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Answering the Critics of Health Accounts

by Michael F. Cannon

Many more Americans could save for current and future health care expenses in tax-free "health accounts" under a proposal by House Ways & Means Committee Chairman Bill Thomas (R-Calif.). The House of Representatives passed the Thomas proposal as part of the Medicare prescription drug bill, which is now before a House-Senate conference committee. Opponents want to strip health accounts from the Medicare bill, but their criticisms do not withstand scrutiny.

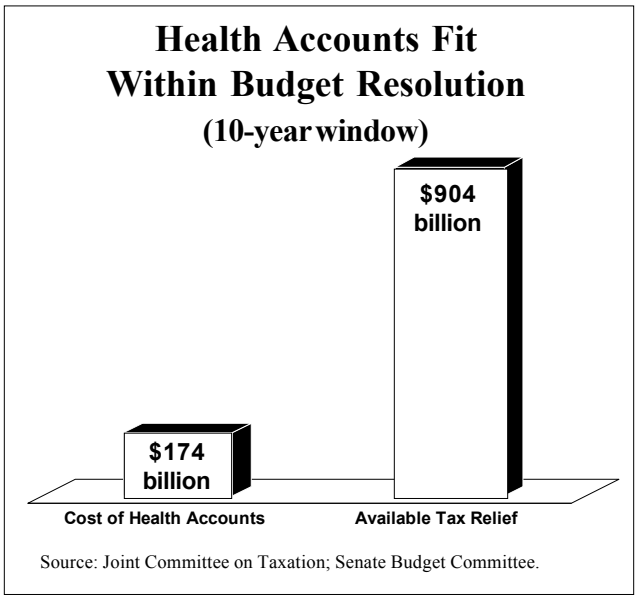
Benefits of Health Accounts. Expanding health accounts would dramatically improve health care in America. Among the advantages for consumers:

- Health accounts increase patients' control over their health care dollars, reducing the need for managed care rationing.
- Health accounts are designed to be portable, so that changing jobs no longer means losing coverage.
- Health accounts allow people to save for their retirement health needs.

The health care system as a whole would also benefit from expanding health accounts:

- Health accounts help reduce the number of uninsured Americans by making coverage more affordable — for example, 73 percent of Americans with Medical Savings Accounts (MSAs) were previously uninsured, according to the Internal Revenue Service.
- Health accounts help contain medical inflation by giving consumers incentives to forgo unnecessary care and become prudent shoppers.
- Health accounts eliminate waste and bureaucracy in the health care system by giving patients a stake in the savings.

A January 2003 Zogby International Poll found that 74 percent of likely voters want the option of opening an MSA.



Source: Joint Committee on Taxation; Senate Budget Committee.

Current Options. In addition to MSAs, there are currently two other types of health accounts: Flexible Spending Accounts (FSAs) and Health Reimbursement Arrangements (HRAs). To varying degrees, all three allow pre-tax deposits into savings accounts dedicated for medical expenses.

Yet each has restrictions that limit its usefulness. FSAs and HRAs are available only through employers. MSA eligibility is even more restrictive, and enrollees may purchase only one type of insurance. FSA and HRA enrollees do not truly own the money in their accounts, do not earn interest, and cannot spend unused funds on nonhealth items. In fact, FSA enrollees forfeit all unspent funds at year's end.

Chairman Thomas' Proposal. The Thomas bill would combine the best features of existing options in two new health accounts: Health Savings Accounts (HSAs) and Health Savings Security Accounts (HSSAs). The new accounts would be available to all workers and would allow more flexibility when choosing a health plan than do MSAs. (Even people who do not want or cannot find insurance could establish an HSSA.) Funds in the new accounts would grow tax-free and enrollees could use unspent balances for nonhealth care expenses. Workers could even roll-over $500 of unused FSA funds into an HSA or HSSA.

Despite their benefits, health accounts have received a barrage of unfounded criticism.

Myth: Patients with Health Accounts Forgo Needed Care. Critics claim people skimp on needed medical care in order to save money. Yet the evidence shows that when people take greater responsibility for their medical care, they fare just as well as others.

In South Africa, where MSAs have captured half of the private health insurance market, an NCPA study found no evidence that MSA holders skimp on needed care. This is consistent with a major finding of the RAND Health Insurance Experiment, which randomly assigned people to high-deductible health plans and plans where health spending was heavily subsidized. Both groups had similar health outcomes even though those with high-deductible plans spent less on health care. This is particularly significant since the high-deductible plans in the RAND experiment gave

even *greater* incentives to forgo care than do health accounts.

Myth: Health Accounts Don't Control Costs. In South Africa, health account holders on average pay 11 percent less for nonchronic prescription drugs than those with traditional insurance, because health accounts encourage patients to shop and control costs. Such economizing explains why health account premiums in South Africa are growing at the same rate as income — and are *declining* relative to income when enrollees' savings are subtracted – while traditional health insurance premiums are rising at an increasingly faster rate than income.

Senate Minority Leader Tom Daschle (D-S.D.) and Sen. John Breaux (D-La.), sensed this when they introduced a health accounts bill in 1992: "We feel that, while the [health accounts] concept does not provide the total solution to the crisis in health care access, it does begin to address the critical aspects of increasing costs and utilization by consumers."

Myth: Health Accounts Help Only the Healthy & Wealthy. This perennial criticism says health accounts attract desirable risks away from traditional insurance pools and increase premiums for those who remain. The criticism is rebutted by numerous studies.

A separate RAND study found that when given a choice of MSAs or managed care plans, the families that chose MSAs had *lower* incomes and *greater* health care needs than families that chose managed care. The Urban Institute has concluded, "on average, lower wage workers would benefit from switching to MSA/catastrophic plans." Finally, NCPA's study of the South Africa experience concluded that MSA holders were not healthier as a group.

Moreover, this criticism has it backward. People are already abandoning insurance pools because third-party insurance has become too expensive.

The Census Bureau estimates that from 2000 to 2001, the number of uninsured Americans with annual household incomes above $75,000 grew by one million, making them the fastest growing uninsured population. The Center for Studying Health System Change reports one-fifth of uninsured workers are offered — but decline — employer coverage, and two-thirds say cost is the reason. Health accounts would help bring these people back into private insurance pools, which would make coverage more affordable for those who are *not* healthy and wealthy.

Myth: Patients with Health Accounts Pay Higher Prices. In virtually all MSA plans, patients spending from their MSAs pay the same prices their third-party insurer pays — rates negotiated with provider networks. But even when they go outside of the network, patients spending their own money often pay lower prices than large insurers because doctors are willing to give discounts if they can avoid the costs of dealing with bureaucracies.

Myth: Health Accounts Encourage Employers to Cut Benefits. The opposite is true. If employers are itching to cut benefits, they do not need a new law. They can do so right now. The reason they do not is they must compete for workers. Employers who cut benefits risk losing workers to the competition, with or without health accounts.

Moreover, health accounts make it easier for employers to offer health benefits because they contain costs better than third-party coverage. Health accounts also increase demand for health benefits by offering workers greater control over their medical care, plus the opportunity to invest what they otherwise might waste on expensive coverage they do not use.

Myth: HSSAs Would Shift Costs. Some insurers criticize the Thomas proposal for not requiring HSSA enrollees to purchase health insurance. They fear this would encourage people to forgo insurance and shift costs to other payers.

Yet many enrollees would be people who already forgo insurance. Having an HSSA would mean *fewer* of their health costs would be shifted to other payers. Moreover, they and other HSSA holders would have a huge incentive to purchase health insurance: to protect the significant savings they would build up over time. Finally, people with expensive health problems who cannot find coverage should not be discriminated against by requirements designed to profit a particular industry.

Myth: Budget Rules Won't Allow Health Accounts. Some argue the Thomas proposal costs too much, because it would lower tax revenues by $174 billion over 10 years. Others suggest it would cause the Medicare bill to exceed the $400 billion spending limit set for prescription drug coverage. Yet health accounts count as tax relief, not spending. The current budget resolution allows for another $904 billion in tax relief over the next 10 years. [See the Figure.] Not only is there plenty of room in the budget for health accounts, there is plenty of room to expand them.

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