

January 8, 2007

Jury is still out on consumer-driven health care plans

John La Plante

Health care will be one of the leading topics of the new legislative session. Should the session end with Minnesota government taking more responsibility?

Before we enter that debate, I'd like to introduce you to John Goodman, one of the most influential men that you may have never heard of.

Goodman heads the National Center for Policy Analysis (<http://www.ncpa.org>), a Dallas-based organization that promotes private sector alternatives to government regulations and programs. Over the year, Goodman, who holds a doctorate in economics, has called for changing the way that we finance health care.

He's had some success in getting federal and state lawmakers to listen. Thanks in part to his work, health savings accounts (HSAs) are taking hold. These tax-favored accounts are coupled with high-deductible insurance policies. Currently, 6 million people have an HSA or similar arrangement. The Washington Post recently called Goodman "the man behind the plans."

So how does they work?

Goodman's logic is simple, if not universally accepted. In a normal market, buyers demand increasing quality and decreasing costs. But health care is not a normal market. The person who incurs the expense is not the person who pays for it.

Government agencies pay for half of all healthcare spending. Insurance companies pay for most of the rest. To a substantial degree, employers, not individuals, arrange and pay for insurance.

In recent years, businesses have been dropping coverage. Those that retain it move some of the costs to employees. Even so, most people have little direct incentive to care about the cost of insurance or health care. The subsidies they receive are not obvious to them.

HSAs are part of consumer-driven care, a move to make the costs of insurance and health care are made more transparent to individuals. High-deductible plans force consumers to pay attention to costs. The HSAs, funded by employers and employees, grow over time,

cushioning the burden of high deductibles. The HSA is used for routine expenses, while the policy becomes a backstop to catastrophic events.

Where Are We Now?

Have Goodman's ideas given us lower insurance costs and by extension, increased insurance coverage? The Galen Institute (<http://www.galen.org>) says the results are positive. "Consumerism is working in the health sector," writes Grace-Marie Turner, president of the organization.

More than half the individuals purchasing HSA-paired insurance plans were previously uninsured, she says. To counter charges that HSAs appeal only to the young or wealthy, she notes that 40 percent make less than \$50,000 a year, and half are over 40 years old.

But not everyone is convinced, with many public policy organizations favoring traditional insurance or a single-payer system. Citizens for Tax Justice (<http://www.democracyinaction.org>), for example, call HSAs "regressive." It says that even now people are not using all the balances in their accounts, suggesting that the HSA will become the next tax dodge.

Never mind that today's employment-based system is already regressive. The value of corporate tax breaks for premium costs increases along with a person's salary.

Further, having money in a health savings account should be encouraged, not discouraged. Consider, for one thing, that the national average cost of a one-year stay in a nursing home exceeds \$70,000. If people can build up substantial reserves in an HSA, that money could play a role in meeting the long-term care crunch.

Citizens for Tax Justice also fears that HSAs "will, over time, encourage healthier and wealthier people to leave the traditional health insurance market, which will make health insurance even less affordable for those at-risk workers and families who really need it."

If Galen's numbers hold up, HSAs will reach across the economic spectrum. The criticism of HSAs dodges the question of whether today's low-deductible, employer-selected and purchased insurance should be encouraged as the model, or if it is even sustainable in a global economy.

It has high costs, and not only in finances. It discourages employee mobility, which has economic and personal costs. It also ties a person's most intimate concerns not only to an insurance company but also to the HR department.

There's a lot that is right in American health care. There's also a lot that's amiss. The direction that health care takes from here depends in part on whether you think people can and should take more control over their lives, or whether that role should be given to corporate or public managers.

It's human to want it all: excellent care, instant access and little cost. But those objectives must be balanced against each other. How will that be done? I'm casting my lot with Clive Crook, senior editor at The Atlantic. As he put it, consumer-driven health care may be "the least-bad option."