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ObamaCare Is the Problem, Health Savings Accounts Are the Solution

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Health policy economists are puzzled by a persistent slowdown in the growth of health care spending that seems to have started in mid-2005, and accelerated since then. As the Wall Street Journal noted, "The health [spending] growth rate has flattened out at about 3.9% over the last three years — a record low since the 1960s and down from the old normal of 6.2% to 9.7% in the 2000s."[1]

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At first, economists thought that the recession was causing the slowdown in spending, because people didn't have the income to increase health care spending as much as in the past. But new research published in *Health Affairs* provides "evidence that the moderation [in rising health spending] is durable, and that it is structural — the result of permanent changes in the health system itself rather than the business cycle."[2] The *Health Affairs* papers indicate a sharply reduced role for the recession in slowing the rise in health spending, and a greater role for market choice, competition and incentives. But even these folks don't have the full story.

The HSA Revolution. Traditional health insurance involves a low deductible, leaving the insured to pay only the first few hundred dollars of expenses each year, with the rest of the bills covered by the insurance. Sometimes the insured makes a modest copay above the deductible. That structure creates the "third party payment" problem. With the insurance company paying virtually all the bills, neither the patient nor the doctor have any incentive to control costs. They decide between themselves what and how much health care to consume, and bill the insurer. Naturally, this process makes health insurance very expensive.

Congress enacted Health Savings Accounts (HSAs) into law in December 2003. HSAs are designed to greatly reduce the cost of health insurance by offering coverage with a high deductible, in the range of $2,000 to $6,000 a year or more. The savings achieved from the lower premium expense then funds the HSA, which pays for health care costs below the deductible. The patient keeps any leftover HSA funds for future health care expenses, or to spend on anything in retirement. This process creates full market incentives to control costs for all noncatastrophic health care expenses, because the patient is effectively using his or her own money to pay for them. Since the patient is now concerned about costs, doctors and hospitals will compete to control costs.

The premium savings from a higher deductible is generally enough to finance a substantial deposit to an HSA. And after one healthy year, the insured typically has more than enough in the HSA to pay for all subsequent expenses below the deductible. Moreover, patients with HSAs enjoy complete control over how to spend their HSA health care funds.

They don't need to ask for the approval from a health insurance company to spend their HSA funds on the health care they want.

HSAs can be advantagous for vulnerable populations, particularly the sick and the poor. Because they have complete control over their HSA funds, the sick become empowered consumers in the medical markplace. Because they can pay for care themselves out of their HSA accounts, the poor have ready access to a wide range of providers.

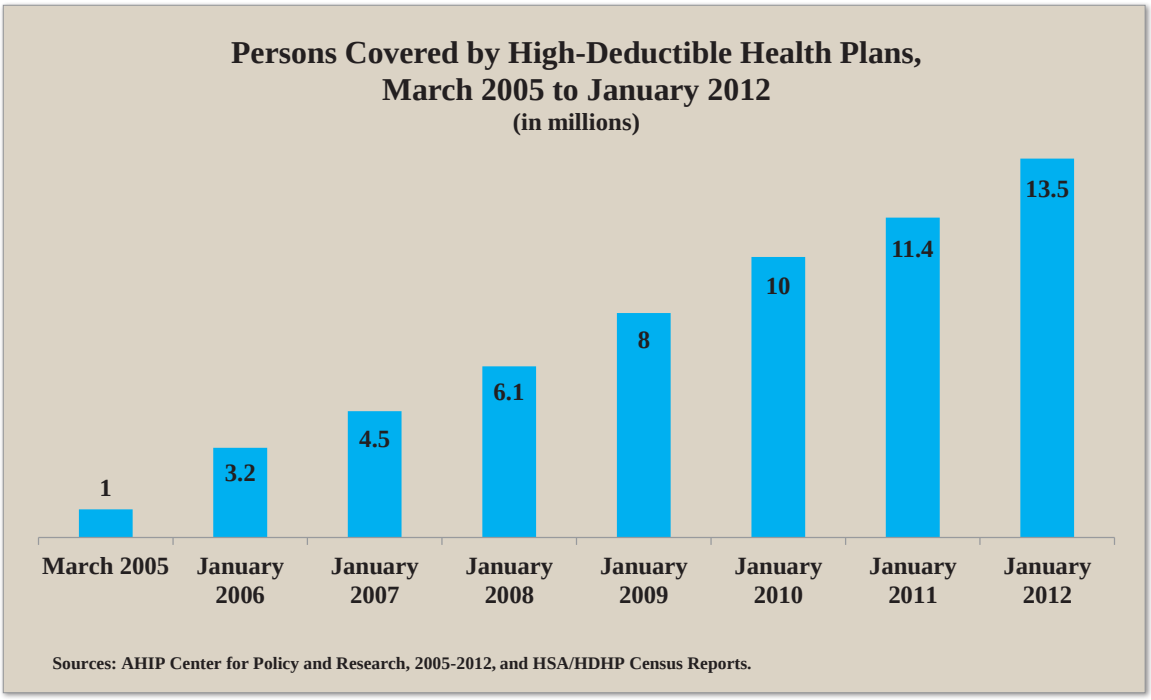
HSAs and their incentives have proven very effective in controlling costs in the real world. Total HSA costs, including the savings to fully fund the HSA savings account to cover the deductible, have run about 25 percent less than costs for traditional health insurance.[3] Annual cost increases for HSA/high-deductible plans have run more than 50 percent less than conventional health care coverage, sometimes with zero premium increases.[4] As a result of these costs savings:[5]

- The number of HSA accounts rose 22 percent in 2012 alone, to more than 8 million.
- Total HSA account assets zoomed 27 percent to $15.5 billion.
- By 2015, HSA balances are expected to increase to almost $27 billion.

HSAs are typically paired with high-deductible health insurance coverage — either an employer-sponsored plan or an individually purchased policy. About 13.5 million people were covered by HSA-qualified high-deductible health insurance as of January 2012.[6] [See the figure.] There are also other types of consumer-directed accounts, such as Health Reimbursement Accounts (HRAs) and Flexible Spending Accounts (FSAs). Such accounts help the insured pay higher deductibles; more than one-third of individuals covered by employer-provided health plans face cost sharing of $1,000 or more.[7]

Consumer-driven health plans probably now exceed enrollment in Health Maintenance Organizations, which are designed to deliver strictly managed care. As HSAs and similar plans have soared in the private market, health-spending growth has plummeted. That result proves the success of market competition and incentives.

Problem: ObamaCare Will Leave Many Uninsured. Most who support ObamaCare do so because of a principled belief that everyone should have access to essential health care. But the Congressional Budget Office (CBO) projects that 10 years after full implementation, ObamaCare will still leave 30 million uninsured.[8] The number of uninsured will be much higher. Tens of millions will *lose* their employer-provided insurance because of ObamaCare's perverse incentives. According to the CBO, at least 7 million and as many as 20 million will lose their employer coverage. The CBO estimated that "in 2019 [five years after ObamaCare is implemented], an estimated 12 million people who would have had an offer of employment-based coverage under prior law will lose their offer under current law [ObamaCare]."[9]



Problem: ObamaCare Is Raising the Cost of Health Insurance. President Obama promised that the Affordable Health Care Act (ACA) would reduce the cost of health insurance by $2,500 a year per covered individual. But the cost of health insurance has already increased by $3,000 per year, due to

the new benefits mandated by ObamaCare and other regulatory burdens already coming online. ObamaCare will also increase health care costs by driving up demand but reducing supply, and through new taxes applying to health insurance and health care.[10]

There is mounting evidence that health insurance premiums will skyrocket. Mark Bertolini, chief executive officer of Aetna, one of the nation's largest health insurers, predicts ObamaCare will cause health care premiums to double for some small businesses and individuals.[11] Based on a survey of large insurers, former CBO Director Douglas Holtz-Eakin estimates premiums in five cities will climb by an average of 169 percent.[12] Premiums recently filed by insurers for policies offered through the California ObamaCare Exchange bear out these predictions, indicating the cost of coverage for individually purchased policies will more than double, compared to policies previously available to Californians.[13]

Many employers will prefer to pay the fine for not providing coverage rather than bear these cost increases. Moreover, employers can give their workers healthy raises and many of those workers will qualify for ObamaCare health insurance subsidies if employers drop coverage. Holtz-Eakin also estimates that more than 40 million workers will lose their employer coverage under ObamaCare.[14] So much for another Obama promise that "If you like your health insurance, you can keep it. No one is going to take that away from you."[15]

Problem: ObamaCare Is Reducing Employment. Employers' actions to avoid the added costs of ObamaCare will also cause chaos in labor markets. To avoid the employer mandate that applies only to companies with 50 or more full time employees, firms are already replacing full-time positions with part-time employment paying lower wages and no benefits.[16] Small businesses with less than 50 employees are already freezing hiring, and those just above 50 employees have already begun layoffs.[17] Moreover, because ObamaCare's employer mandate does not require employers to cover their workers' families, employers have already begun to terminate that coverage.[18]

In his 2013 State of the Union address, President Obama said, "A growing economy that creates good, middle class jobs — that should be the North Star that guides all of our efforts," a statement he has repeated many times since.[19] But the labor market effects and the soaring costs of ObamaCare will result in fewer good, middle class jobs, and declining real incomes for the middle class and for working people.

Problem: ObamaCare Gives the Young and Healthy an Incentive to Remain Uninsured. The young and healthy will also take steps to avoid the high cost of ObamaCare's individual mandate. ObamaCare's regulations force insurers to accept anyone, no matter how sick they are when they sign up, and charge them no more than anyone else. Consequently, many people will refuse to buy any insurance until they are sick with some costly condition, such as cancer or heart disease. Then they will sign up for full coverage at no extra charge, until they recover. The individual mandate, as well as the employer mandate, was supposed to prevent this. But individuals, like employers, can just skip the insurance and pay the penalty, at a savings of thousands of dollars a year. But why even pay the penalty? Congress has since denied the IRS the authority to enforce the penalty by garnishing wages or seizing bank accounts.

The final result? Millions more uninsured under ObamaCare — probably in the end even more uninsured than there were without ObamaCare. But as the young and healthy drop out of insurance pools, costs for those who remain will rise again, driving still more of the young and healthy out of the insurance market, causing a financial death spiral for private insurers.

Problem: ObamaCare Will Reduce Seniors' Access to Care. ObamaCare has already slashed $716 billion over the next 10 years from Medicare payments to doctors and hospitals for the health care they provide to seniors, growing into trillions of dollars in future years. By the end of the decade, Medicare will pay less for seniors' health care than Medicaid will pay for the poor. The poor already have problems with access to essential, timely care, due to the low reimbursements Medicaid pays to physicians. And recent studies have shown that the poor often suffer worse health outcomes as a result, including premature death.[20]

As health economist John Goodman recently explained, "One out of seven hospitals will leave Medicare in the next seven years, say the actuaries, and beyond that things just get worse and worse. Access to care will become a huge issue as waiting times to see doctors and enter hospitals grows… From a financial point of view, seniors will be less attractive to doctors than welfare mothers."[21]

In other words, the government Medicare monopoly will become an official, institutionalized means of denying health care to seniors, just as the government Medicaid monopoly has become for the poor. And the coming government ObamaCare monopoly will soon become the same: an official, institutionalized means of denying essential health care to everyone, just like socialized medicine in other countries.

Solution: Improve and Expand HSAs. ObamaCare is a growing problem, and HSAs are a reasonable solution. The Family and Retirement Health Investment Act of 2013 — introduced by Senator Orin Hatch (R-Utah) and Senator Marco Rubio (R-Fla.) on May 23, 2013, and in the House by Rep. Erik Paulsen (R-Minn.) — would improve Health Savings Accounts (HSAs) by expanding eligibility and improving flexibility. The bill would:

- Remove contribution barriers for Medicare enrollees, veterans, military families and Native Americans.
- Remove regulations blocking HSA spending on health insurance and long-term care insurance, over-the-counter medicine without a prescription, and primary care service fees.
- Protect HSAs from bankruptcy like other retirement accounts.
- Reauthorize states to provide HSA-like health opportunity accounts to Medicaid recipients.
- Repeal limits on annual deductibles for employer-sponsored small group plans.

The bill would also provide employers more flexibility to roll over funds from employees' Flexible Spending Arrangements (FSAs) and Health Reimbursement Arrangements (HRAs) in a future year in order to ease the transition to HSAs. The bill would allow enrollees in Medicare Advantage plans to contribute their own money to their Medicare Medical Savings Accounts (MSAs) to cover the difference between the annual federal deposit to the MSA and plan deductibles. Finally, the Hatch-Rubio plan would allow the use of HSA, FSA and HRA funds — or a tax deduction of up to $1,000 — for exercise and physical fitness programs, nutritional and dietary supplements (including meal replacement products), or periodic fees to medical practitioners for enhanced access to medical care.[22]

Conclusion. HSAs and similar consumer-directed high deductible plans are spreading across the work force, and demonstrating a powerful capability to control rising health care costs. But ObamaCare threatens to raise rather than lower health insurance costs, and will fail to achieve universal health care by a wide margin. Indeed, ObamaCare will quite possibly increase rather than reduce the number of uninsured. It is already reducing employment and senior access to health care, and with no change in course, these effects will grow far worse. Indeed, ObamaCare is now the problem, and HSAs are the solution.

Universal health care for all can be achieved by empowering patients through free market reforms, such as HSAs — without ObamaCare, individual mandates or employer mandates, and at a savings of $2 trillion or more for taxpayers.[23] HSAs can and should be improved and expanded.

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References and sources can be found in the online version at www.ncpa.org/pub/ib124.

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