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February 17, 2006

The Honorable John W. Snow
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Snow:

Thank you for appearing before the Committee on Ways and Means this week. We are writing to follow-up on questions asked about the Administration's assumptions and estimates for the effects of Health Savings Accounts (HSAs).

With so much of the President's health agenda now occurring through the Department of the Treasury, you are set to play an ever increasing role in the future of our health system. However, because your schedule left such limited time for questions during the hearing, we did not have an opportunity to complete our discussion on the details of President's health proposals and their anticipated effect on the health care system.

We would appreciate your sending a copy of the Treasury or Administration study on HSA estimates that you referenced in your response questioning by Congressman McDermott. In addition, attached are questions we have submitted for the record, though we would each appreciate a direct response as well. Similar questions were submitted for the record last year by Congressman Stark, but your answers were largely non-responsive and lacked detail. Given that this year's budget proposes to further expand HSAs, we hope that an additional year of experience under current law will have helped the Department produce more thoughtful analyses. It is hard to believe that the Administration would propose such dramatic, expensive changes without an inkling of understanding about how such policies would affect individuals, employers and the system.

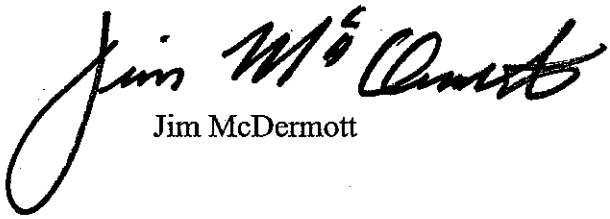
Your timely response to the attached questions is appreciated. Please label your responses according to the number of the original question. We believe that virtually all of our questions should be easily answered with data that were used to derive the estimates provided by the Administration in the budget documents. However, if you do not have the requested numbers, please simply state that and the reason for not having it (e.g., data do not exist). We are uninterested in rhetorical arguments. In addition, please cite original data sources for all

estimates. If your staff have any questions or need additional information, please contact Cybele Bjorklund on the Democratic staff of the Committee at 202-225-4021.

Sincerely,

Charles B. Rangel
Ranking Member

Pete Stark



Jim McDermott

QUESTIONS FROM CONGRESSMEN RANGEL, STARK AND McDERMOTT TO SECRETARY SNOW ON BUSH BUDGET PROPOSALS FOR HEALTH CARE

Submitted for the Record
February 15, 2006

1. **Coverage and participation estimates.** For several years we have requested information on the assumptions behind your budget estimates for the health tax proposals both during hearings and in writing. Unfortunately, previous requests have not yielded useful responses, despite that most of these data points were needed to derive your revenue estimates. Please provide a table with the following year-by-year estimates for 2007-2016, as applicable, for each HSA/high-deductible health plan (HDHP) proposal in the budget, as well as a cumulative column showing the total estimate (assuming interactions between the proposals) and data source(s) for each estimate --

- The number of people newly insured as a result of each proposal;
- The drop in employer-sponsored coverage as a result of each proposal, and specifically (1) the number of people who have shifted from employer-based coverage to the non-group market and (2) the number of people who became uninsured;
- The number of people in employer-based coverage who move from comprehensive to high-deductible coverage;
- The number of people who move from employer-based coverage to Medicaid or other public insurance programs (including high-risk pools), broken out by program type;
- The total number of new purchasers in the non-group market;
- The estimated take-up rate for by AGI and/or tax bracket;
- The estimated out-of-pocket costs as a percent of net income by AGI and/or tax bracket.

2. **Distribution of tax benefits.** Please provide distributional tables showing the estimated tax benefits for each policy, and cumulatively, by AGI and tax brackets.

3. **Effect on overall savings.** Your testimony claims that President's health agenda will make health care more affordable, and implies that it will lower spending. However, it appears that costs are simply shifted to individuals and overall health spending is not reduced. Indeed, these proposals cost the Treasury $156 billion over the next decade. Can you quantify claims of system savings, e.g., how much more affordable,

which costs will go down and by how much? Where precisely in the budget – or even in the underlying tables and analyses – are the savings from moving people to HSAs? Surely there would be interactions in public programs and tax benefits for employers?

4. **Effect on prices.** The *Economic Report to the President* acknowledges that high prices are one of the main drivers of higher premiums and overall US health spending. How much does the Administration expect prices for medical services will decrease as a result of these proposals? If actual prices were to go down, that would reduce spending in other federal health programs, such as Medicare and Medicaid. Are these interactions reflected in your estimates of federal spending? If not, why? If so, please detail the annual savings to each program for 2007-2016.

5. **HSA contributions.** Although employers can contribute to the HSA, they are not required to do so. In your modeling, what proportion of employers do you assume will contribute to the HSA? How much on average do you assume such employers will contribute? How much on average do you assume individuals or families will set aside? How much do you assume are off-setting reductions from other savings vehicles (e.g., retirement accounts, education accounts, etc.) and what is the distribution across vehicles? If you do not assume reductions in other savings vehicles, why (e.g., where do you assume the additional funds come from)?

6. **Indirect and other revenue effects of HSA proposal.** The budget shows that you assume the HSA proposals will cost us $59 billion over 5 years and $156 billion over 10 years in terms of lost revenue and new outlays. It is not clear whether this is a gross or net number. For example, does this estimate reflect any interaction with the employer exclusion for health benefits? How much additional revenue does the Administration expect to take in as a result of employers dropping or decreasing coverage for their employees (and potentially increasing taxable wages)?

7. **Premium increases for comprehensive insurance/non-participants.** Previous independent analyses from the Academy of Actuaries and others have indicated that widespread adoption of HDHPs/HSAs or of other policies that could induce adverse selection (e.g., Association Health Plans or AHPs) would dramatically increase premiums for traditional insurance. For example, CBO projects that AHPs would cause increased premiums for 80 percent of people covered by small businesses. What does the Administration assume happens to premiums for comprehensive policies under the HSA expansion assumed in the budget? If you did not perform this analysis, please explain why.

8. **Payroll tax effects.** Because HSAs are exempt from all taxes, including payroll taxes (e.g., contributions by employers are not taxed), they reduce funding for the Medicare and Social Security trust funds. How much revenue is lost to each Trust Fund as a result of (1) your latest estimates under current law and (2) adoption of the President's HSA proposals in this budget?

It is theoretically possible that you anticipate increased Trust Fund receipts if you assume that employer health benefit expenditures are reduced and wages are commensurately increased as a result of HDHPs/HSAs. If so, what are your estimates for increased payroll tax revenue as a result of these policies?

9. **Portability**. You mentioned "portability" in your testimony, but I can't find anything in the budget or other documents to explain what you mean. What is the Administration's portability proposal?

10. **Market access.** Health insurance premiums in the individual market are determined by age, gender, and health status among other things. Older and sicker individuals have to pay more than the young and healthy to get coverage. These practices greatly favor insurance companies, which have the power to deny insurance coverage altogether, or refuse to cover services that a patient might need, such as maternity care. What new proposals does the Administration have to require insurance companies to issue non-group policies to all applicants? What new proposals does the Administration have to limit the ability of non-group issuers to charge certain applicants higher premiums based on their age, gender, health status or other factors?

11. **Consumer protections in non-group market.** Nearly all states allow health insurers in the non-group market to use medical underwriting to refuse to sell policies and to charge certain applicants higher premiums or exclude certain body parts or conditions, based on the applicant's health history or history of someone in their family. These practices mean that insurers can selectively enroll applicants for all policies, including high-deductible health plans (HDHPs). Does the President propose or support any measures to require insurance companies to issue policies to all applicants without medical underwriting? If not, how do you propose to ensure that all people seeking HDHPs and HSAs are able to get them? If you suggest that certain folks turn to high-risk pools or other non-HDHP sources, wouldn't that prohibit them from being able to open and maintain a health savings account?

12. **Possible interaction with medical expense deduction.** Do you show an increase in the number of people eligible for the 7.5% deduction as a result of the shift to HSAs? If so, what is the year-by-year comparison relative to assumptions or projections under current law?