Perspective

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Two Promising Alternatives for Controlling Health Care Costs

by John R. La Plante

As the Oklahoma Health Care Authority (OHCA) and the state's political leaders search for ways to address the needs of the state's uninsured, two recent innovations offer promising alternatives to simply adding more people to the public rolls.

Roughly 20 percent of Oklahomans do not have health insurance, and the state ranks fourth for uninsured adults between the ages of 18 and 64. Mike Fogarty, head of the Oklahoma Health Care Authority (OHCA), recently suggested including more people in the state's Medicaid system, along with increasing the required copayments. Using copayments, so that people understand that even government-sponsored health care is not free, is a good idea. But bringing even more people into the state's troubled health care system is not.

The problem of the uninsured stems in part from the federal tax code, which gives a tax break to employer-provided health care plans, not to individuals buying on their own. This makes self-insurance prohibitively expensive for most consumers. Thus, most Oklahoma residents, like the citizens of other states, are limited to the plan or plans offered by their employers – plans which may or may not precisely suit their needs. Likewise, the people who rely on the state's various public programs face limited choices. The state is increasingly moving people into managed care organizations, which are the public equivalents of HMOs.

Old Benefit, New Use

Employees and Medicaid recipients could both have more control over their health insurance decisions — and save money in the process — if two innovations make headway in Oklahoma.

A recent ruling by the IRS has breathed new life into an old fringe benefit, the Flexible Spending Account (FSA). Under an FSA, an employee agrees to set aside a specific amount of money from each paycheck, for co-payments and deductibles, or for services not covered by health insurance, such as laser eye surgery. The money goes into the special account before income or Social Security taxes. In other words, the major tax benefit shifts to the employee, rather than the employer. Rather than being limited to one or two insurance plans, the employee then gets to choose how to spend the money.

But there is a weakness in the FSA arrangement. If the money isn't spent by the end of the year, it's lost – the money is gone and the employee must start again from scratch. As you might expect, this causes fewer people to use FSAs as might otherwise be the case. The new IRS ruling creates a better version of the FSA, called Health Reimbursement Arrangements, or HRAs. Under an HRA, money contributions from the employer can be rolled over from year to year, and then used as the employee sees fit. It could be used, for example, to purchase a high-deductible insurance plan, with the employee pocketing the savings in premiums. Or it could be used to pay out-of-network doctors on a managed care plan. Either way, consumers have a far greater range of choices.

Vouchers for Medicaid

The same consumer-choice principle can be applied to Medicaid. Currently, taxpayers are forced to spend money on someone who has little incentive to be a watchful consumer. So the state, like private companies, has turned to managed care as a way to control costs.

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Vermont is embarking on an alternative way to deal with rising Medicaid costs. Vermont enrollees will be able to use a voucher to pay for the insurance plan that best fits their needs. Some may choose a low-deductible plan; some may choose a high-deductible plan and save the money for medical expenses that come later. They will have an incentive to spend wisely, since it will be their money.

This program, like private-sector health reimbursement arrangements, would enable enrollees to purchase items or services not covered by insurance. It could also be modified to allow unused money to be rolled into a 401(k) or other individual account. This would reward those who were smart shoppers, asked questions, and made a greater effort at healthy living.

Right now, both employer-provided and taxpayer-provided insurance work at odds with the insured. The reason: Those who pay for insurance and those who use it have different, conflicting motivations. But if Oklahoma adopts Vermont-style Medicaid vouchers, and employers take advantage of the new HRA option, Oklahomans will be able to obtain better insurance at lower cost. Why? Because they've been given a choice, and a greater financial stake in their health care spending.

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