

Engaging American Ingenuity to Solve the Uninsured Problem

My name is Ronald E. Bachman FSA, MAAA. I am an actuary by background and a Sr. Fellow at the Center for Health Transformation. I am a retired partner from PricewaterhouseCoopers with a retirement mission to solve the uninsured problem, improve mental health services, and expand healthcare consumerism. I am on the Board of Directors of Mental Health America of Georgia and the Georgia Free Clinic Network.

This presentation will outline we see as actually happening to unleash the spirit of American ingenuity to solve the uninsured problem. Putting into perspective how big the challenge is - The United States' spend on healthcare is now \$2.1 trillion. This is about two-thirds of the entire \$3.2 trillion GDP of China – and growing nearly as fast!

The Moral Imperative

Americans know that a solution is needed for the 47 million people who are uninsured. Any solution must include the sickest among us. No one can be left behind. Any system that works only for the young, healthy, and wealthy is a solution destined for failure.

According to the Institute of Medicine 18,000 people die every year because they are uninsured. Uninsured adults have a 25% greater rate of dying than adults with insurance. Uninsured trauma victims are 37% more likely to die of their injuries. Simply put, insuring all Americans is a moral imperative.

Addressing the uninsured is also an economic development opportunity. Uninsured sick children have impaired development and poor school performance. Uninsured adults have more absences from work, more unscheduled sick days, and greater rates of disability. Clearly, the cost to society is high.

Eight out of 10 uninsureds are in working families. The great job creation machine is small business. Yet, 65% with fewer than 10 employees do not offer health insurance. Too many are without health insurance for reasons beyond their control. Many more Americans are only a pink slip away from losing their jobs and their health insurance.

A. Dysfunctional System

The uninsureds are a symptom of a dysfunctional system. I believe that focusing on the uninsured rather than arguing over general market reforms will lead us to new solutions. Entrenched interests in broad reform protect their part of a dysfunctional system that operates within an outdated legal and regulatory environment with unintended consequences that makes little sense to average citizens.

For example, it is illegal under state laws for small group plans to provide financial rewards (dividends, rebates, refunds) to a diabetic following doctors orders to take medications, make scheduled office visits, or change diet and exercise habits. It is illegal under state laws to incent individuals with financial rewards healthy behaviors of wellness, prevention, and early intervention. States add a “sales tax” to every policy sold amounting to 2-3% or more of the premiums. In some areas of Georgia, state, local, county, city, and other municipal taxes can total as much as 7%. These are called “premium taxes” and add no value to providing care or

treatment. The added taxes only make insurance more unaffordable and increases the number of uninsureds. Amazingly, in 24 states it is illegal for small employers to contribute to the purchase of individual health policies through the use of tax advantaged Health Reimbursement Arrangements (HRAs).

It is generally illegal under federal law for an unemployed worker to use accumulated HSA savings to pay for health insurance premiums. It is illegal under federal law to provide a separate prescription drug benefit under High Deductible Health Plans. It is illegal under federal law for personally contributed but unused Flexible Savings Account funds to accumulate over time. These are multiple account designs with confusing rules and requirements that make no sense to average citizens. For the uninsured, a single universal health account would be much easier to understand.

While many wait for federal action to deal with the problem of the uninsureds, state legislation is taking place to support next generation health insurance.

B. The Georgia Model

As an example, let me share with you the recent successes in Georgia to cover 1/3 of our uninsureds. In our state and nationally, we have the best “Sickness-care” in the world. What we lack is a good “Health-care” system.

A collaboration of key stakeholders worked last year to develop recommendations to lower the uninsured in Georgia by about 500,000. The uninsured need insurance choices that should include affordable comprehensive coverage with a focus on wellness and prevention and meet all state requirements, patient protections, and privacy rights..

The WG determined that two segments of uninsured representing more than 1.1 million Georgians could benefit from their initial consensus recommendations. In Georgia (and nationally) about 30% of the uninsureds can afford insurance, but many find the products available unresponsive to their needs. Another 35% of the uninsured need some financial assistance. The WG believed that developing better more affordable products for these segments of uninsureds, with alternative methods of affordability, and improved wellness benefits could reach half of the initial targeted groups.

The collaborative effort succeeded. On May 7, 2008, Georgia’s Governor Sonny Perdue signed into law health reform legislation that allows insurers to develop significantly more affordable products for small companies and individuals. The new laws focus on the uninsured working poor. With increased health, economic prosperity, security, and productivity this legislation is estimated to bring an annual increased economic value to Georgia of \$1.9 billion.

C. The Keys to Success

The key to success was moving beyond the first generation HSA eligible plans to a new generation of consumer-oriented products. Critics have concerns regarding coverage under HSA eligible plans. The required up front deductibles have been a problem for many. With new generation plans these concerns are substantially moderated and potentially eliminated. Already federally tax advantaged, HSA eligible plans are typically 25-40% lower cost than traditional health insurance. 25-35% of new purchases of HSA eligible plans are sold to those otherwise previously uninsured. HSA eligible plans are required to be comprehensive (covering all disease states) and are mandated to limit maximum out-of-pocket costs. 84% of HSA eligible plans offer

100% coverage for preventive care. For example, full coverage is typically provided for mammograms, PSA tests, well child and healthy new mother programs.

The new Georgia law is a market-based individually-centered package of reforms that eliminate out-dated insurance laws that unintentionally limited the offering of affordable insurance. To make insurance more affordable, the new law allows financial “dividends” to be placed into Health Savings Accounts (HSAs) for engaging in wellness, prevention, and treatment compliance. Rewards and incentives paid into the HSA by insurers can reduce or eliminate the entire deductible otherwise payable by the patient. Affordability is no longer about the dollars one pays from a wallet. Affordability is also achieved through health choices and behavior changes.

In addition, Georgia eliminated all state and local “sales taxes” on HSA eligible plans (technically called premium taxes). As an incentive to offer insurance, companies (with fewer than 50 employees) are granted a \$250 tax credit for each employee enrolled in an HSA eligible plan. For individual insurance buyers there is a special Georgia income tax deduction for the premium associated with the purchase of an HSA eligible plan. New more flexible plan designs are allowed that will offer choice, convenience, and cost savings.

The new Georgia law makes legally clear the option of small employers to contribute tax advantaged HRA dollars to employees for the purpose of buying individual portable health insurance and/or paying for health expenses.

Soon, Georgians will see products at a fraction of their current costs and be able to purchase portable new generation HSA eligible plans that can provide full coverage for those willing to take personal responsibility for their health and well-being. The old complaints that HSA eligible plans were simply high deductible coverage only for the young, healthy, and wealthy is addressed with the new products allowed under Georgia law.

A new future for improved health and family security is unfolding and Georgia is showing the way. Even though we are only one state, national and regional carriers are working to develop these new flexible affordable comprehensive plans. Millions of dollars in product development, training, education, promotion, advertising, commissions, and other economic activity is beginning to take shape. This legislation is not a panacea. It is a model for others to follow. Georgia is now prepared for the next phase of helping all Georgians to find affordable health insurance.

D. National Megatrend of Transformation

Georgia is reflective of a much broader change afoot. Led by large self-insured employers, there is a profound and fundamental transformation occurring across the nation. I believe we are 3-4 years into a 15 year mega-trend movement in healthcare. It is not surprising that many do not see what is happening as this evolution in health care is taking place. Many such changes are only fully recognized in historical perspective. Who knew when the Renaissance started, or when the Soviet Union began to fall?

The fundamental change happening is a movement from managed care which is based on the assumption that demand for healthcare is unlimited. Therefore, the only way to control costs is to limit the supply of care and/or cut provider reimbursements. Services are deemed not medically necessary, not appropriate, not covered, excluded, limited, and patients are told they are not sick enough, must wait for treatments, and choices are limited by formularies. This can be referred to as a “Supply Control” insurance system.

The transformation occurring is based upon controlling demand for services by engaging participants in healthy behaviors and providing rewards and incentives for cost effective use of healthcare services. This transformed world takes a different perspective on demand. Instead of assuming it is unlimited, new products are built on the ability to limit demand by changing behaviors. This can be referred to as a “Demand Control” insurance system.

We can solve the uninsured problem with these creative solutions, private/corporate efforts, tax incentives, direct public subsidies, strong community support, faith-based outreach programs, and effective enrollment in existing government programs. Personal responsibility, individual ownership, portability, and healthcare consumerism are the hallmarks of such a system.

The following list of federal reforms would support state actions of lowering the uninsureds and make health insurance affordable to more citizens:

1. Create a single universal HSA with flexible guidelines taking the best from HSAs, HRAs, and FSAs.
2. Remove federal income and employment taxes on individually purchased HSA eligible insurance premiums.
3. Allow the use of HSA funds for the payment of health insurance premiums.
4. Allow HSAs to be attached to any health insurance plan.
5. Allow HSA funding after Medicare eligibility to help the elderly fund copays, vision, and dental care.
6. Allow annual HSA contributions to be the maximum out-of-pocket expense under eligible plan limits.
7. Allow HSA eligible policies approved under the laws and regulations of any state to be sold in other states.
8. Allow prescription drug benefits with HSA eligible plans to be offered with co-pays.
9. Allow employers to voluntarily designate employer funded HSAs to be used only for healthcare while employed.
10. Provide tax incentives to accelerate the use of electronic medical records (EMRs) and other electronic (non-paper) systems through investment tax-credits or other similarly-situated tax incentives. Hospitals, physicians, and pharmacies could be incentivized to invest in health information technology.

The process has started. The need is great. The foundation blocks are bipartisan collaboration, support at the federal level, reform at the state level, creative product development, and citizen involvement in their own health and healthcare empowered financially with information and choices.

The mission is clear – Insure all Americans by 2012 in a 21st Century Intelligent Health System. The questions are: Who will help? Who will hinder? And who is willing to give power to consumers over their most precious asset – their health?

Ronald E. Bachman FSA, MAAA is a Senior Fellow at the Center for Health Transformation, an organization founded by former U.S. House Speaker Newt Gingrich. Nothing written here is to be construed as necessarily reflecting the views of the Center for Health Transformation or as an attempt to aid or hinder the passage of any bill before any state legislature or the U.S. Congress.