

BRIEF ANALYSIS

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MSAs: What's at Stake for Patients

Medical Savings Accounts (MSAs) give people a new way to pay for health care. They allow individuals to move from a conventional, low-deductible health insurance plan to one with a high deductible (say \$3,000) and to put the premium savings in a personal savings account. The individual uses his or her account to pay for routine and preventive medical care, and the high-deductible policy pays for major expenses. Individuals who have money left over in the MSA at the end of the year can withdraw it or roll it over to grow with interest.

Medical Savings Accounts have become a very popular health insurance alternative. More than 2,000 employers have adopted some version of an MSA plan. In addition, 18 states now allow tax-free deposits to MSAs under their state income tax codes. The apparently universal experience is that MSA plans reduce health care spending by giving employees incentives to manage their health care dollars wisely.

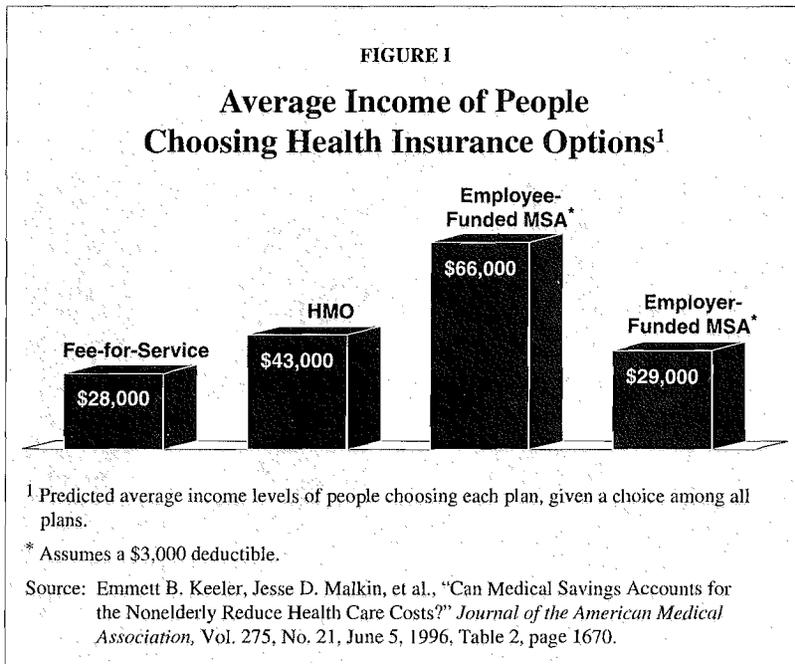
Currently, employer deposits to Medical Savings Accounts are subject to federal income and payroll taxes. However, employer-paid health insurance premiums are not taxed. Legislation now before Congress would allow tax-free MSA deposits, leveling the playing field among MSA plans, fee-for-service insurance and HMOs.

Senator Edward Kennedy (D-MA) objects to the proposal, asserting that MSAs would appeal only to the healthy and wealthy. However, a recent study produced by the prestigious Rand Corporation disputes this assertion. In addition, new research from the Urban Institute

finds that racial minorities would gain the most from MSAs. And a new poll by Harvard researchers raises serious questions about the primary alternative to MSA plans: managed care.

MSAs only for the healthy? Rand says no. Rand researchers conclude that MSAs would be attractive to those who expect to face high health care costs. That's because potential out-of-pocket expenses under traditional health insurance, which requires deductibles plus copayments, are higher than under MSA plans. Thus sick people pay more under a traditional health insurance policy than under an MSA plan.

MSAs only for the wealthy? Rand says no. Under legislation now before Congress, Medical Savings Account deposits could be funded by employees or employers — but not both. Rand researchers compared employee-funded MSAs with employer-funded MSAs as well as traditional health insurance and HMOs. The conclusion: almost three-fifths (57 percent) of the population would choose an MSA if given the opportunity.



As Figure I shows, employees choosing the employer-funded MSA plan (the most popular MSA option) would have an average income of \$29,000, only slightly higher than those remaining in fee-for-service plans (\$28,000) and well below the income of those choosing an HMO (\$43,000).

MSAs good for minorities? Urban Institute says yes. In a separate analysis, the Urban Institute estimates that about 80 percent of nonelderly Americans would gain by switching to an MSA plan. The proportion of blacks who would benefit (83.9 percent) is even higher than for whites (79.2 percent). Although the sampling of Hispanics is too small to be statistically significant, the

percent of Hispanics who would gain from MSAs (91.2 percent) is also higher than for whites.

Will MSAs save money? Rand says maybe. Private employers report that health care spending drops significantly after the introduction of MSAs. Rand estimates smaller savings under the proposed legislation. The reason: the treatment of MSA withdrawals for nonhealth purposes would reduce people's incentive to economize on health spending. Currently, account holders can withdraw unspent MSA dollars at year-end and spend them on something else. Under the legislation, each dollar withdrawn would be subject to income taxes and a 15 percent penalty.

According to Rand, if everyone in the under-65 population switched to an MSA, health care expenditures would decline between 6 and 13 percent. However, savings might be nonexistent if people can make an unbiased choice among all the insurance options. (Note: Most employers do not allow their employees to make choices among all insurance options.)

Even if Rand's estimate that little money will be saved is correct, MSAs are still desirable. They allow individuals to make their own health care decisions and, as a new survey of HMO patients indicates, they may enable them to get better health care.

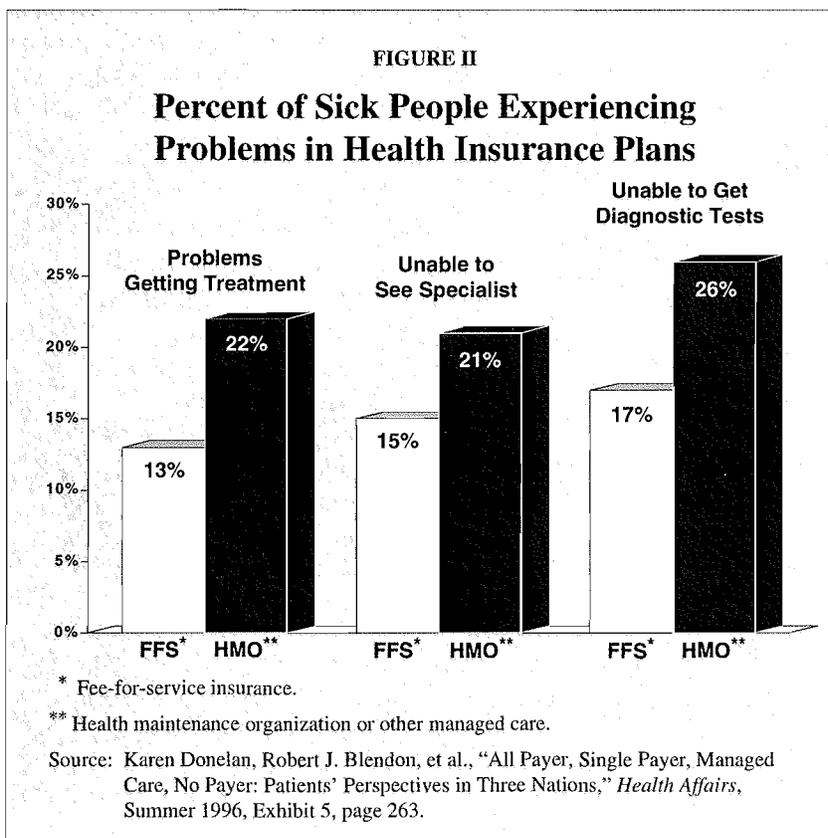
Harvard Poll: HMOs may be harmful to health. Critics of managed care have long contended that HMOs limit patient choices and often preclude patients from seeing specialists, obtaining diagnostic tests and getting other needed health care. Public opinion polls seemed to

contradict this contention, showing that, on the average, HMO enrollees were just as satisfied with their health plans as fee-for-service enrollees. HMO critics responded by observing that HMOs skimp only on the small number of patients who are actually sick and may overprovide services to the healthy.

Now, a new survey of sick people confirms the critics' contention that patients in managed care plans

face more obstacles, even when both the physician and patient believe care is needed. According to a survey by health economists at the Harvard School of Public Health, "In all, 15 items (out of 66) revealed significant differences between limited-choice managed care and fee-for-service plans. For all but two items (needing to fill out forms and out-of-pocket costs), the finding was more favorable to fee-for-service plans than to managed care plans."

As Figure II shows:



- Managed care patients were almost twice as likely to complain that they were not getting treatment they and their doctors thought necessary.
- Managed care patients were about 50 percent more likely to be unable to see a specialist or to get needed diagnostic tests.

Conclusion. Mounting evidence demonstrates that the criticisms against Medical Savings Accounts are unfounded. However, there is a legitimate concern about the quality of health care received by patients in HMOs.

This Brief Analysis was prepared by NCPA President John C. Goodman and Vice President Merrill Matthews.