



BRIEF ANALYSIS

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The Bush Health Agenda — Part I: Strengthening Employer-Provided Health Insurance

by Mark McClellan, M.D., Ph.D.

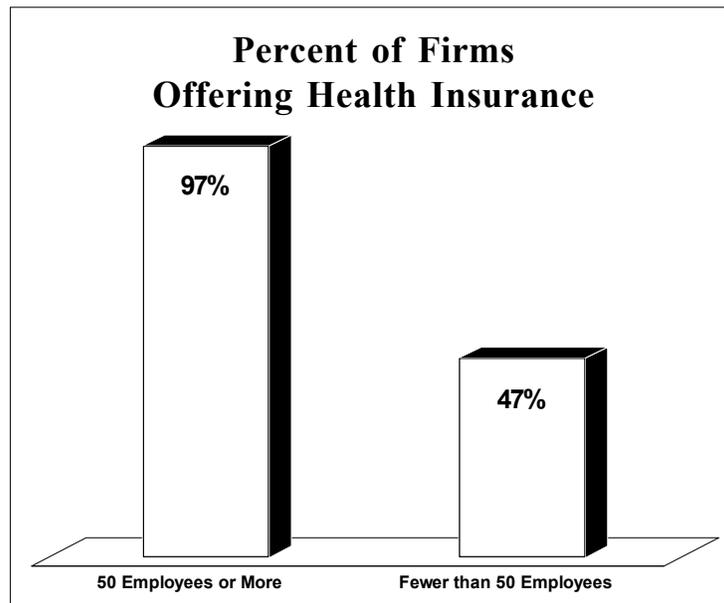
Almost 40 million Americans go without health insurance coverage for an entire year, and as many as 20 million others are without health insurance coverage during some part of the year. The vast majority of the uninsured are in families with at least one employed worker, and employers and employees everywhere are struggling with another year of rapidly rising health care costs.

The Bush administration has introduced a comprehensive set of proposals to make health insurance more affordable and to create new options for the uninsured. These proposals are part of the broad vision of a patient-centered health care system that combines high quality with universal accessibility. To transform the vision into reality, the proposals focus on:

- Strengthening employer-provided health insurance by creating new options for employers and employees.
- Enabling millions of workers who lack access to employer-provided coverage to obtain coverage through a system of health insurance tax credits.
- Enlarging the health care safety net through a major expansion of community health centers.

Needed Changes in the Tax Laws. A recent, major trend in private employer-provided insurance

has been enrollment in preferred provider organizations (PPOs) and point-of-service (POS) plans that give employees more choices of providers and less health maintenance organization (HMO) red tape. Unfortunately, current tax law does not support this trend. While an employer's premium payments are generally excluded from an employee's taxable income, employees must make out-of-pocket payments with after-tax earnings, and PPO and POS plans generally have significant deductibles and co-payments. Thus the tax law favors the HMO approach, in which almost all health dollars are controlled by a third-party payer, over an approach that allows employees to manage some of their own health care dollars.



Medical Savings Accounts. President Bush has proposed to loosen the restrictions on Archer Medical Savings Accounts (MSAs), which are health accounts employees can use to pay insurance deductibles, co-payments and small medical bills not covered by insurance. The proposed changes would expand employee choice and allow individuals to make pretax contributions to a health account they could combine with

a much broader array of insurance plans than is possible today.

Under the proposal, all employees and individuals who purchase a health plan with a significant deductible (at least \$1,000 for individuals and \$2,000 for couples and families) would be eligible to contribute to an MSA up to the amount of the deductible. Health plans could offer first-dollar coverage for preventive services without it counting against the deductible.

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This would be a significant improvement over current law, which requires very high deductibles, forbids first-dollar coverage for any service and allows only partial funding of the MSA each year. Also, current law restricts tax-favored MSAs to firms with 50 or fewer employees. The Bush proposal would make the improved MSAs available to all employees without regard to the size of their firms.

The substantial reduction in the deductible and the enhanced opportunity to use pretax dollars to pay out-of-pocket health care costs will add significantly to the value of MSA plans. As a result, less-healthy individuals will find MSA plans more attractive. People with substantial health care needs may find that such a plan compares favorably to low co-payment plans, which typically limit access to providers and to costly medical treatments.

Flexible Spending Accounts. The Bush administration also supports improvements in Flexible Spending Accounts (FSAs). Currently, a use-it-or-lose-it rule encourages employees to either spend all of the money in the account by year-end or forfeit whatever remains. Under the new proposal, employees will be able to retain as much as \$500 in unspent health care contributions to use the following year or to deposit in their 401(k) plan for their postretirement needs.

Health Reimbursement Arrangements. Recently, the Department of the Treasury issued new guidance on the tax treatment of health reimbursement arrangements (HRAs). Employers use HRA accounts to make funds available to their employees to pay medical expenses directly. The Treasury Department guidance clarifying that these accounts can roll over year-to-year tax free is consistent with the administration's goals. Together, they will make it easier for employers to adopt health plans with patient-directed features, giving employees more choice and greater control over their health care coverage.

Association Health Plans. The administration also supports the creation of association health plans

(AHPs) to enable small businesses to offer their employees the more feature-rich, more affordable health insurance options that many large employers can offer.

Under the new proposal, the Department of Labor will regulate the AHPs, as it does existing self-funded employer plans. AHPs will have to be organized under the aegis of bona fide associations that have existed for at least three years and will not be approved if they are formed solely to provide health insurance. Further, they will have to meet minimum size standards and be certified by the Labor Department before offering benefits. AHP solvency and benefit design requirements will be strict. Those who manage AHPs will face strong sanctions, including criminal penalties, for violations of the standards.

By lowering the cost of providing health benefits, AHPs will encourage and enable more small businesses to offer them. Small businesses are far less likely than larger businesses to offer health benefits. In 1999 only 47 percent of firms with fewer than 50 employees offered health benefits compared with 97 percent of larger firms. [See the figure.]

Many health care analysts agree that AHPs will significantly increase the number of small-firm employees and dependents with health insurance coverage. For example, agricultural and service industry workers will benefit from the reduced cost and increased portability of health plans their employers will be able to offer through trade associations. Most importantly, AHPs will enable the nation to begin closing the gap in health care coverage for employees of small businesses by giving millions of these workers, their spouses and their children greater access to more affordable coverage and real choices in how they receive their coverage.

See also The Bush Health Agenda — Part Two: Tax Credits for the Uninsured.

Mark McClellan, M.D., Ph.D., is a member of the President's Council of Economic Advisers.

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