HJR
54

S[illegible]NATE COMMITTEE REPO[illegible]

DATE: 4/6/94

FURTHER:

DATE TURNED INTO OFFICE: 4/30/94

HESS Committee considered SSHJR 54

Relating to medical savings account legislation.

and recommends:

[ ] replace with ________ CS ____________________(______)

or [ ] adopt previous_____ CS ____________________(______)

[ ] attaches amendment(s)

[ ] same title
[ ] new title
[ ] technical title change (HB only)

[ ] adopts ____________________ ______Letter of Intent

[ ] further referral to the ________________________

[ ] do pass

[ ] do not pass

[ ] no recommendation

[ ] individual recommendations

NEW FISCAL NOTES

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTES

Department	Date	Zero	Fiscal
none	3/23/94	✓	

[ ] Appropriation No Fiscal Note

DO PASS:

Mike Miller

Loren D. Leman

Bert Sharp

OTHER RECOMMENDATIONS:

J. Duncan - No Rec

Steve King Do Pass

Chair: Signature and Recommendation

Alaska State Legislature
House of Representatives

COMMITTEES:
HEALTH, EDUCATION
& SOCIAL SERVICES
UDICIARY
STATE AFFAIRS

SPECIAL COMMITTEES:
MILITARY & VETERANS AFFAIRS
OIL & GAS

INTERIM:
EAGLE CENTER, SUITE 141
EAGLE RIVER, AK 99577
PHONE (907) 694-8944
FAX 694-8945

SESSION:
STATE CAPITOL
JUNEAU, AK 99811
PHONE (907) 465-3777

Representative Pete Kott

SPONSOR STATEMENT

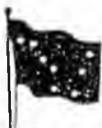
HJR 54 – Supporting Medical Savings Account Legislation

As medical costs nationally and in Alaska continue to rise, the need for innovative approaches to health care cost containment becomes more acute. Medical Savings Accounts (MSAs) offer an approach to reducing health care costs that appeals to market forces and minimizes government intrusion into the market. MSAs allow employers and self-employed individuals to purchase a high-deductible catastrophic medical policy and put the premium savings into a special savings account to pay for routine medical care. The funds in the MSA belong to the insured and, if not spent, accumulate as savings, pre-funding future medical care expenses.

Because MSAs belong to the employee, they are fully portable and are not relinquished when the individual changes employment. Over time, MSAs have the potential of building a substantial savings account for the individual, if the person exercises prudence in use of medical care. MSAs will enable a person to purchase health insurance coverage during periods of unemployment if the person so chooses.

MSAs are an attractive health care option because they encourage individual restraint as a means of containing costs. This is compatible with the free market in that it protects individual freedom and rewards prudent decision-making.

HJR 54 urges Congress to enact legislation that will make Medical Savings Accounts a viable option in the national effort to reduce and contain health care costs. I urge its speedy passage.



STATE OF ALASKA
1994 LEGISLATIVE SESSION

BILL NO. SSHJR 54

FISCAL NOTE

REQUEST:
Revision Date:
Title: RELATING TO MEDICAL SAVINGS ACCOUNT LEGISLATION.
Sponsor: REP. KOTT
Requestor: REP. KOTT

Dept. Affected: NONE
BRU:
Components:

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants, Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES						

FUNDING: (THOUSANDS OF DOLLARS)

	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1006 GF/MHTIA	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

ESTIMATE OF ANY CURRENT YEAR (FY 94) COST $

POSITIONS:

	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00
Full-Time	0	0	0	0	0	0
Part-Time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

Prepared By: HOUSE HESS COMMITTEE
Phone: 465-3759
Division:
Date: 3-21-94
Approved By: REP. CON BUNDE, CO-CHAIR
Agency: REP. CYNTHIA D. TOOHEY, CO-CHAIR
HOUSE HESS COMMITTEE
Date: 3-21-94

Medical Savings Accounts: Putting People First in Health Care

By
Victoria C. Craig
Director of Research
The Council for Affordable Health Insurance
February, 1993

Executive Summary

Each of us is mortal — we get sick and we die. And when we do get sick, it is the health care system that reaches out to heal and to comfort us. The health care system will touch each of us at our most vulnerable and intimate moments. How to reform that system is not an abstract exercise, it is a decision that will affect us personally for the rest of our lives. And it is a decision that must put people -- patients -- first, because the only purpose of this or any other health care system must be the care and comfort of the patient.

The Council for Affordable Health Insurance has carefully reviewed the numerous health care reform proposals in the states and at the Federal level. The Council believes that they are all fundamentally flawed because they do not address the real problem in the health care delivery system today — the difference between the person who receives the care, and the person who pays the bill. The Council supports something truly revolutionary for our health care system — a return to market principles through the establishment of medical savings accounts.

Medical savings accounts (MSAs) are tax-deferred accounts se[illegible]r routine medical care and to allow for the build-up of savings to p[illegible]re medical expenses. MSAs would allow employers, self-employed individuals, and others to purchase a high-deductible policy and put the premium savings into a medical savings account to pay for routine medical care. The funds in the MSA belong to the insured, and if not spent, accumulate over time as savings, pre-funding future health care expenses.

MSAs have many unique advantages.

- MSAs is the one idea that has the potential to actually reduce health care costs without resorting to rationing.
- MSAs restore the patient/physician relationship, making the patient a buyer as well as user of care.
- MSAs will create a demand for information about the quality and price of health care.
- MSAs will reduce administrative costs.
- MSAs will put insurance companies back in the business of providing real insurance.
- MSAs will end the struggles over state mandated benefits.

By incorporating medical savings accounts with other concepts that have always been the strength of our country — individual freedom and responsibility, a free market for goods, services, and ideas, a robust competitive environment, and limiting government's involvement to protecting those who are incapable of caring for their own needs; we can fix the current health care delivery system instead of destroying it.

This will in turn best accomplish the purpose of a health care system reform — an optimal balance of quality, affordability, and accessibility.

Overall Costs of an MSA

Question: Will administrative costs of the insurance company increase because they will be writing more individual policies? How will this affect the price of the policy?

Answer: It is not clear that there will be more individual policies since we anticipate joint participation between the employer and employee. In fact, if there were an increase in individual policies, that would probably mean that the cost of administering an individual policy would be less than that of a group policy. It must be recognized that administrative costs of the insurance companies will fall since they will not be handling the small dollar claims. And every dollar saved in administrative expenses is a dollar directly available to increase MSA contributions or reduce the cost of the entire insurance program.

Statement: Proponents claim that insurance costs would go down under their plan because consumers would buy their insurance directly from insurers and not through employers. They claim that getting rid of the "third party in the transaction" would greatly reduce administrative red tape and cost. It could be argued, however, that eliminating the employer would lead to increased administrative costs.

Answer: The statement misses the point. We would encourage employers to incorporate the MSA concept into their program. No one is trying to get rid of the employer, but rather to advocate individual responsibility. That is why we envision joint participation, as it is the most efficient and cost effective way to reduce health care costs over a period of time.

Question: Would health insurance premiums be reduced substantially enough to cover the deducible of a catastrophic policy as the medical savings account concept proposes?

Answer: Our actuaries have developed the following estimates based on some of the largest sources of claims data available in the country. These premiums are based on a plan which pays 80 percent of the first $5,000 of expenses after the deductible and 100 percent thereafter, and assumes a 75 percent loss ratio, and a 40-45 year old head of household.

Deductible	Annual Premium Individual	Family of 4
$ 250	$2,108	$6,223
2,500	1,132	3,106
Difference	976	3,117

The MSA arrangement is naturally more attractive for families since children's costs are more heavily weighted toward first-dollar expense than those for adults. For about a 40% increase in premiums, the per person $2,500 deductible can be changed to a per family deductible of $2,500. In this example, the $6,223 currently being spent for the $250 deductible plan could be split as follows:

Premium for a $2,500 per family deductible	$4,348
Contribution to the MSA	$1,875

The maximum out-of-pocket exposure under the $2,500 deductible plan is $3,500 or ($2,500 + (.20 x $5,000)). The maximum out-of-pocket exposure under the $250 deductible plan assuming a maximum imposition of three deductibles and three stop-loss expense amounts per family is $3,750 or (3[$250 + (.20 x $5,000)]). Thus the maximum potential out-of-pocket is actually $250 less under the $2,500 family deductible even before we consider the amount in the MSA. With the MSA contribution, the financial protection for the family has actually increased by $2,125. In this example, the individual may want to increase the deductible further to, say, $5,000. The annual premium for a $5,000 family deductible would be $3,135 and the maximum out-of-pocket expense would be $6,000. Thus, the $6,223 premium for the $250 deductible plan could be split with $3,135 going towards insurance and $3,088 to the MSA. In this case, the increase in maximum out-of-pocket expense would be ($6,000-$3,750) or $2,250 which is more than covered by the MSA contribution.

Question: Would raising the deductible from their typical levels of $100 or $250 up to $3,000 really reduce the premiums by 66 percent, thereby assuring that employees would assume no risk of making out-of-pocket expenses with their own money other than out of the MSA?

Answer: It could be as much as two-thirds, but the $4,500, $3,000, and $1,500 figures are meant to be illustrative only. In some cases, they may be

pretty close to the mark, but they will vary widely depending on location and demographics of a particular group. If we use instead numbers based on the same claims data from above, we get a table:

Deductible	Individual	Family
$ 100	$2,236	$6,726
3,000	1,039	2,844
Premium Savings	$1,197	$3,882
% Reduction	54%	58%

Question: The reduction in health premiums by 66 percent appears to be implausibly large. It implies that employers currently spend $3,000 in premiums to reduce each employee family's deductible by at most $2,900 (from $3,000 to $100). Because many families spend less than $2,900 per year on covered care, the cost of providing low deductible policies ($3,000 per employee) would be far in excess of the expected cost of the extra care the additional premiums cover, right?

Answer: This is precisely the irony. At lower deductible levels, employers may spend more than one dollar for every dollar of added coverage. This is largely due to the increasing certainty of use of benefits as deductible amounts get lower, combined with the administrative add on of processing these small claims through the insurance mechanism. While a typical health insurance loss-ratio is 75 percent (meaning 25 cents of every premium dollar is spent on taxes, administration, and marketing costs), the distribution of these expenses is much heavier in the handling of small claims where third party involvement is both unnecessary and inefficient.

The cost effect is particularly true for family coverage. For instance, using the numbers above, the cost to reduce the deductible for a family of four from $3,000 per person to $100 per person is ($6,726 - $2,844) or $3,882. If we adjust the $3,000 deductible premium so that it applies on a per family basis, we get ($2,844 x 1.40) or $3,982 and the cost of the deductible reduction becomes ($6,726 - $3,982) or $2,744.

This $2,744 of savings realized by increasing the deductible to $3,000 will not be diminished by expense loads — every penny is available to spend on health care services or left in the MSA for the future. Another way to look at it is that the premium savings represent average health care expenses of (.75 x $2,744)

or $2,058, and an average increase in the MSA of $686, which makes the option even more attractive to the consumer.

Question: Is it realistic to think that insurers would be willing to sell high-deductible policies? Would policies be affordable?

Answer: Low-cost, high-deductible policies are available today. What is not available is the ability to invest the premium savings in a tax-free account for the purpose of offsetting medical expenses below the deductible amount. Below the table shows some of the annual premiums for policies available in June, 1992. The premiums are based on a family with two adults, age 35, with one child.

Individual Health Insurance Annual Family Premiums With $2,500 Deductible (June, 1992)

		Washington National	Pyramid Life	Time Insurance	American Community
Cincinnati	City	$1,369	$1,622	$1,310	$1,083
	Suburb	1,369	1,622	1,310	1,032
Indianapolis	City	1,369	1,537	1,404	1,259
	Suburb	1,213	1,451	1,216	1,135
Peoria	City	1,542	1,622	1,572	1,032
	Suburb	1,542	1,622	1,572	1,032
Portland	City	N/A	1,878	1,253	N/A
	Suburb	N/A	1,878	1,164	N/A
Des Moines	City	1,369	1,451	1,123	N/A
	Suburb	1,213	1,281	1,123	N/A
Dallas	City	1,836	2,135	1,872	N/A
	Suburb	1,680	1,281	1,123	N/A
Richmond	City	1,525	1,622	1,497	N/A
	Suburb	1,525	1,537	1,497	N/A

(Cents have been truncated to make the chart easier to read)

Some observations about these figures:

1. These policies are on the market today.

2. They are sold individually, not in groups. Medical savings accounts are intended chiefly as a group insurance program and may save additional premiums through economies of scale and the administrative advantages of mass purchasing.

3. These policies contain a per-person deductible, not a family deductible. Going from a per-person to a single family deductible would raise the premium cost by approximately 40 percent.

4. There are extremely wide variations in health care costs and utilization patterns in the United States. These are somewhat reflected on this table in the premium differences between Des Moines and Dallas, but the truly high cost areas (New York, Boston, Los Angeles, and San Francisco) are not included here. Premiums that are appropriate in Des Moines would be far too low for New York (as would deductible levels), and it is important that any legislation allow for the dramatic differences in regional costs.

1776 I STREET, N.W., SUITE 1040
WASHINGTON, D.C. 20006
PHONE: 202-429-6990
FAX: 202-429-6988

CHICAGO
NEW YORK
WASHINGTON, D.C.
LOS ANGELES
BOSTON
TORONTO
MONTREAL

January 20, 1994
FOR IMMEDIATE RELEASE
For further information about the survey, contact Sid Groeneman: (202) 429-6990

Golden Rule Employees Enthusiastic About Medical Savings Account

An early-January survey demonstrates that employees of Golden Rule, an Illinois-based life and health insurer, are very pleased with their new Medical Savings Account (MSA) plan, are using the funds to pay for services not covered previously, and are saving money for themselves and their company. Sixty-five percent of the employees enrolled in the MSA rate their new form of health insurance as "excellent," and another 32% rate it as "good." Only 2% rate it "only fair," and no one rated it "poor." The employees overwhelmingly prefer the MSA to their former plan, by a margin of 82% to 1%.

"By any standard of comparison, these numbers represent a strong endorsement of the Medical Savings Account," according to Sid Groeneman, a Research Manager for Market Facts, Inc., the firm that conducted the January 7-13 survey for Golden Rule.

The Medical Savings Account is a new form of employer-provided health coverage which uses financial incentives to encourage consumers to purchase health care services more carefully, promoting efficient utilization. With "first-dollar coverage" provided by the MSA, employees can minimize their deductibles and copayments, or avoid them entirely. Under Golden Rule's plan, employees not exhausting the money in their account can choose to receive an end-of-year refund or retain the money in an interest-bearing account to pay for next year's expenses. Golden Rule's MSA plan also offers employees more choice in how they can spend their benefits, as the funds can be used for products and services not covered by most traditional plans such as dental care, eye care, and preventive care.

Most Golden Rule employees chose the MSA originally, at least in part, because they believed it might save them money. As it turned out, they were correct: 93% of enrolled employees received a refund check, averaging $602. The refunds applied to the period from May through the end of 1993, and likely would have been higher for a full calendar year.

-- MORE --

The few MSA-plan employees who didn't receive a refund are just as pleased with the plan as those who did receive a check in December: 19 of the 28 who didn't receive a refund rated the MSA plan as "excellent" (68%), and the remaining nine rated it as "good."

"The thing I'm most pleased about with the Medical Savings Account is the benefit it represents for the single mother," said John M. Whelan, president and chief executive officer. "If she has a child that needs to go to the doctor, she now has first dollar coverage, and she isn't penalized with either a deductible or copayment. It makes it easy for her to take her child to a doctor."

The popularity of the plan extends beyond sheer economics, as 29% also gave a coverage-related reason for choosing the MSA. Most of them mentioned that the MSA pays for routine medical care or miscellaneous expenses not covered by traditional insurance, some noted dental expenses or vision care, and a few mentioned prescription drugs or other items. And about 15% of the employees opting for the MSA mentioned choosing it because they think it helps reduce health/medical expenses for the company or the country.

If it becomes more widely adopted, the MSA form of health coverage should make use of health and medical care services more efficient system-wide. And, while saving money, its proponents believe that it can also promote wellness by expanding consumers' options.

Since Golden Rule's Medical Savings Account went into effect in May 1993, one-fifth of enrolled employees started using a medical service they hadn't used before *because of the plan*, while only 3% indicated they stopped using some service they had been using earlier. Looking toward the future, over half (51%) of the employees think they or their family might use a service they hadn't used before, such as vision or dental care, because of the plan; 4% think they might stop using some medical service or health product.

Twenty-one percent reported "shopping around" or "comparing prices" *more* since the plan went into effect; 9% reported shopping or comparing prices *less*.

Since the Medical Savings Account went into effect, employees have changed their patterns of purchasing health care. One employee said she liked the plan because she now has an incentive "to check on the surgeons' fees before any surgery and even with the regular doctors."

-- MORE --

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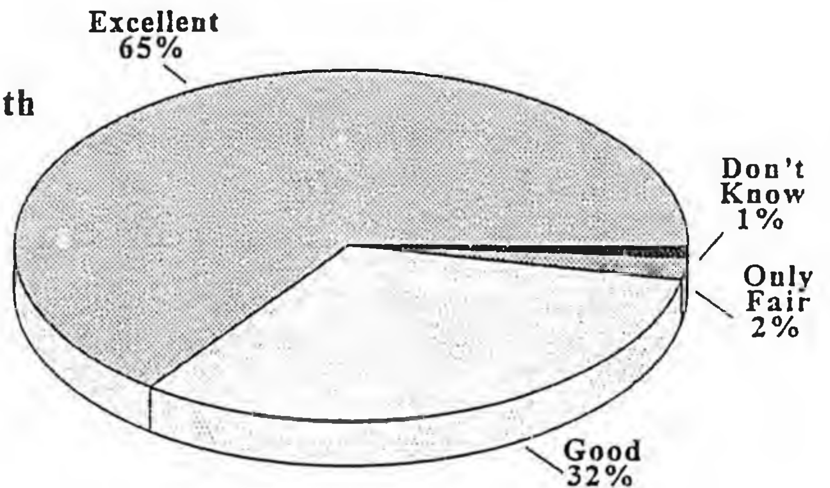
The telephone survey of Golden Rule Insurance employees was conducted by the Washington and Chicago-area offices of Market Facts, Inc., an international survey and market research firm headquartered in Arlington Heights, Illinois Market Facts made three attempts during the week of the survey to reach and interview the 708 Golden Rule employees for whom phone numbers were available. Five hundred twenty employees were interviewed (73% completion rate). Only 28 employees refused to be interviewed (5% of the eligible employees contacted).

Market Facts conducts research for many of the country's leading corporations, associations, non-profits, and government organizations at all levels. The company recently completed its second personnel survey for the U.S. Postal Service (Summer, 1993), and is about to begin a third USPS survey in 1994. This series includes all USPS employees (over 716,000 in 1993) and represents the largest civilian employee surveys ever conducted.

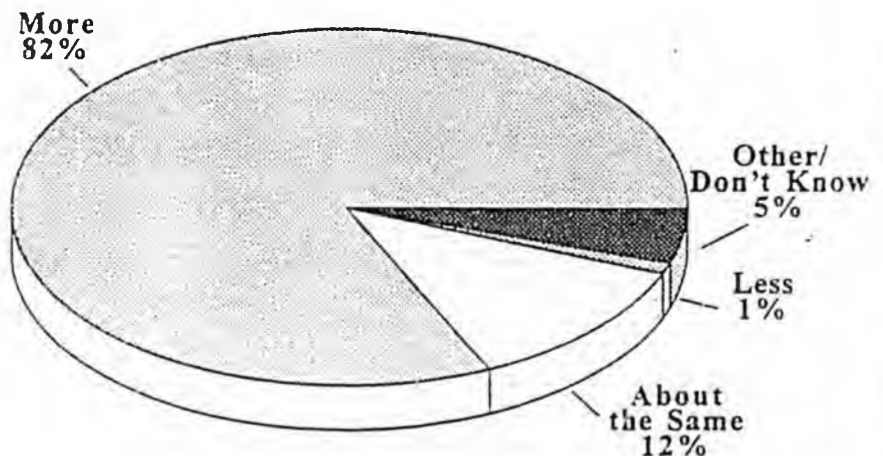
-- GRAPHS ON NEXT PAGE --

Key Findings from Jan. 7-13 Survey of Golden Rule's Employees Enrolled in the Medical Savings Account Plan

"How would you rate the Medical Savings Account health insurance plan overall -- excellent, good, only fair, or poor?"



"Overall, do you like the Medical Savings Account more, less, or about the same as the former Golden Rule plan?"



Provided by
Rep. Mott

MEDICAL COSTS IN ALASKA

Alaska has the highest health care costs in the nation. According to Dr. Rodman Wilson costs in Anchorage are 40% higher than in Seattle. In a newspaper article in March of 1993, Ms. Betty Wood, President of Blue Cross, Washington/Alaska stated that coronary bypass heart operations were three times as expensive in Anchorage as compared to Seattle, The manager of the Alaska Truckers Association said that he inquired about tying into a Washington State group health insurance plan for the trucking industry and he was told that the Alaska participants would pay a 40% surcharge.

The reason for this situation is overinsurance or excessive demand for medical services.. This is caused by the 130,000 Alaskans who are enrolled in group health insurance plans provided by the State of Alaska, by municipal governments, and by school districts.

The model of these plans is the Aetna plan covering 13,500 Employees of the State of Alaska who are in the Alaska State Employees Association which negotiates this plan. As of March of 1993 this plan had a deductible of $100, 90% coinsurance to $3,950, and 100% payment beyond that number.

Suppose that the Union had negotiated a clothing purchase plan instead of the group health insurance plan? State Employees could go to any store that sold clothing and buy as many articles of clothing as they wished. They would be required to have these purchases approved by a Licensed Clothing Advisor who would receive 10% of the purchase as compensation for advice. The participant would be required to pay the first $100 of the transaction and then 10% of the next $3,950. For amounts over this number the State would pay 100%. There would be no restrictions on the cost of the clothing or accessories. They could buy Gucci shoes and Brooks Brothers Suits. These purchases would not be taxed as income by the Internal Revenue Service.

If such a plan were to be put into force, Nordstrums, Pennys, Lamonts and other clothing establishments would be jammed with shoppers. The management would expand the facilities and hire more sales and warehouse people. The stores would raise the prices because with the State of Alaska paying the bills, no one will be concerned about cost.

The only difference between the Clothing Purchase Plan and the Group Health Insurance plan is that medical services are intangible and cannot be stored.

The State of Alaska has more people in the service of State and Local government and school districts than any other state, as a percentage of the population. All the group insurance plans of these lesser governmental entities follow the pattern of the State plan negotiated by the Alaska State Employees Union. For example, the group insurance plan of the Copper River School District which has about 100 employees is a clone of the State plan although it is not administered by the

Aetna. It is my estimate that there are 130,000 participants and their dependents in these plans. Private employers such as the banks and the energy companies must pattern their plans after the State Plan.

In February of 1993, the negotiators for the State of Alaska attempted to make some changes to the plan to moderate an anticipated increase in premiums. Aetna had told the State that rates would increase by 30%. This meant an increase in payments to Aetna of about $20,000,000. The negotiators for the state asked the Union to accept a change in the deductible from $100 to $250.00 and a change in coinsurance from 90% of the first $3,950 to 80% of the first $5,000 of expense. This change was refused by the Union and the matter has gone to an arbitrator to decide whether the State can alter these provisions.

Why did costs double in the years form 1988 to 1992? According to an article in the Anchorage Times in October of 1989, the 13,500 State employees and their dependents made 338,800 claims in 1988. This is 25 claims per participant. In 1992 the employees made 685,000 claims or about double the number of claims.

Dental and Vision claims remained about the same, The increase was in medical claims.

No analysis has ever been made in the State Plan of who makes the claims. Figures in most plans show that 25% of the people make 80% of the claims. Half the people in a plan will make less than 10% of the claims and about 20% of them will not see a physician in the course of a year. Federal Express with 47,000 employees found that 16% of the participants made 80% of claims. I believe that these figures would apply to the State. If my surmise is correct then there are 3.750 participants and their families who made 80% of the claims.

There is no reason why the participants in these governmental plans should not demand as much expensive and extensive health care is available. From the point of view of the doctor he has every reason to supply these services and even urge upon the patient more elaborate and costly procedures. His income and career will benefit by so doing. These fortunate people in the governmental plans have free medical care of the finest quality and this has created unlimited demand and rising costs.

The State will pay $80,000,000 to pay for the medical, dental and vision costs of 13,500 State Employees. This is about $6,000 per participant or $500 per month. We estimate that there are 30,000 people in the plan, including dependents, the cost is about $2,700 per individual.

These government employees have unlimited access at no cost to the finest in health care. On the other hand, there are 60,000 to 90,000 Alaskans who have no access to health care outside of what they can

pay for themselves. Anchorage has 30,000 of these uninsured people.

On February 6, 1993 there was an article in the Anchorage Daily News concerning the financial problem at the Anchorage Neighborhood Health Center. This is a Community Health Center whose expenses are met in part by the Federal government. These centers were established to provide health care to poor people for a modest fee. The center treated 9,400 people in a year at a cost of $4,000,000. The doctors at the center work on salary. The cost per person was $425 per year.

Why does it cost the State $2,700 per person for health care as compared to $425 for the Neighborhood Health Center? A partial explanation is that the Health Center provided basic medical care. We know that hospital charges are about 50% of medical costs so let us double the cost for the Health Center per person to $850. This is 30% of the cost of the State.

The reason for the difference is the State plan is Third Party payments and medicine for a fee with complete choice of physicians available to the participant. The Neighborhood Health Center is direct service with a small payment for service based on the patients ability to pay. It resembles the British System of National Health Service.

The State Group Health Plan could be changed to save millions of dollars. For example a vairible deductable could be used as in the Forbes Plan which is attached. Payments could be made to those who made no claims.

William A. Barnes SR..
Written at Anchorage, AK. April 6, 1993
430 W. 7th St. #201
Anchorage, AK 99501
Tel. 907-276-8998
800-770-8998

Private Labor Union Membership Continues to Slide

The U.S. Department of Labor Bureau of Labor Statistics has reported another year-to-year decline in the percentage (market share) of private sector workers belonging to labor unions. In 1993, union market share was 11.1 percent, down from 11.4 percent in 1992. In the last five years, 2.2 million new jobs have been created, while private union membership declined by 1.2 million. Private union market share peaked in the middle 1950s when nearly 40 percent of private workers were union members. Since 1955, private employment has doubled, with 45 million new jobs created. At the same time private sector union membership declined by more than 40 percent, with a membership decline of more than seven million. Public sector union membership continues to be comparatively strong, with nearly 38 percent market share, compared to 37 percent in 1989.

Real Estate Value Drop Due to '86 Tax Increases

One trillion dollars have been eliminated from the market value of domestic real estate in response to the tax changes of 1986, according to **Dr. Paul Craig Roberts** of George Washington University, although subsequent tax changes have slightly improved the aggregate environment for real estate. But the normal underlying trend of price changes in domestic real estate are influenced by, among other things, local conditions. One study revealed that approximately 50% of changes in relative real estate prices can be explained in changes in state tax burdens.

Medical Savings Account Introductions Reach Record Level

While the federal health care debate rages on in the nation's capital, often focusing on how much control government should have over the medical care that Americans receive, state legislators are exploring innovative methods for controlling costs by giving people greater decisionmaking power. One such method is through medical savings accounts (MSA), which ALEC has been promoting for several years.

In 1991, medical savings account bills were introduced in three states. In 1992, MSAs were introduced in four states. Then, a remarkable thing happened. Legislators in 15 states introduced MSAs in 1993, and thus far in 1994, 27 states have seen medical savings accounts introduced. (The 27 states are: Ala., Ariz., Calif., Colo., Conn., Ga., Hawaii, Ill., Ind., Idaho, Iowa, Kan., Md., Mich., Miss., N.Y., N.C., Ohio, Okla., Pa., S.C., Utah, Vt., Va., Wash., W. Va., Wisc.)

A recent study prepared by the actuarial consulting firm of **Milliman and Robertson, Inc.** for the **Council for Affordable Health Insurance (CAHI)** determined that the U.S. could save $588 billion over five years if Congress enacted medical savings accounts (for more information on this study, see the November 1, 1993, edition of *FYI*.)

For more information on medical savings accounts, see ALEC's *Individual Medical Account Act* in *Keeping the Promise: A Comprehensive Health Care Plan for the States*, or contact Molly Hering, Legislative Director of the Health Care Task Force.

National Leadership Summit on Economic Growth Set for April in San Antonio

ALEC's 1994 *National Leadership Summit On Economic Growth* will be held in San Antonio, Texas, April 14-17. San Antonio is an ideal site because it is one of the nation's fastest growing economic and cultural centers. The Hyatt Regency Riverwalk is one of the nation's premier meeting facilities, located in the heart of old San Antonio, home of the Alamo. This year's Summit, *Business, Labor and Government Working Together for Economic Growth and Prosperity*, will focus on strategies, policies and fundamental economic principles necessary to promote economic growth in the U.S. as we enter into the new global marketplace.

The areas to be covered include: Principles of Economic Growth; Business and Job Creation; Investment and Technological Innovation; Regulations and Government Mandates; and Public Spending and Competitive Government. State legislatures play a critical role in promoting a sound economy, and the policies developed at the state level will be the difference in future economic prosperity or stagnation. ALEC's National Leadership Summit on Economic Growth will provide up-to-date information and analysis from senior corporate executives, public policy experts and state legislative leaders on this important issue. Some of the speakers tentatively scheduled include: **The Honorable Nelson Wolfe, Mayor of San Antonio; *Wall Street Journal* columnist Robert Bartley; U.S. Senator Kay Bailey Hutchison; and Lawrence Lindsey, member of the Federal Reserve Board of Governors.**

American Legislative Exchange Council

THE INDIANAPOLIS NEWS

"Where the Spirit of the Lord is, There is liberty."—II Cor. 3:17

MONDAY

DECEMBER 27, 1993

A golden health plan

This Christmas is turning out to be golden for hundreds of Golden Rule employees, thanks to an innovative health program that just could become a model for other employers.

This past year, Golden Rule Chairman J. Patrick Rooney gave his employees a choice between regular, low-deductible health insurance and a new Medical Savings Account plan.

Because low-deductible insurance is so costly, the company devised the new plan: cheaper insurance with a higher deductible, along with a savings account to cover expenses not curred under the old plan.

The old plan for families had a $250 deductible and a co-pay that stopped at $1,000, for a total out-of-pocket employee expense of $1,250.

The new plan set a $3,000 deductible, no co-pay, and thus cost Golden Rule far less, but the company then gave the employee $1,750 to cover the additional deductible expenses.

That made the two plans seemingly equal in merit: in both cases, the employee's out-of-pocket expenses would be the same, $1,250. But there are some important differences.

Not only did Golden Rule save money on the MSA plan, but now, at year-end, employees are being reimbursed any money not spent from their accounts.

The total reimbursement? An incredible $468,000.

Under current law, the MSA proceeds are taxable income, as opposed to the tax-free nature of traditional health benefits. But the MSA plan generally would be the better option for those who are able to keep their health costs down in a given year.

The Medical Savings Account plan has some additional benefits. First, the account could be used to pay insurance premiums between jobs. If an employee loses his or her job or is out on strike, there would be money in the account to continue health insurance.

Too, as Rooney has pointed out, the incentive for employees to be prudent about their health cost spending would be revived under the MSA plan, for employees know they would recoup any unspent money.

In other types of employee health savings accounts, the money reverts back to the employer if it isn't spent by year's end. Thus, especially if it is the employee's own money deducted from his or her paycheck, the employee has a built-in urgency to try to spend the money allocated to the fund, not cut back on health expenditures.

One of the best offshoots of such a plan is that it would encourage more employers to provide health insurance for their employees. People whose companies pay for their insurance often don't realize how much their employers are paying on their behalfs. According to Rooney, annual family premiums in Indianapolis average $4,300. In Cincinnati, the cost is slightly higher, $4,500. In Des Moines, that figure nears $4,700. In Washington, it's closer to $8,200.

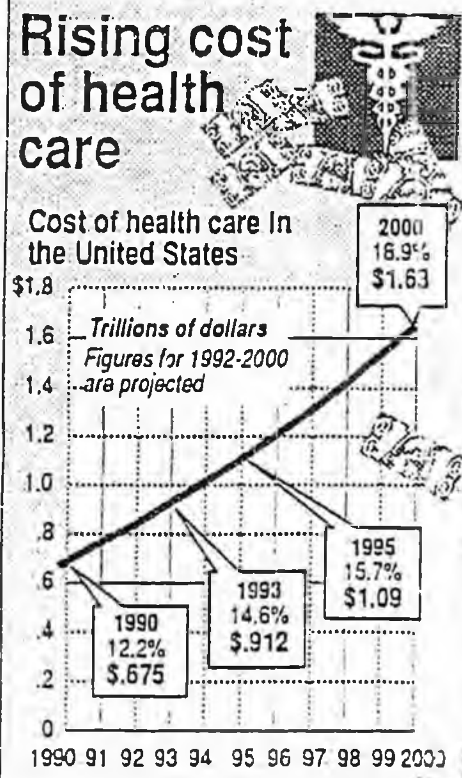
Small businesses often don't provide group insurance, not because they don't care about their employees, but because they can't afford it. That might change if they paid for more reasonably priced high-deductible insurance and employee MSAs.

Congress could get the ball rolling even further by modifying the tax code to allow MSA money to be treated like an Individual Retirement Account, with the fund allowed to accumulate tax-free until it was spent. In fact, Rep. Andy Jacobs, D-Ind., and Sen. Dan Coats, R-Ind., both have introduced legislation to that end.

In particular, Coats' "HealthSave Proposal" would call for participating employers to purchase an umbrella policy for employees for catastrophic medical costs. They then would provide each employee with an MSA of $3,000 per annum, which would remain on account, tax-free, for future medical bills and other limited uses, such as long-term care and education.

Coats also has called for an increase in tax credits for those whose employers do not offer such coverage.

Americans recognize their critical need for affordable health care, but they also want choices. Golden Rule's MSA plan ought to become a prominent player in the debate over health care options before Congress.



AP/Wm. J. Castello

MEDICAL SOCIETY OF THE STATE OF NEW YORK
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COMMENTARY

Health Care Reform That Works: Medical Savings Accounts

Mr. Donald F. Foy

A former Speaker of the House of Representatives once described some pending legislation by saying: *"An indefinable something is to be done in a way nobody knows how, at a time nobody knows when, that will accomplish nobody knows what."*

How's that for an accurate assessment of today's national health care debate?

An indefinable something is to be done, because the Clinton administration has staked most of its political capital on bringing manifest change to the way we Americans purchase and receive health care.

It is to be done *in a way nobody knows how,* because the administration has kept secret its health care plans not in the name of reform but in the interest of politics.

It is to be done *at a time nobody knows when,* because the administration has discovered that neither Congress nor the nation is thrilled with its economic plan and health care reform involves tinkering with one-eighth of the gross domestic product of the United States.

And it *will accomplish nobody knows what,* because the types of programs, the extent of the government's involvement, and the economic and social costs they will incur have never before been seen, so the results can only be speculated.

Supply Side Controls Don't Work

The basis of the problem is this: All of these ideas for health care reform impose controls on the supply side of the economic interchange. But the empirical evidence is that controls on the supply side simply don't work.

Medicaid is an excellent example. Statisticians tell us that the average national medical cost of the normally-insured, non-elderly population, including the deductibles and co-insurance they pay out of their own pockets, is $1,495 per person.

But the average national cost for non-elderly Medicaid patients is $3,313 . . . more than twice as much!

So what are we accomplishing by controlling medical care costs? We are denying low-income people convenient, quality medical care. Instead, we're sending them to emergency rooms—often in ambulances—at a cost many times greater than if those patients were simply able to visit a neighborhood physician.

Unfortunately, it is this same supply side philosophy that drives the administration's most frequently-mentioned idea for controlling medical costs—managed competition.

Demand Side Idea Makes More Sense

While I don't want to deny the Clinton plan a fair hearing, I think we all would profit by examining an idea from the demand side. It's known as the Medical Savings Account and it allows employers to replace conventional insurance plans with individual savings accounts for employees' medical expenses.

Here's how it works: The average employer nationally paid about $4,600 in 1992 for health care coverage on an individual worker and family. Nationwide, the annual deductible averages $212 for one person and $531 for a family. So when the employee co-payment is included, the employee typically has an average out-of-pocket cost of $1,000 to $2,000 for any serious medical expense.

But in most parts of the United States, the employer could buy a catastrophic policy for the worker and his family that will pay all medical expenses above $3,000 for just 35 to 40% of the cost he has been paying.

If the employer puts $2,000 into a Medical Savings Account, that employee is guaranteed the same protection he or she had under the previous insurance programs. Here's the difference: if the employee doesn't spend all of the $2,000, the unspent balance is his to keep.

In a typical American city such as Cincinnati, 23% of all families will spend less than $500 a year on health care. Those families could retain a savings of $1,500 or more—if their employers put at least $2,000 into their Medical Savings Account.

If the employee had a $100,000 heart transplant operation during the next year, his out-of-pocket costs would still be only $1,000— no higher than they are today with conventional insurance. The difference is this: with the Medical Savings Account, the insurance company doesn't get involved until the family's medical expenses exceed $3,000. The employee self-insures the first $3,000.

Each year, the employee will receive $2,000—and, at the end of the year, he would be able to roll over any money remaining in his Medical Savings Account into an IRA.

Practical Solution to Cost Control

Medical Savings Accounts offer the most practical method for getting health care spending under control.

- Individuals would have an incentive to spend their health care dollars wisely— they would be using their money, not someone else's.
- The account could be used to pay for any medical expense recognized by the Internal Revenue Service, including preventive care, eye care, dental care and annual physicals.
- Escalating premium increases for employers would stop.
- The accounts would be fully vested in the employee and portable. They would leave with him when he changes jobs.
- Paperwork would be reduced for providers and insurance companies alike, because there is no insurance claim to fill out and no prior approval to be obtained until the expense exceeds $3,000.
- Medical Savings Accounts would let individuals choose their physicians, rather than have bureaucrats choose for them.
- Medical Savings Accounts would also provide an incentive to stay healthy by allowing individuals to receive preventive care—such as mammograms and pap smears—they might have avoided previously because their insurance didn't cover it or they didn't have the cash.

The Medical Savings Account concept works. At Dominion Resources, Inc., a Virginia utility, a combination of Medical Savings Accounts and other incentives has held health care cost increases to an average of just seven-tenths of one percent over the last three years.

People spending their own money spend it more wisely. So why hasn't a common-sense solution of such obvious merit been adopted nationwide?

Federal Tax Code Presents Obstacle

The primary obstacle is the present federal tax code. When an employer spends a dollar on an employee's health insurance today, that dollar is excluded from the employee's taxable income. But, if the employer wants to establish a Medical Savings Account for the employee, that dollar is subject to federal, state and local taxes—including social security tax. Looking at it another way, today's tax laws encourage us to use health insurance.

The Medical Savings Account would restore competition in the health care marketplace, because the first $3,000 employees spend would be their own money.

A simple revision of our present tax codes would make Medical Savings Accounts economically attractive to more Americans and begin to apply the brakes to our out-of-control health care costs.

But that isn't the only advantage of the Medical Savings Account.

When employees lose their jobs today, the COBRA legislation guarantees them the right to stay insured by paying an insurance premium to their former employer. The reason most employees don't do that is because they don't have the cash available to pay the premiums that are required.

But, if they had a Medical Savings Account, they would have tax-free money in that account that could be used to pay

Continued on Page 17

(Continued from page 5)

the COBRA payment and keep insurance in effect until they got a new job.

Half of all uninsured persons are without coverage for four months or less, and 70% are without coverage for 12 months or less. The Medical Savings Account would permit these people to stay insured.

In other words, 25 million Americans—or 70% of the 37 million uninsured—could stay insured without new costs to employers and without new payroll taxes on the workers. This is possible simply by permitting workers to accumulate money in a Medical Savings Account.

The remaining 12 million uninsured could be accommodated by treating all Americans equally on the tax deduction for health benefits.

It's estimated that tax fairness would bring another 9.8 million Americans into the health insurance system at a net cost to the federal government of only $8 billion a year—small potatoes indeed when compared to the $150 billion the White House plan may cost! Then, if the government would privatize Medicaid for the non-elderly, we could begin to treat the poor with decency and respect. We could let them go to a neighborhood doctor instead of an emergency room, and we could cut the cost of Medicaid by half.

Savings for the American People

A final point is that this proposal provides much-needed savings for the American people. You'll recall that the individual retirement account was one of the most popular tax benefits ever offered the American workers—before it was repealed!

The Medical Savings Account brings that idea back. It embodies the much-ballyhooed tax cut for the middle class—about which we have heard very little lately from our elected leaders in Washington. And it provides each of us with a private-sector solution to our nation's mounting health care crisis.

Instead of waiting for the administration to produce the "indefinable something" in "a way nobody knows how" and "at a time nobody knows when," each of us should tell our representatives in Congress now that we support the Medical Savings Account as the most practical method for getting health care spending under control.

Let me conclude by confiding with you that the Speaker of the House I quoted in the beginning of this article—the man who so succinctly summarized the Clinton administration's jury-rigged approach to health care reform—was Congressman Thomas B. Reed of Maine. He served in Congress between 1877 and 1899!

Donald F. Foy
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A proposal for medical savings

The sense of anticipation in the air is palpable. The adminstration is gearing up its publicity campaign to sell Hillary Rodham Clinton's health care plan, and congressional Democrats tremble at the thought of having to vote for a new round of taxes to pay for it. Meanwhile, the Republicans have been quietly putting together some ideas of their own that could come in handy if the Clinton plan turns out to be so unwieldy and expensive that it sinks under its own weight.

One proposal that holds out a good deal of promise is the medical savings account. According to the National Center for Policy Analysis, which has been working with Republican senators and representatives, the medical savings account plan would have the virtue of cutting costs, simplifying the system and giving consumers more independence in their choice of health care. Here is how it would work:

Currently, the average cost of employment-based family medical insurance plan runs to $4,500 a year. Part of that is paid by the employer and part by the employee. Instead of the money going to an insurance company as a premium, under this proposal, it would be paid into a tax-free medical saving account, to be spent on health care at the discretion of the consumer. Some people would want to buy into the company plan; others might choose a health maintenance organization (HMO); and others again might want simply to buy a catastrophic health-insurance plan, which can make a lot of financial sense.

Currently, such catastrophic insurance policies cost about $1,500 to $1,700 a year. Catastrophic insurance covers most of the costs of hospitalization, which accounts for the majority of the real big-ticket items — major surgery, broken limbs, etc. — that people tend to worry about. By definition, these plans have a high deductible — generally $2,500 to $3,000 for the family. That may sound like a lot, but it more or less corresponds to the amount in the medical saving account when the premium has been paid.

It is in that $3,000 category that real savings can take place. Insurance companies currently find that the vast majority of their claims, over 90 percent, fall into this area. It would be up to the individual consumer to spend the money as each sees fit. If the money is really yours, then chances are you'd want to shop around and compare prices. You would also want to make sure you got the best value for your money. And you would weigh more carefully whether a visit to the doctor is really necessary. An element of competitiveness and accountability would be introduced into the system that is currently lacking, which is one reason that health care costs are zooming out of sight. And, not insignificantly, paperwork for the vast number of minor expenses currently billed directly from the doctor's office to the insurance company would be reduced.

Perhaps the best part for the consumer is that the money not spent would stay in the account from year to year, earning interest. Few people have health care expenses of $3,000 in a year, so most folks would find their balances growing. At retirement, the final sum would be paid out and possibly rolled over into a pension plan.

But how about those who are currently without insurance? An element of tax fairness could be introduced by making health care premiums tax-deductible for the self-employed. In the lower income ranges, a refundable tax credit could help pay for insurance, and those without incomes could be given health care vouchers, much as they are given food stamps today, to pay for catastrophic insurance and out-of-pocket expenses. That would take them out of the vastly expensive Medicare system.

Right now, it does not seem that Mrs. Clinton's task force has much interest in practical and commonsense approaches such as this. But when the dust settles after the health care battle that will surely come, perhaps the medical savings account will look like an idea whose time has come.

The Tax Trap

IT'S NO MYSTERY why our health-care spending has skyrocketed. Under the law, employers can deduct the cost of health insurance for their employees, but employees cannot deduct insurance they buy themselves. That makes it cheaper for employers to buy insurance than for employees to buy their own. Health-policy analyst Eric-Charles Banfield notes that when federal, state and local taxes take 40 percent of an employee's income, the worker must earn $3333 to buy a $2000 insurance policy.

What's more, since employees pay taxes on their salaries but not on their health benefits, they want ever more generous benefits. The result? Today employers offer their workers extravagant coverage for everything from psychological counseling to cosmetic surgery. That makes these services appear free and, says economist John Goodman of the National Center for Policy Analysis, "As long as medical care appears to be free, there will be an unlimited demand for it, driving up costs."

If individuals could deduct the cost of health insurance they bought themselves, many might choose to buy their own—especially if not getting it at the office meant they could earn higher salaries. And if they bought their own, most people would choose more efficient, high-deductible policies. "Insurance should be disaster protection for when the house burns down or the young breadwinner dies," writes Jonathan Kwitny, author of *Acceptable Risks*. "Yet when it comes to health, we send for insurance accountants and adjusters every time we catch cold." The IRS leaves us almost no choice.

Golden Rule®

Representative Cynthia Toohey
Co-Chair, House HESS Committee
House of Representatives
State Capitol
Juneau, AK 99801

March 21, 1994

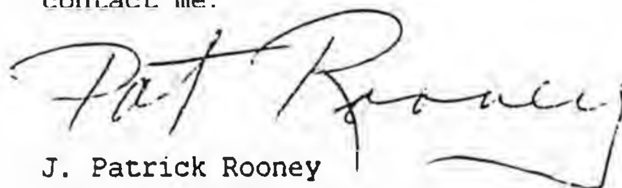
Dear Rep. Toohey:

Not only do I endorse Representatives Kott and Davis' resolution relating to Medical Savings Account legislation, but I also applaud the Alaska Legislature for considering an "American Solution" to the problem of increased spending for health care.

I am aware that the plight of the oft-mentioned 37 million Americans without health insurance is not a result of lack of access. With the exception of about 1% of the population, uninsurability due to health status is not the problem. Cost is the major deterrent, and "job-lock" is also a significant factor.

As the resolution so succinctly states, Medical Savings Accounts will address those problems by empowering people to make their own decisions and at the same time reducing costs throughout the system.

If I or my associates can be of assistance to you, please feel free to contact me.



J. Patrick Rooney
Chairman of the Board

JPR/js

Golden Rule Insurance Company

Home Office
Golden Rule Building
712 Eleventh Street
Lawrenceville, Illinois 62439
Telephone (618) 943-8000

Golden Rule Insurance Company

Golden Rule Building
7440 Woodland Drive
Indianapolis, Indiana 46278-1719
Telephone (317) 297-4123

HOUSE COMMITTEE REPORT

(9)
Date Referred: March 18, 1994

FURTHER REFERRALS:

Date of Committee Action: 3/22/94

The HEALTH, EDUCATION AND SOCIAL SERVICES Committee considered: SSHJR 54

SPONSOR SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 54
SUPPORT MEDICAL SAVINGS ACCT LEGIS

Relating to medical savings account legislation.

RECOMMENDATIONS:
be replaced with ______ [ ] the same title [ ] a new title

[ ] have attached amendments(s)
[X] do pass
[ ] do not pass
[ ] no recommendations
[ ] individual recommendations
[ ] additional referral to the ______ Committee

ADOPTS: ______ letter of Intent

ATTACHES NEW FISCAL NOTE(s): (Dept) APPROVES PREVIOUS: (Dept/Date)

[ ] fiscal impact ______ [ ] fiscal note(s) ______

[X] zero fiscal note House HESS Committee [ ] zero fiscal note(s) ______

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
Pete Kott	✓	[signature]		✓	
[signature]	✓	[signature]		✓	
[signature]	✓				
Harley Olberg	✓				
Bettye J. Davis	✓				
[signature]	✓				

[signature]
CHAIRMAN'S SIGNATURE