In 2006, more than nine out of 10 people with diabetes or chronic heart disease had to spend more than the minimum deductible for a high-deductible plan for their medical care. Steffie Woolhandler and David Himmelstein, "Consumer Directed Healthcare: Except for the Healthy and Wealthy, It's Unwise," *Journal of General Internal Medicine* 22 (2007): 879-881.

[24] Paul Fronstin and Sara R. Collins, op. cit. An estimated 2.3 million workers were in high-deductible plans with either health savings accounts or health reimbursement accounts in 2007. However, an estimated 5.2 million workers reported that they were in high-deductible plans that were eligible for health savings accounts, but they had not actually opened such an account.

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