

Do Health Accounts Promote
Better Spending?
FSAs as a Halfway House
to Less Third-Party Payment

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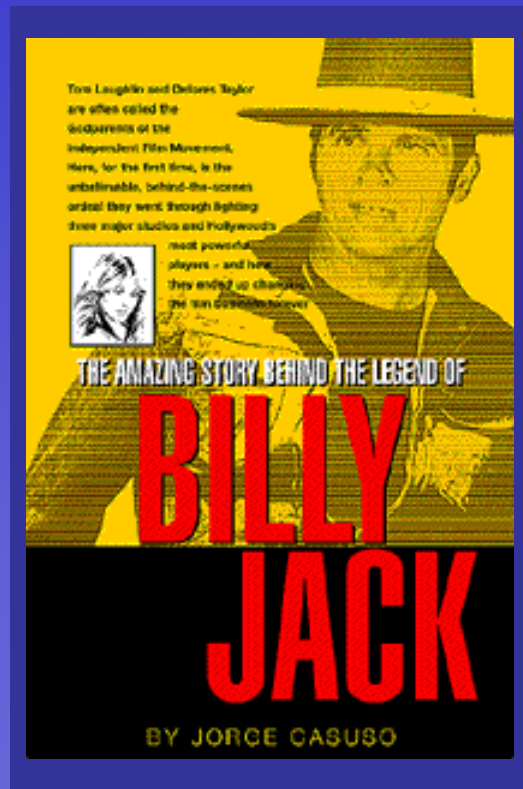
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Overview

- Suggestive, Preliminary
- Technical Quibbles, What's Missing
- Larger Picture:
Cost Sharing, Accounts, CDHC, Tax Policy
- Policy Alternatives
- Getting Beyond the Benjamins
(Insurance Dollars, Tax Subsidies)

The Legend of Billy Jack



Fitting the Model & Data to Relevant Measures

- What's the “co-insurance rate”?
- ✓ Not the same as total OOP costs (or even OOP share of insured services)
- ✓ Employer Health Ins Survey reports plan features, not actual costs
- ✓ Structure of coinsurance, and cost sharing, matters

Fitting the Model & Data to Relevant Measures

- Which firms were studied?
1993, mostly one plan offered (6525/7391), mostly indemnity FFS only
- What about level of employee participation, not just which firms offered?
- Endogeneity of FSA participation by employees, relative to their coinsurance rates?

Loose Definitions, Broad Assumptions

- Employees “eligible for health insurance”?
- How widespread and significant is cost sharing trend? (employee % share of premium, deductible levels, NHE OOP share)
- Treating FSA subsidies as linear, open-ended like HSA tax subsidies
- Assumes full FSA tax subsidy for entire coinsurance amount
- Allocation of employer share of payroll tax?

Loose Definitions, Broad Assumptions

- “To attain same level of health, individual with worse health status must spend more on medical care”
(See Wennberg: 30 percent excess spending w/o higher quality)
- Coinsurance rate differentials (nominal vs. net) almost entirely due to series of statistical adjustments (average treatment effects):
Start at 0.74 percent, end up at 7.3 percent!

But Conclusions Meet My Test for Policy Significance:

- Welfare reducing effects of tax exclusion
- Could substitute more tax-advantaged cost sharing for premiums & be, at least, no worse off

What Is Missing?

- Longer time horizon of analysis
- Administrative savings (spin off routine, predictable items not suited for “true” insurance)
- How FSAs + debit cards facilitate POS price transparency & generate information
- FSA role in post-HRA, post-HSA world

The Bigger Picture

- CDHC/HSA/HRA Enrollment Growing
- Account & OOP are common elements
- Recent rise in OOP share in private sector
- FSA extensions, but not full rollover
- Challenges comprehensive 3rd party coverage paradigm

The Bigger Picture

- “CDHP consumers reported a heightened level of engagement in overall health & wellness ... even when immediate financial incentives exhausted” (McKinsey & Co.)

Two Roads to Reduced 3rd Party Coverage, Higher Coinsurance Rate

- Level up tax subsidies, reduce tax bias
(Cogan, Hubbard, Kessler)
- ✓ Uncapped deduction for OOP health spending + catastrophic coverage
- ✓ Looser coverage rules for HSAs
- ✓ Net reductions in health expenditures

Two Roads to Reduced 3rd Party Coverage, Higher Coinsurance Rate

- **Level Down:** reducing level of coverage reduces health spending growth rate (Peden/Freeland)
 - ✓ Greater % coverage by 3rd parties causes greater continuing demand stimulus and (eventually) greater spending growth
 - ✓ OOP share of spending dropped substantially for decades, leveled off 1994-2000, up slightly since then
 - ✓ Coinsurance rate effectively leverages up potential price; makes it easier for health vendors/investors to sell services

Policy Alternatives

- Reduce tax distortions directly
(repeal, cap, level, comprehensive reform)
- Smooth out collisions between tax-advantaged health accounts; lower speed bumps
- Break down the silo walls; move to single, unified savings vehicle

Move Beyond Coverage Dollars & Tax Subsidies for Smarter Spending

- Information, Please!

- 385 Russell Senate Office Building, 12 pm

Improving Health Outcomes &

Health Services Value:

Uniting the Information Society with the Ownership Society