HJR

18

FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

NO.
BILL VERSION: HJR 18
PUBLISH DATE:

Revision Date:
Title: Relating to medical savings account legislation.
Sponsor: Representative Kott
Requestor: House HESS

Department Affected: Legislative Affairs Agency
BRU: All
Component: All

COMPONENT SERIAL NO:

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE FUND SOURCE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS						
OTHER FUND SOURCE						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year impact:

ANALYSIS: (Attach a separate page if necessary)

Zero fiscal impact.

Prepared By: Karla Schofield, Deputy Director — Karla Schofield — Phone: 465-3852
Division: Administrative Services — Date: 2/13/95

Approved By: Pamela A. Vami, Executive Director — Pamela A. Vami
Agency: Legislative Affairs Agency — Date: 2/13/95

Distribution (by preparer): Leg. Finance, Legislative Sponsor, Requestor, OMB, Gov. , & Impacted Agency(ies).

HOUSE COMMITTEE REPORT

(7)
Date Referred: January 20, 1995 FURTHER REFERRALS:

Date of Committee Action: 2/14/95

The HEALTH, EDUCATION AND SOCIAL SERVICES Committee considered: HJR 18

HOUSE JOINT RESOLUTION NO. 18 SUPPORT MEDICAL SAVINGS ACCT LEGISLATION

Relating to medical savings account legislation.

recommends it be replaced
with the following committee substitute _____

[ ] the same title
[ ] a new title

[ ] additional referral to _____ Committee
[ ] attached amendment(s)

ADOPTS: _____ Letter of Intent

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

[ ] fiscal note(s) _____ [ ] fiscal note(s) _____

[X] zero fiscal note(s) LAA [ ] zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
	✓			
	✓			
	✓			
	✓			
	✓			
			✓	

CHAIR'S SIGNATURE _____

Alaska State Legislature
House of Representatives

COMMITTEE ASSIGNMENTS:

LABOR & COMMERCE, CHAIRMAN
MILITARY & VETERANS AFFAIRS, CHAIRMAN
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HJR 18
SPONSOR STATEMENT

As medical costs nationally and in Alaska continue to rise, the need for innovative approaches to health care cost containment becomes more acute. The concept behind Medical Savings Accounts is to encourage employees to shop more carefully for medical services. It recommends the purchase of high deductible coverage by employers. The savings realized by this effort results in reduced health insurance premiums. These savings are then placed by the employers in individual employee Medical Savings Accounts.

Employee Medical Savings Accounts then may be used by employees to purchase additional, more specific insurance coverage and to pay deductibles incurred under employer provided or employee purchased medical coverage plans.

Medical Savings Accounts belong to the individual employee and move with the individual to purchase health insurance when between jobs or for coverage when re-employed, even when with a different employer.

The additional benefit to Medical Savings Accounts is that they allow the individual to select and purchase coverage at reduced cost without a new federal bureaucracy and would be revenue neutral to employers. It is compatible with the free market in that it protects individual freedom and rewards prudent decision making.

HJR 18 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 your support for this legislation.

Representative Pete Kott

Sponsor Statement

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.

SUPPORT

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 set up to pay for routine medical care and to allow for the build-up of savings to pay for future 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.

	Annual Premium	
Deductible	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.

MARKET FACTS

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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 --

MARKET FACTS

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."

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* * *

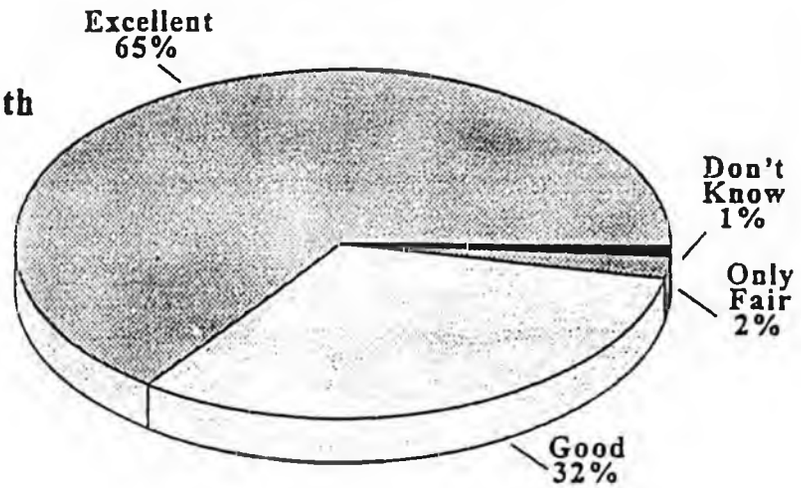
The telephone survey of Golden Rule Insurance employees was conducted by the Washington and Chicago-area offices of Market Facts, Inc., an international survey and market research firm headquartered in Arlington Heights, Illinois. Market Facts made three attempts during the week of the survey to reach 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.

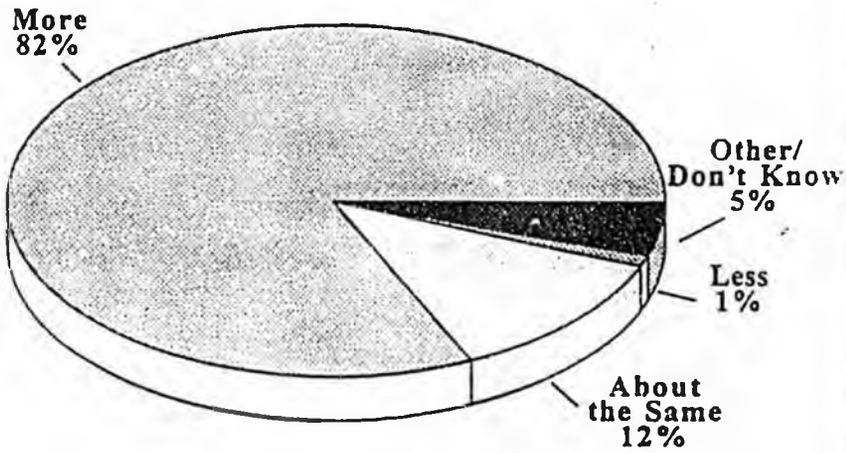
-- GRAPHS ON NEXT PAGE --

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?"



Reprinted from THE WALL STREET JOURNAL.

THURSDAY, JULY 21, 1994

REVIEW & OUTLOOK

Consumer-First Health Care

The great medical care debate has reached the stage where all principles are out the window; the only goal is to cobble together some contraption that can garner 218 votes in the House and 51 in the Senate. It is perhaps time, intellectually at least, to step back and ask what the problem is to begin with.

Now President Clinton is going back and forth on "universal coverage," always a quizzical lodestone. In this society, we do not have any meaningful problem of people dying in the street for want of medical care; in that sense we already have something approaching "universal access" to care, whether or not through insurance "coverage." Even in terms of insurance, remember, we already have Medicare and Medicaid, so the uninsured are by definition neither elderly nor poor.

There are problems with portability and pre-existing conditions, as Martin Feldstein discusses nearby, but the big problem is exploding costs. These problems, in turn, relate to the historical accident that linked medical care and employment; health insurance benefits proliferated when wage increases were limited by World War II price controls. The result was that employees pay for health care with what seems to be Other People's Money, a sure-fire recipe for exploding spending and higher prices.

In recent years this trend has been intensified by government programs such as Medicare and Medicaid. Today, 80% of medical expenses are paid by somebody other than the patients themselves. The graph nearby shows how out-of-pocket expenditures have declined from some 60% of the total health bill in 1960 to 20% today, while government's share has doubled to 46%. This problem is not likely to be solved by yet bigger government programs. The way to control costs and make insurance affordable for more people is to reverse the trend, making patients part of the solution. The trick to a more competitive, economical system is to figure out ways to let patients be *both* the consumer and the purchaser of more medical services.

As it happens, experiments are under way. At least three companies – Golden Rule Insurance Co., Forbes Inc. and Dominion Resources Inc. – have implemented the Medical Savings Account plan developed by the National Center for Policy Analysis of Dallas. They're showing how market-oriented reforms can hold down costs and still preserve the freedom of choice and innovation for which America's health care is renowned; versions of these plans are included in the House Ways and Means Committee bill and Senator Bob Dole's proposal.

Golden Rule, in Indianapolis, specializes in individual medical care coverage. Pat Rooney, its chairman, reasoned that if employees paid directly for a portion of their own care they would get the same level of treatment but would wind up spending less after comparison shopping caught on. He envisioned a plan giving a typical employee the option of sticking with his or her existing coverage or choosing a deductible of, say, $3,000 a year and putting the premium savings into a "medical savings account," which would be drawn down as medical expenses were incurred.

The remaining part of the employer's health contribution would allow the company to buy a catastrophic health care policy to cover all of the employee's medical bills over, say, $3,000 a year. All of an employee's health concerns would be covered, but the employee would have an incentive to comparison shop. Anything left in his $3,000 annual medical savings account would be his to keep tax-free, so long as it was used for insurance premiums between jobs or long-term care.

With these ideas implemented, Golden Rule's 1,300 employees can choose a traditional $500-a-year deductible plan or one with a $3,000 family deductible. If they choose the latter, Golden Rule deposits $2,000 into a medical savings account. The first $2,000 of medical bills are paid out of the account, the next $1,000 is out-of-pocket and everything above $3,000 a year is paid by Golden Rule. In 1993, 81% of Golden Rule's employees chose the savings account option, and this year the number rose to 90%.

The reason is that since 85% of Americans spend less than $3,000 a year on medical care, and 73% have less than $500 a year in claims, Golden Rule allows employees to keep any balance left in their medical savings account. Today, the total medical bill for Golden Rule employees is about 60% of what it used to be under a conventional insurance program.

That's because many Golden Rule employees made dramatic changes in their health-care purchases. Melanie Woodcock reports that a local hospital offered to perform surgery on her for $6,046 after she offered to pay up front in cash. Otherwise, the total bill would have been $9,843. Deanna Irick says she would rarely go to the doctor when sick because she didn't want to pay the $250 deductible. Last year, she used her medical savings account for six-month checkups and treatment for a throat infection, visits she "normally would have skipped." She was able to spend the company's money, which had been put into her savings account, rather than her own. One out of five Golden Rule employees report they used their savings accounts for a medical service they would not have used under their old plan.

Forbes magazine in New York gives employees a $1,200 annual account in addition to their normal insurance. Every time they file $1 in medical claims they lose $2 from the account. Employees get to keep what's left in their account at the end of the year. The paperwork on routine claims has gone down dramatically and the company's health costs fell 17% in 1992 and 12% last year.

Dominion Resources, a Virginia utility holding company, deposits $1,620 a year into a bank account for the 80% of its employees who choose a $3,000 deductible plan rather than a lower deductible. Since 1989, Dominion's health care costs have

(over please)

risen less than 1% a year. The average number of claims filed per employee has declined by nearly half, and paperwork costs have been cut dramatically. All three companies use wellness programs to encourage employees not to skimp on spending for physicals and other preventive medical techniques.

Support for medical savings accounts is growing. Six states — Arizona, Colorado, Idaho, Mississippi, Missouri and Michigan — have changed their tax laws to accommodate medical savings accounts. The United Mine Workers union has signed a new five-year contract with a health plan that includes a $1,000 bonus that workers can use to pay for their medical plan's $1,000 annual deductible. Mine workers still have first-dollar coverage, but the first $1,000 they now spend will be their own money rather than their company's.

Many companies currently offer flexible health spending accounts, but under current tax law the money reverts to the employer if it isn't spent at year's end because it would then be taxable income to the employee and not deductible to the employer. There is broad bipartisan support for changing the tax law to level the playing field and give medical savings accounts the same tax advantages as group insurance. Even the bill that passed Senator Kennedy's Labor Committee included a provision urging the adoption of medical savings accounts. Rep. Andy Jacobs of Indiana, the Democrat who won Ways and Means approval of medical savings accounts, says they "could be the most effective medical cost containment measure ever passed by Congress."

Most of the health bills now before Congress remind us of Henry Ford's philosophy behind the Model-T car: "You can have any color you want as long as it's black." Health care reform that includes medical savings accounts would represent real consumer sovereignty; patient self-interest would be harnessed to keep costs down, and workers would build up their own tax-free health care funds for when they were between jobs. Health care security would be enhanced, but not at the cost of quality or freedom of choice. In its current mood, however, Congress may very well not advance health care innovation, but smother it in desperate haste.

Medical Savings Accounts reward wise choices

By THOMAS SENTER, M.D.
and WILLIAM A. BARNES SR.

COMPASS
POINTS OF VIEW FROM OUR COMMUNITY

The money belongs to the participant and accumulates year by year if not used for medical services.

In November 1945, three months after World War II ended, President Harry S. Truman addressed Congress and stated that the United States spent 4 percent of the gross national product on health care and that we could afford to spend more.

The amount of 4 percent had remained the same from 1865 to 1945, except for the Depression when expenditures fell because people had little money. Despite Truman's proposal, the 4 percent level of expenditures on health care was not exceeded until 1950.

The situation had remained static because the person who received the medical treatment usually paid for it directly. Blue Cross was started in Dallas in 1929 as a prepaid hospital plan for public school teachers. Growth of such plans was slow during the Depression. By 1940 only a few people were covered by these plans.

Then during the Second World War, the U.S. government imposed wage and price controls. However, there were no limitations on fringe benefits such as health insurance.

Tax law provided that payments to Blue Cross and other medical insurance plans were tax deductible to the corporation and the benefits received not considered income to the recipient. So there was an expansion of Blue Cross and other similar plans during WW II as health care benefits became linked to employment. We are the only major industrial country where this is the case.

The unions quickly recognized that it was better to bargain for increases in benefits rather than higher wages which would be taxed.

Then, in 1950, the Chrysler Corp. agreed to pay one-half of Blue Cross premiums for its work force. In the steel industry after a strike which lasted 118 days, the companies agreed to pay all health insurance premiums.

In 1963, General Motors adopted a similar plan. With low deductibles and little copayments, participants with such lavish coverage had what amounted to free health care. Governmental bodies copied these plans and we now have them in state and municipal governments as well as school districts. For example, Alaska state employees enjoy a generous medical plan administered by Aetna. There are 13,500 participants and if dependents were included there would be about 30,000 in the plan.

In this type of plan participants will not usually question the cost or extent of the services provided. The person who receives the treatment does not pay for them and thinks that some benevolent organization such as Aetna or Blue Cross is picking up the bills. The patient will often demand and receive the most costly and elaborate services available. The physician and other providers will furnish these services because they will increase their income.

In 1985 the state employees made 338,899 claims for an average of 25 claims per participant. In 1992 there were about the same number in the plan and they filed 685,000 claims. This is 52 claims per participant. Not surprisingly, costs doubled.

Aetna charges the state $10.50 to process a claim. This is $7,192,000 for paper shuffling. A third-party administrator will process medical and dental claims for $12 per participant per month, including dependents. This is $1,620,000. If the state used a third-party administrator, $5,572,000 could be saved.

However, the real savings in the state group health plan can come about by changing the plan design. At present the person who makes no claims and lives a healthy lifestyle receives no reward for their behavior.

Medical Savings Accounts are a way to help control costs by changing incentives for those in group health insurance plans. In a group health plan, 94 percent of the claims are for less than $3,000. Typically, an employer might be paying a premium of $5,000 per year for a male participant with a family.

This would be for a deductible of $200 and 80% coinsurance for the next $2,500 in expense. In contrast, an insurance policy with a deductible of $3,000 can be obtained for an annual premium of $2,000. The $3,000 difference between the low deductible premium of $5,000 and the high deductible premium of $2,000 is placed in a separate medical savings account. The participant pays his small health care expenses out of the medical savings account. There are no deductibles, no coinsurance and complete choice of doctor.

The money belongs to the participant and accumulates year by year if not used for medical services. The sum at age 62 or 65 can be used to purchase an annuity which will provide a life income in retirement.

The Golden Rule Insurance Co. in May of 1993 offered such a plan to its employees as an alternative to its traditional low deductible insurance plan. Of the participants, 80.5 percent chose Medical Savings Accounts.

In 1994, 90 percent of the employees took the Medisave alternative. In eight months, the employees saved an average of $602 per participant. This is the same as an increase in wages of $50 per month.

With medical savings accounts, people will reduce their medical expenses by shopping wisely. If the Anchorage School District had offered such a plan to its employees in 1994, about $4,000,000 in premiums could have been saved. That money could have been used to give merit increases and to hire more teachers. The strike could have been avoided.

Interestingly, the school district was offered a Medisave Plan in 1984, but it was rejected by the benefits manager who said that "It wouldn't work." If such a plan had been adopted in 1984, the savings in group health and dental premiums would have amounted to $40 million.

Thus with the collapse of the Clinton health plan and the lack of support for a single payor system in Alaska, the medical savings account is a viable alternative to schemes involving heavy government intervention.

Medical savings accounts do not require a new bureaucracy and are an inexpensive way to help control health care costs for those who are participants in group health plans.

The next legislature should require that all state employees be offered the medical savings account plan as an alternative. Private employers would do the same and the premium savings could run into millions of dollars.

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Alaska State Legislature

House of Representatives

COMMITTEE ON HEALTH, EDUCATION AND SOCIAL SERVICES

DATE: Feb 14, 1994

PLACE: Capitol Room 106

SUBJECT OF MEETING:

HJR18

Confirmation Hearings

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?		WHAT SUBJECT/ WHICH BILL?
Barbara Rick	AARP					Y	(N)	
Merritt C. Mason	"					Y	(N)	
Christine Niemi	(PTPC) Dept of Ed	801 W. 10th Street Suite 200 Juneau, AK 99801				(Y)	N	
Rod Moulton	Rep Kott					Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	