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Goodman's medical savings accounts become a hot alternative to overhauling health care

By Laurie McGinley **Apr 12, 1995**

Last year, medical savings accounts were a sideshow in the health-care reform circus. But this year they may be the main event -- at least if it's up to John Goodman.

Not John Goodman the actor, but John Goodman the little-known Texas economist who, armed with his book "Patient Power," has spent years prowling Capitol Hill peddling the savings-account idea -- a kind of medical individual retirement account -- in mind-numbing detail. These days, the self-anointed father of medical savings accounts has pulled off a neat feat: He and his pet project are suddenly hot.

Medical savings accounts, though included in several health-care overhaul proposals last year, were viewed by many Democrats as a peripheral issue. This year, they're a central plank in every GOP health-overhaul plan. Texas Sen. Phil Gramm calls the idea "powerful medicine within easy reach." Sen. Dan Coats, an Indiana Republican, says "it's the one reform that truly affects behavior." Other fans include House Speaker Newt Gingrich of Georgia, Senate Majority Leader Robert Dole of Kansas, House Ways and Means Committee Chairman William Archer of Texas and Rep. William Thomas of California, chairman of the panel's health subcommittee.

But the rising interest is sparking criticism from those who claim the plans won't work as advertised. "They're a bad idea," says Rep. James McDermott, a Washington Democrat. Health-maintenance organizations and other managed-care companies feel threatened by them. Big business, while reluctant to take on the Republicans, is quietly expressing some uneasiness.

Nevertheless, many expect some type of medical savings account to pass this Congress, and that underscores how substantially the health-care debate has shifted. Last year's debate focused on how to extend insurance coverage to everyone. Medical savings accounts, on the other hand, are aimed at reducing health-care consumption.

Mr. Goodman, who has been one of the most zealous promoters, is getting a close hearing for his ideas in part because of his long ties to two other well-placed Texas economists, Sen. Gramm and House Majority Leader Dick Armey. Providing muscle to the movement is J. Patrick Rooney, chairman of Indianapolis-based Golden Rule Insurance Co., which shows other employers how to set up medical savings accounts and sells the catastrophic policies that accompanies them.

Mr. Rooney, who is known for his aggressive business tactics and clashing with state insurance regulators, is a big Republican contributor. In recent years, Mr. Rooney and his Golden Rule associates have given more than $160,000 to Mr. Gingrich's campaigns and his political-action committee, and Golden Rule also has contributed to Mr. Gingrich's television show. During the

1993-94 election cycle, Golden Rule gave more than $520,000 in "soft" money, which can be used for party-building activities, to Republican Party organizations, according to Common Cause. And Mr. Rooney last year provided "less than 4%" of the $2.5 million budget for Mr. Goodman's Dallas think tank, the National Center for Policy Analysis. Mr. Rooney wasn't available to comment.

The proposals for medical savings accounts come in all shapes and sizes, but the general notion is this: An employer, instead of providing employees with a low-deductible, comprehensive health policy instead buys a catastrophic policy with a high deductible -- $2,000 to $3,000. The money the company saves on premiums goes into a tax-exempt medical savings account that the employee taps to pay for day-to-day medical expenses. The workers get to keep what they don't spend; that will make them much more prudent purchasers of health-care services, proponents say. Self-employed individuals could set up their own tax-favored accounts.

Proponents say the accounts would not only restrain health-care spending by making consumers more cost-conscious but also would empower patients to call the shots. Moreover, "the physician-patient relationship will be freed from the intrusion" of third-party payers, says the American Medical Association, an enthusiastic supporter.

But critics argue that medical savings accounts could encourage consumers to skimp on needed preventive care in an effort to save money. They argue that healthier people will naturally gravitate toward the accounts, leaving the sickest covered by conventional plans and driving up those costs. And, as with all tax deductions, people making more money get a bigger break than those making less.

Others contend the accounts would badly damage managed care -- the main weapon big corporations are using to hold down health-care costs. While the accounts feature high deductibles and unrestricted choice of doctors by consumers, managed-care plans eliminate or reduce deductibles and co-payments in exchange for limits on doctor choice.

Mr. Goodman and other supporters of medical savings accounts reject many of the criticisms and say others can be dealt with in legislation. For example, they argue that the accounts would encourage preventive care because the money in the account would be available immediately -- unlike in a standard policy, which requires that a deductible be met. And they insist the accounts can be structured to work with managed care.

Proponents also note that a number of companies have begun offering their employees medical savings accounts developed by Golden Rule, including Mr. Goodman's think tank, Forbes magazine and Golden Rule itself. These companies report good results and high employee satisfaction. Golden Rule, for example, says its health-care costs have declined and that last year each employee got to keep an average of $1,000 at the end of the year. But critics say these plans haven't been studied independently and that their long-term impact on employee health and pocketbooks isn't clear.

The debate has thrust Mr. Goodman into this year's battle over health care. His think tank, which he founded in 1983 with three people, now has 28 employees and such well-known conservative

advisers as Pete DuPont, the former governor of Delaware. But just when everything seemed to be going well for proponents, Mr. Goodman added a new twist. In a recent proposal offered with Mark Pauly, a health-care economist at the University of Pennsylvania, Mr. Goodman came up with a new version of the account that would be set up with after-tax dollars, provide a tax credit rather than a tax deduction and allow tax-free withdrawals for spending on nonmedical as well as medical bills.

The new idea won some applause from conservative economists who don't want health-care spending to get preferential treatment. And credits are considered more beneficial to lower income people than deductions. But the proposal infuriated die-hard medical savings account backers, who lament that it won't provide enough of a tax incentive to make it appealing.

"I was stunned," says Dan Perrin, executive director of the Business Coalition for Affordable Health Care, a coalition of groups representing small businesses that was created to push medical savings accounts. Rep. Archer's medical savings account bill, which will probably be introduced in early May, reflects the original thinking on the medical savings accounts -- but is unlikely to incorporate Mr. Goodman's latest version.

Mr. Goodman isn't worried. "Anything," he says, "is better than what we have now."