

BENEFIT

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Bush Plans To Reform Health Insurance

President George W. Bush plans to reform the U.S. health insurance system with policies that favor individually-owned coverage over employer-provided insurance, while also offering incentives to small businesses to provide coverage for their workers, according to several recently published studies examining Bush's agenda for his second term.

In a speech delivered at the Republican National Convention in September 2004, Bush called building an "ownership society" in which more Americans would "own their health plans" a priority for his new term.

"Health care already may be moving away from an employer-based model as more employees and employers drop coverage, and

President Bush's policies could hasten that trend," according to the PricewaterhouseCoopers' Health Research Institute report, "President

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Bush's Second Term: Prescribing Private Solutions for the Nation's Health Care Problems."

One of the key elements of Bush's second-term strategy is the promotion of Health Savings Accounts (HSAs), which were enacted as part of the Medicare Modernization Act of 2003. "These accounts give workers the security of insurance against major illness, the opportunity to save tax free for routine health expenses and the freedom of knowing you can take your account with you whenever you change jobs," the President said in his convention speech.

In conjunction with a qualifying high-deductible health plan (HDHP), an HSA holder is permitted to make pre-tax contributions that can be withdrawn tax free to pay for quali-



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fied medical expenses. Unused funds can be rolled over from year to year, with any investment growth accruing tax free. Minimum HDHP deductibles for HSAs are \$1,000 for individuals and \$2,000 for families. Since they became available at the start of 2004, the take-up of HSAs has been relatively modest among both individuals and employers. According to PricewaterhouseCoopers, the percentage of small employers offering high-deductible plans to their employees was 10% in 2004.

But Bush's fiscal year 2005 budget proposal included the introduction of tax credits to help lower-income individuals who lack insurance pay for an HSA. Specifically, the budget called for the creation of a refundable tax credit of up to 90% of the premium for non-group health insurance, with a maximum credit of \$1,000 per adult and \$3,000 for families. The credit would phase out altogether at an income of \$30,000 for individuals, \$40,000 for single adults with dependents, and \$60,000 for two-adult families.

An analysis of the President's tax credit proposal by the Henry J. Kaiser Family Foundation concluded that a little over 10 million people would use the credit, with about 3.1 million of these coming from the previously uninsured, and the remainder being people who were already insured in the non-group market. However, according to the Kaiser Foundation study, the proposed tax credit would reduce the total number of uninsured Americans by only a little over 1.8 million, as the proposed policy would likely result in almost 3.4 million people losing employer-based coverage.

The Kaiser Foundation report also looked at another proposal in the 2005 budget, which would permit individuals to take a deduction from adjusted gross income for 100% of the premiums they pay for high-deductible, non-group health insurance purchased in combination with an HSA. Together, the study concluded, the tax credit and tax deduction proposals

would result in an additional 1.3 million people gaining insurance coverage, at a cost of more than \$4,780 per newly insured person.

“While the net change in the number of people with insurance is relatively small,” Kaiser Foundation researchers concluded, “these policies result in a substantial movement of individuals away from employer-based coverage and into the non-group market, or in some cases, into being uninsured.” This is because a reduction in the preference under current tax law for employer-provided coverage would likely result in fewer employers seeing the need to offer health benefits to attract workers.

A study of the 2005 budget proposals by the Center on Budget and Policy Priorities (CBPP) reached a similar conclusion. “The availability of the tax credit would lead some employers to cease providing coverage to their workers or, in the case of new employers, not to offer coverage in the first place,” CBPP researchers said. Moreover, they warned, the tax credit could lead to an “adverse selection” cycle that could substantially increase the costs of employer-based coverage, as younger and healthier workers opt out of employer-based group plans, leaving behind older and sicker members who are more expensive to insure.

The CBPP also pointed out that the tax credit amounts were first suggested during Bush's 2000 presidential campaign, when health insurance costs were more than 40% lower than they were in 2003. “The proposed tax credit for individuals thus has eroded substantially in value over the past four years, and would cover a much smaller share of health insurance premiums today than it would have covered when President Bush first unveiled the proposal,” researchers said.

The Bush administration expects that Americans who “own” their health insurance policies will become more cost-conscious when seeking out medical services. “The HSA premium deduction

proposal would enhance consumer awareness of health costs through higher-deductible insurance,” Joseph Antos contended in an article for the American Enterprise Institute for Public Policy Research. “People who have low-deductible coverage and modest co-payments act as if someone else is paying for much of their care. Consequently, they have less of an incentive to scrutinize carefully whether they are getting a good value, and they are likely to overuse health services.”

But while providing incentives to expand private coverage is a major thrust of the Bush health insurance reform plan, the President has also put forward proposals to help small businesses offer health insurance to their employees. The administration has advocated tax rebates of up to \$200 per individual and \$500 per family for contributions made by a small employer to an employee’s HSA.

In addition, the President has called for the creation of Association Health Plans (AHPs), which would allow small businesses to band together and create large risk pools to negotiate better group rates from insurance providers. “In a new term,” President Bush said at the convention, “we must allow small firms to join together to purchase insurance at the discounts available to big companies.”

To make this possible, President Bush has suggested that individuals and businesses be allowed to shop across state lines for insurance products. This would give consumers in states where insurance costs are high access to lower-cost products, but the amount and quality of such products may also be lower due to large differences in state coverage mandates. Researchers for PricewaterhouseCoopers have also warned that opening up the market in this way could mean that individuals with chronic diseases might find the cost of their health insurance would be much higher than under current state rules.

The Bush administration has attempted to address the problem that

individuals with chronic or terminal illnesses may be unable to get insurance in the private market by advocating federal subsidies to expand state-sponsored insurance risk pools. CBPP researchers were critical of this proposal, however, noting that coverage through existing state pools is limited and expensive.

The potential impact of the Bush health insurance proposals, if implemented, is the subject of considerable controversy. While the Kaiser Foundation and the CBPP have voiced skepticism about the degree to which the Bush program would provide coverage to the uninsured and shore up existing coverage, the Lewin Group, a nonpartisan research and consulting firm, recently projected that the Bush plan would reduce the number of Americans who lack health insurance by 8.2 million, from an estimated 49.5 million in 2006 to 41.3 million. The 10-year cost of these proposals to the federal government, the Lewin Group estimated, would be \$227.5 billion; employer health spending would decrease by \$4.7 billion over the same period.

PricewaterhouseCoopers researchers speculated that the Bush plan, if enacted, would likely produce both winners and losers: “The impact of all this on the number of people who have insurance is uncertain; some individuals and businesses will be encouraged by lower prices to purchase more coverage, while others who face higher premiums may drop coverage.”

Employees Want Support In Taking Responsibility For Health Care

Employees are willing to take charge of their own health care decisions, but want guidance from their employers on how to adjust to a consumer-directed



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system, according to a survey by human resources consulting group Hewitt Associates.

The national survey of more than 39,000 employees found that 93% claimed they are comfortable taking on more responsibility for medical decisions. However, most of those surveyed admitted they have yet to become fully involved in the process.

More than 80% of respondents said they do not make annual estimates of their health care expenses, and 79% said they do not believe they can personally take action to help control these costs. In addition, 57% of those surveyed reported that they have never researched provider costs or quality, and 24% said they have never inquired about their prescription drug options.

Fewer than half of respondents believed they do a good job of taking preventative medicines, screening tests, or immunizations recommended by their doctor, and those in the poorest health said they are least likely to do so.

The survey also indicated that employees often lack information from their employers about the kinds of support that are available to them, and how their actions can make a difference. More than half of respondents said they did not know if they have access through their employers to prescription, hospital or physician cost and quality data; and 60% said they did not know if they have online access to condition/disease-management tools, medical expense estimators, or general and company-specific information on rising health care costs.

“The good news here is that people are more willing than many of us thought to take a more active, consumer-oriented role in their health care choices,” said Jennifer Murphy, health care communication leader at Hewitt Associates. “However, there’s a big difference between believing you can be a good consumer

and actually being one. To the extent that employers can make employees aware of and encourage the use of available support and tools, they can help employees convert this belief into action.”

BLS Releases Figures On Employee Benefits In Private Industry

In March 2004, 59% of employees in private industry had access to retirement benefits, with 50% participating in at least one type of retirement plan; and 69% of workers had access to employer-sponsored medical care plans, with 53% participating in the plans, according to the results of the 2004 National Compensation Survey by the Bureau of Labor Statistics (BLS).

The survey also found that paid leave was the most commonly provided employee benefit in the private sector, with 77% of employees having access to paid vacations and holidays. Life insurance was available to 51% of employees, and 48% participated. Of the 39% of employees with access to short-term disability benefits, and the 30% of workers offered long-term disability benefits, nearly all participated.

Among those covered by retirement plans, 21% of employees were in defined benefit plans, and 42% were in defined contribution plans, while the remainder participated in both types.

The majority of workers covered by health insurance were required to make contributions for both single and family coverage. The survey indicated that employee contributions to medical care premiums averaged \$264.50 per month for family coverage, and \$67.57 per month for employee coverage.



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