



Consumer Driven Health Care: New Tools for a New Paradigm

Greg Scandlen
Galen Institute



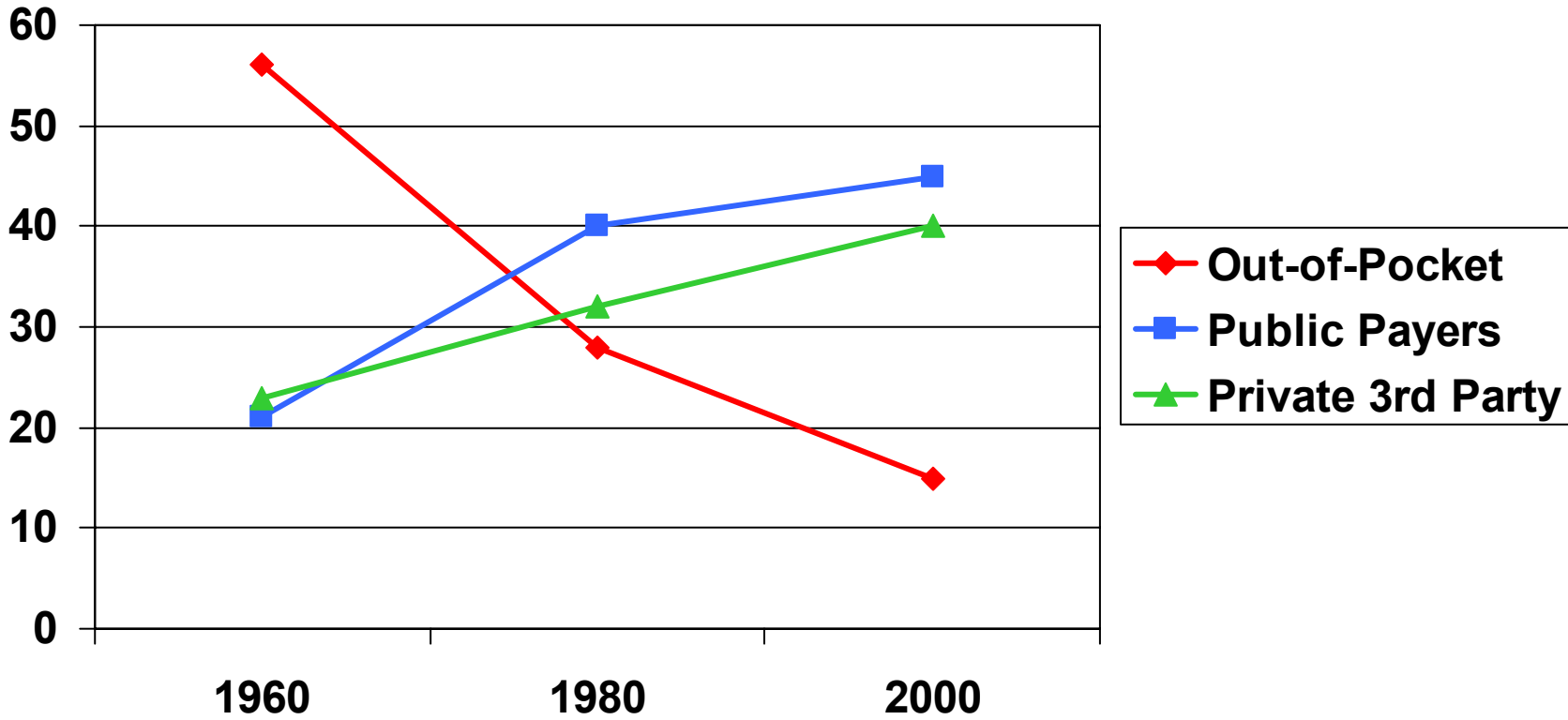


Essential Problem in Health Care

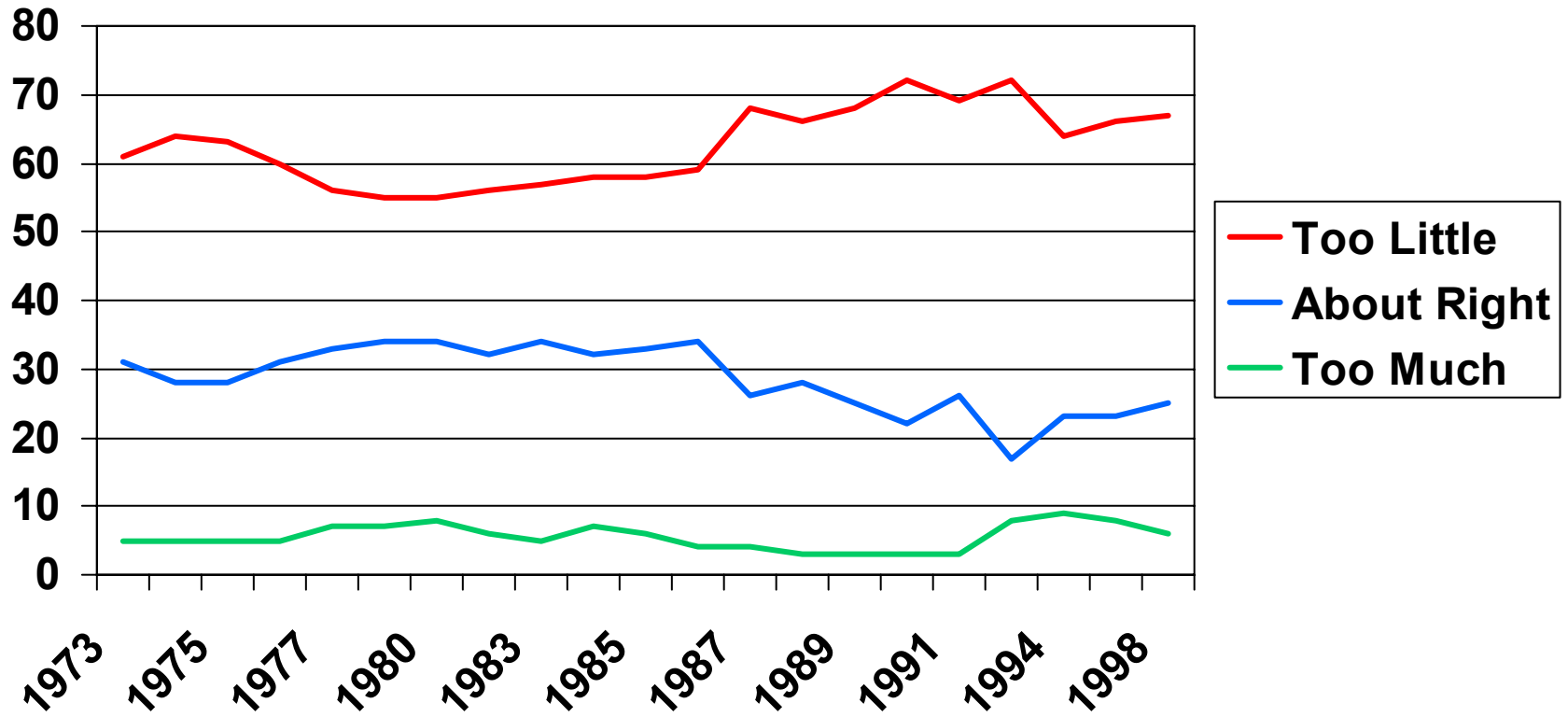
- Third-Party payment leads to
- Excess consumption, which leads to
- Runaway Costs, which leads to
- Third-Party rationing, which leads to
- Limited supply of services, which leads to
- Consumer discontent, which leads to
- Governmental interference



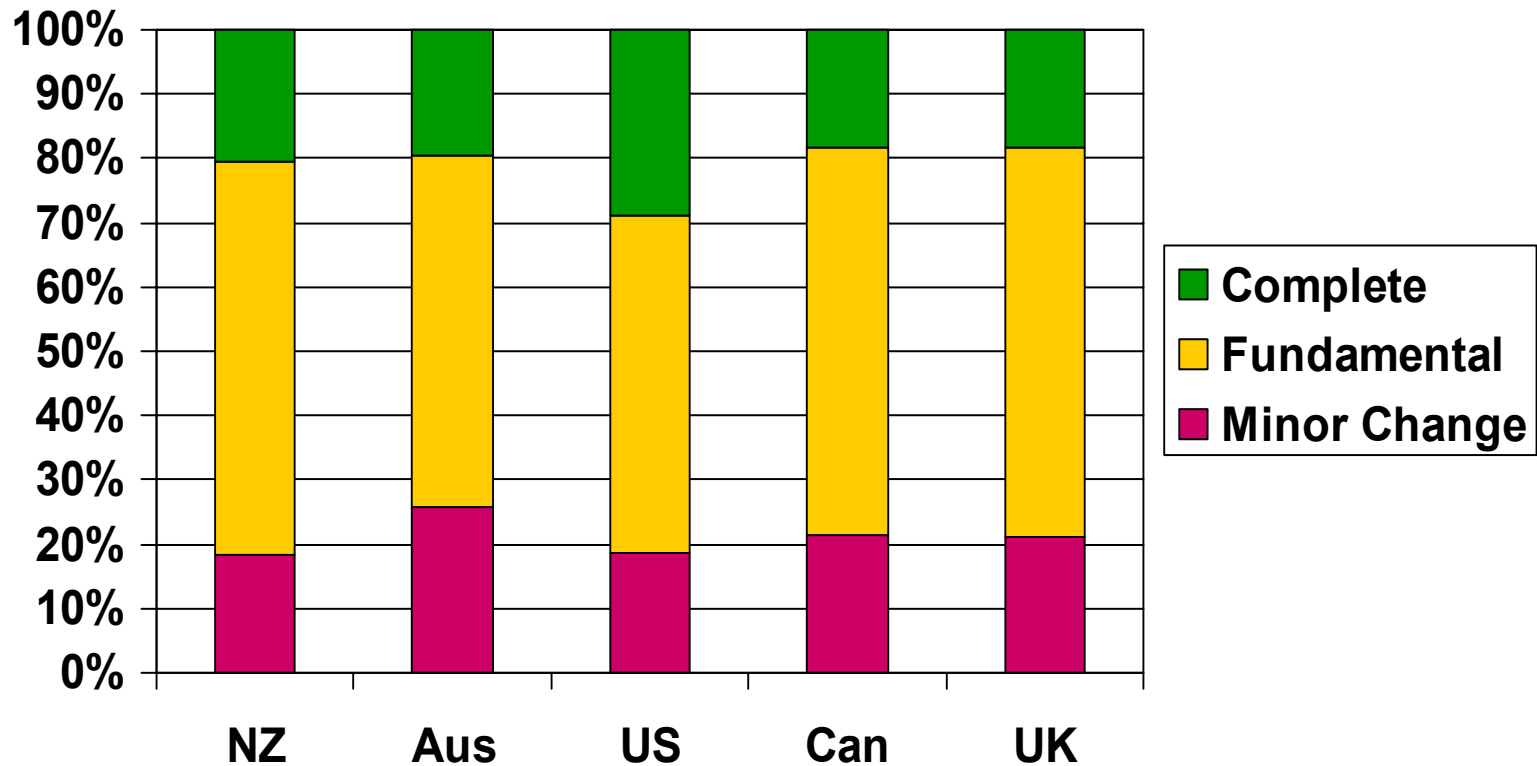
Sources of HC Spending



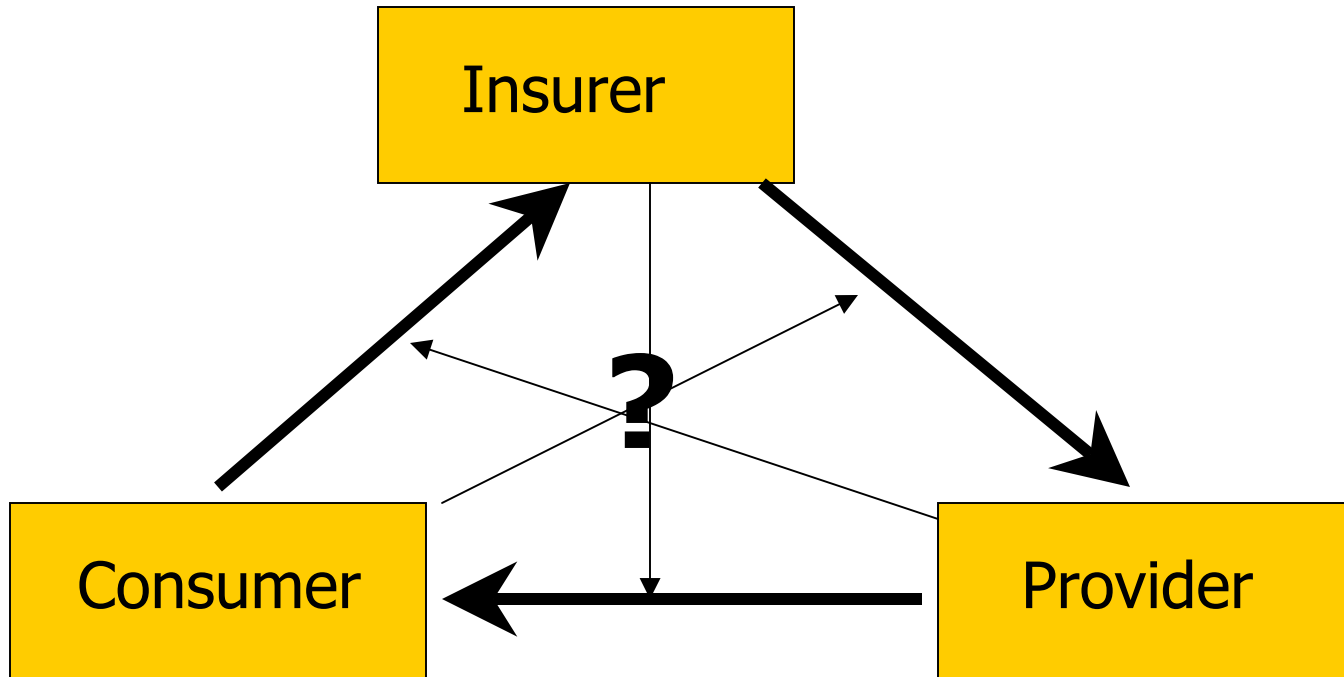
Does the US spend too much or too little on health care?



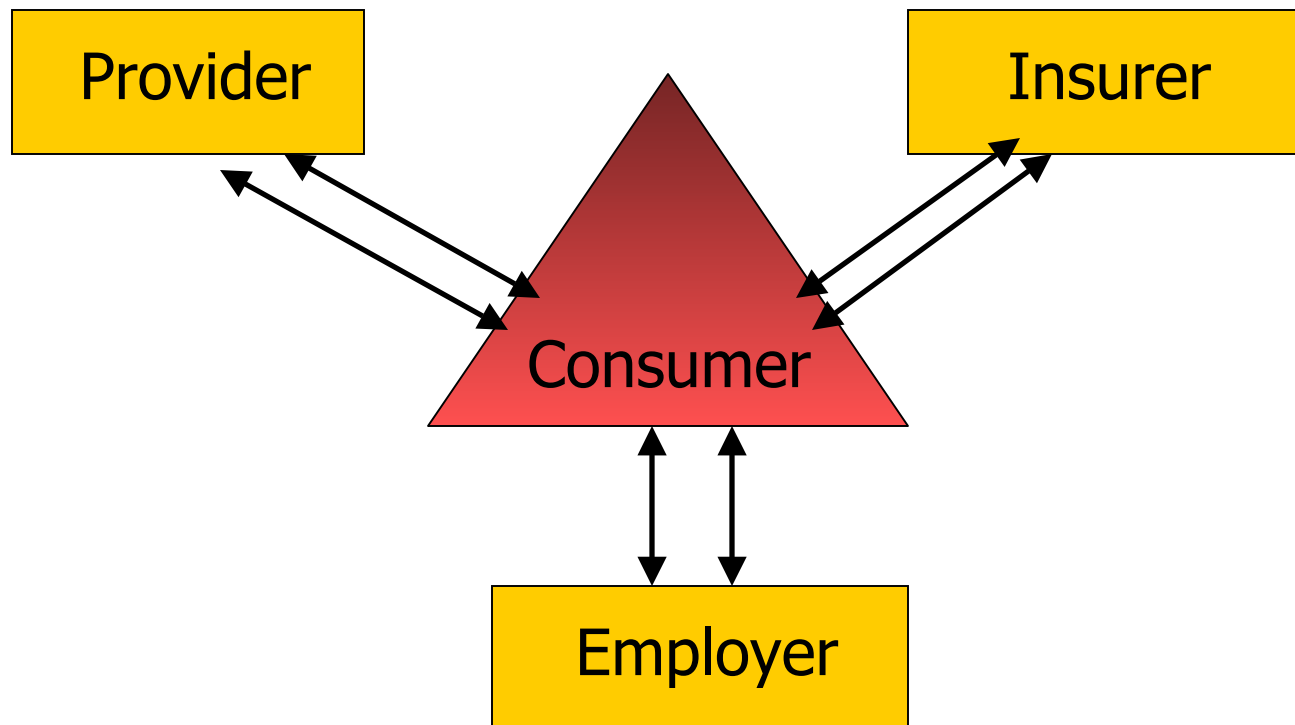
How Much Change is Needed?



Third Party Payment



Better – Two-party Contracts





Employer-Based Health Care

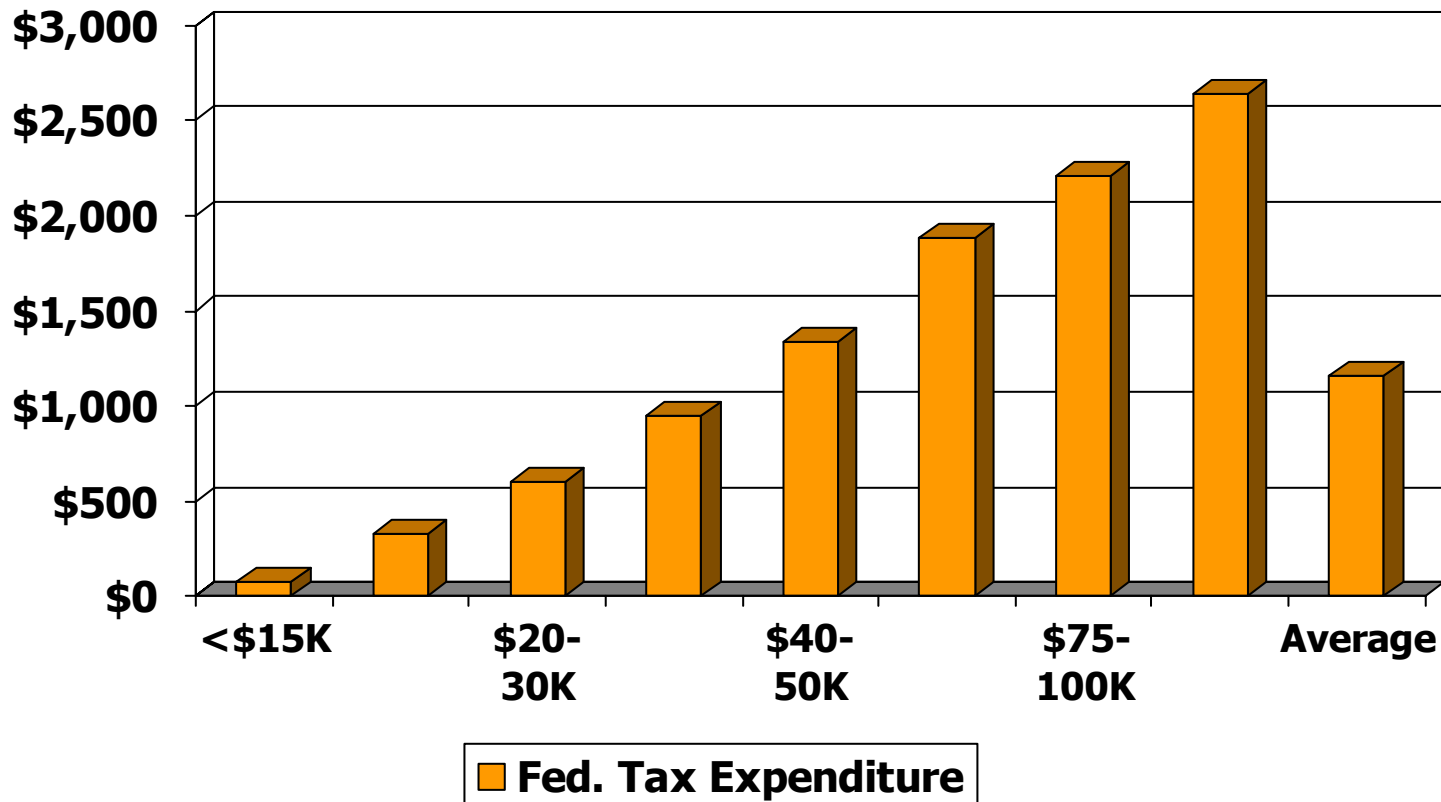
- **Industrial Age Structure**
 - Sole breadwinner
 - Lifelong employment
 - Employer as Agent
 - Employer as Risk Pool
 - Unlimited, Regressive Tax Subsidy
 - Last Gasp – Evidence-Based Medicine



Obstacles to Reform

- **Protect the Hapless Patient**
 - Tax code
 - Insurance regulations
 - Provider regulations
 - Current infrastructure, entrenched interests
 - Entitlement mentality

Employer-Based Tax Subsidy, by Household Income, 2000





The New Paradigm

- **Empower the Patient**
 - Balance insurance and direct pay
 - Restore Patient/Physician relationship
 - Two-party indemnity insurance
 - Personal and portable
 - Web-enabled information
 - Agency – accountable to consumer
 - Ability to merge resources



Milestones of Reform

■ **Governmental Actions**

- Expand MSAs (Health Savings Accounts)
- Enable HRAs
- Allow FSA rollovers or cash-out
- Tax Credits/Deductions – Individual market
- Roll-Back regulations
- Association Health Plans
- Malpractice reform
- Modernize Medicaid, Medicare



Milestones of Reform

■ **Private Sector Actions**

- Implement MSAs, HRAs, FSAs
- Defined Contribution, Individual Choice
- Design Your Own Benefits
- Public Employers Reforms (VEBAs)
- Physician Refuseniks
- Individual Market Improvements
- Information, Patient Support



Health Reimbursement Arrangements (HRAs)

■ **Origins**

- Began in the Private Sector
- Inspired by MSAs, collapse of managed care
- Cash vs Coverage Continuum
- Section 105, self-funded plans
- Unfunded, roll-over, forfeit at end of job
- Demand for private letter ruling



Health Reimbursement Arrangements (HRAs)

- **IRS Notice 2002-45, Rev.Rule 2002-41**
 - May go with any insurance plan, or none
 - May be for any amount of money
 - May be funded or unfunded
 - May roll-over and build-up
 - May be accessed post-employment
 - Must be employer-only money
 - Must be used solely for health



Health Savings Accounts (HSAs)

- **Signed into law, December 8, 2003**
 - All Americans under age 65 eligible
 - Must have HDHP (\$1,000/\$2,000 deductible)
 - Max OOP, \$5,000/\$10,000
 - Funded by employer and employee
 - Funded to 100% of deductible
 - Rollover, build-up, tax free for health
 - Owned by employee, portable



Health Savings Accounts (HSAs)

■ **Expectations**

- Non-Group market – convert in droves
- Small Groups – less quick to respond
- Mid-market – fully insured, total replacement
- Large-market -- stay with HRAs
- Uninsured – could have major impact, esp. with deductibility of premium
- Vendors – race to the finish line, 1/1/05



Prospects

■ **Next Five Years**

- Strong enrollment growth for HRAs, HSAs
- New era of cash-paying patients
- Vastly improved patient support, information
- Need for physicians, hospitals to respond (transparent pricing, true costs)
- Need for de-regulation of providers, insurers
- Tax credits = less reliance on employers
- Continued weakening of retiree health



Compare HRAs, MSAs, FSAs

	HRA	HSA	FSA
Available	All employers	All under-65	All employers
Req. Insur	None	Hi Deduct	None
Funding	Unlimited	Deduct	Unlimited
Source	ER only	ER & EE	ER & EE
Non-Med Withdrawal	Not allowed	Tax & penalty	Not allowed
Rollover	Yes	Yes	No
Portable	Semi	Yes	No



Contact:

Greg Scandlen

Galen Institute

Center for Consumer Driven Health Care

www.galen.org

703-299-9206

301-606-7364 (cell)

GMScan@aol.com

