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Saving the Medicare System With Medical Savings Accounts

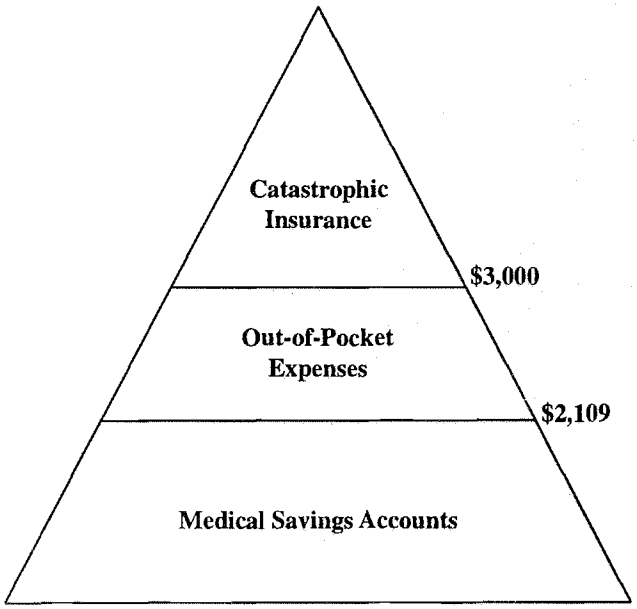
Earlier this year, the National Center for Policy Analysis addressed the Medicare financing crisis with a proposal similar to the one now being considered by the Republican leadership in Congress. Under this plan, the elderly would be given a voucher allowing them to obtain coverage from a full range of private sector options, including a Health Maintenance Organization (HMO). However, the most interesting option would be catastrophic insurance paired with a Medical Savings Account (MSA).

Patient power through Medical Savings Accounts. Under the MSA alternative, the elderly would have catastrophic insurance plus a Medical Savings Account. They would control more of their own health care dollars without answering to a health care bureaucracy and would likely become more value-conscious shoppers in the health care marketplace.

FIGURE I

Restructuring Medicare

(MSAs With Managed Care)



What could private insurers do with voucher money? Milliman & Robertson analyzed the cost of high-deductible policies with and without a managed care element for Medicare beneficiaries and estimated the amount of money that would remain for the MSA. According to the analysis:

Without managed care, private insurers could put about $1,500 in a Medical Savings Account for each beneficiary and the insurance policy would pay for all expenses above $3,000.

With managed care, private insurers could put about $2,100 in a Medical Savings Account and pay for all medical bills above $3,000. [See Figure I.]

Protection against health care costs. One problem with the current Medicare system is that it leaves seniors exposed to thousands of dollars in catastrophic health care expenses. By contrast, the MSA plan would allow beneficiaries to obtain real catastrophic insurance.

For example, more than 418,000 Medicare beneficiaries currently pay more than $5,000 out of pocket every year. Under the plan illustrated in Figure I, their out-of-pocket expenses could not exceed about $900 in 1996.

Cash refunds for being prudent purchasers of care. Under the current Medicare system, if a patient does something to eliminate waste, the benefit of that action goes to the government. But under the MSA option, elderly patients who make wise and frugal choices would realize financial benefits. They would keep any money they had not spent at the end of each year. Thus, Medicare beneficiaries would receive up to $2,100 a year in cash.

Coverage for prescription drugs and other services. Under the current system, Medicare does not pay for most prescription drugs and this leaves the elderly at risk for limitless pharmaceutical expenses. But under the MSA plan, beneficiaries could have coverage for services not currently covered by Medicare by accepting a modest decrease in their MSA balance. For example, the voucher plan would allow private insurers to extend coverage to drugs and other items. Instead of a $2,100

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MSA deposit, people could have drug coverage and receive a Medical Savings Account deposit of about $1,500.

Meeting the congressional budget goals without any loss of benefits. A peer-reviewed analysis by Milliman & Robertson demonstrates that this proposal for reforming Medicare could save $270 billion over the next seven years, and that Medicare beneficiaries would get more — not less — protection against health care costs. Specifically, a voucher plan allowing the elderly to switch from Medicare to Medical Savings Accounts and catastrophic health insurance would save as much as $195 billion without any other changes.

Extending the program to the disabled and making modest reductions in the amount of the voucher would save an additional $40 billion.

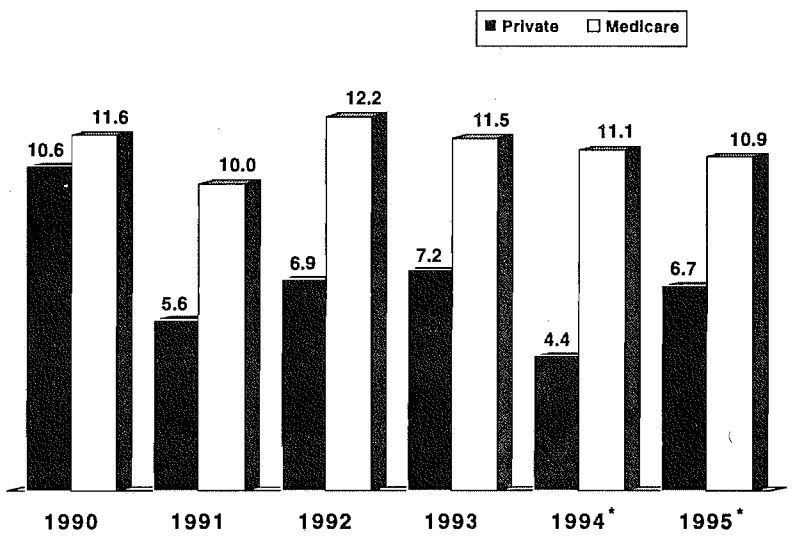
Such options as means-testing benefits by requiring the highest-income elderly to pay higher premiums or increasing the age of eligibility (currently 65) by one month per year would save at least $30 billion more.

More savings and an economic boost. Currently, Medicare costs are growing faster than private sector health care costs, causing medical inflation for everyone. [See Figure II.] Less health care spending by the elderly would ease the pressure on all medical prices and slow the rate of increase in health spending. Using the National Center for Policy Analysis/Fiscal Associates Health Care Model, the NCPA finds that by the year 2005, Medicare spending would be 18 percent lower than currently projected spending, and total U.S. health care costs would be 8.7 percent lower. Spending on all health care would decrease by $186 billion and the output of other goods and services would increase by $241 billion.

FIGURE II

Health Care Spending

(Average annual percent change)



* Projected

Source: Health Care Financing Administration, National Health Expenditure Accounts.

Best news of all: seniors would benefit. This MSA plan is better than traditional Medicare in at least five ways:

- The plan provid-es full coverage for expenses over the deductible, while Medicare leaves seniors exposed to catastrophic expenses that could devastate their savings.
- With the MSA, out-of-pocket exposure could be virtually eliminated by encouraging the 70 percent of the elderly now paying for private Medigap insurance to contribute their Medigap premiums (about $1,200 per year) to their MSA.
- The MSA funds could be used to pay for health expenses such as prescription drugs, which are not covered by Medicare.
- At the end of the year, the beneficiaries could withdraw and spend their remaining MSA funds for any purpose, thus sharing directly in the reward for keeping Medicare costs down.
- People with MSAs plus catastrophic insurance would be free from Medicare rationing restrictions and from concerns about quality of and access to care.

This Brief Analysis was prepared by NCPA President John Goodman, Senior Fellow Peter Ferrara and Health Policy Director Merrill Matthews Jr.

Note: Nothing written here should be construed as necessarily reflecting the views of the National Center for Policy Analysis or as an attempt to aid or hinder the passage of any legislation.