Replace ObamaCare With Health Savings Accounts

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As we pass the one year anniversary of the passage of the Patient Protection and Affordable Care Act, lovingly known to most as ObamaCare, and with a repeal movement trying to get into full swing, it's worth revisiting what could have been, and what could still be. Simply repealing ObamaCare might save the country from the certain financial and health care disasters it would bring, but repeal alone doesn't address the noble goal of ensuring as many people as possible, and the necessary goal of curbing runaway health care inflation. There is another way.

It's vital to understand that the twin problems of uninsured Americans and exploding costs were not caused by the lack of a federal solution to health care. Quite to the contrary, it is precisely the government's involvement in this sector of the economy that has caused these problems. Numbers released by the U.S. Centers for Medicare & Medicaid Services back in January place the government's share at a little over 43% of 2009's total health care spending, although Cato Institute's Michael Cannon wonders if the numbers should be closer to 50%. Consider this contrast: Senator Jim De Mint has proposed a balanced budget amendment that would limit government spending to *20%* of GDP, and that has many on the left (and the right, but for different reasons) completely apoplectic. Apparently 20% of the entire economy is too little for the left but nearly half of a huge sector of our economy is just fine. But more on government's meddling later.

The root causes by example

For almost anyone having health insurance, the exact cost of services delivered is rarely questioned. When your doctor says, "We're going to order some tests…", or, "I'd like you to get an MRI…", you probably reply "OK, sure.". Let's assume that these tests and scans are unquestionably required. There may be several labs in the area that could do those tests, or a few different facilities with MRI equipment, but more than likely, you'll take your doctor's recommendation ("we have a lab right down the hall") and go through the motions.

With almost any other purchasing decision, it would not be uncommon to shop around for your personally desired mix of quality versus price versus service versus location versus whatever.

However, for some reason, we've allowed our medical care transactions to be treated differently. With a lot of insurance plans, the aforementioned tests and MRI's probably won't even be billed to you. *You'll never know what they really cost.*

But what of the situation that precipitated those tests? Perhaps it was a physical, which being a responsible person you've had annually for as long as you remember. Similarly, you probably change the oil in your car on a regular basis.

Do you file a claim with your auto insurance company to change your *oil?*

And there you have two of the major reasons health care is so expensive, and why health insurance, *which isn't the same as health care*, is equally so.

Now few people would suggest that you should question your doctor's every recommendation. You'd find your customer or boss questioning your every action equally irritating and disrespectful. And few people would argue for skipping annual physicals on a regular basis as a cost-saving measure.

But in health care have we somehow reached a place where we use insurance to pay for things that have very high probabilities of occurring. Insurance was invented to protect against calamities that hopefully never happen. Companies that sell insurance employ armies of people who try to predict the likelihood of these calamities. Given a probability, pricing the insurance is then pretty straightforward, and given an *accurate* probability, the product can be offered at a consistent level of profit, one that allows the insurance company to be there when you need it.

Here's where things go awry.

If an insurance company is certain that they're going to pay, say, $2,500 in claims on a policy each year, then they need to collect at least $2,500 just to have a prayer of staying in business. In fact, with their own costs of salaries, taxes, rents, records-keeping, *their own* employee benefits and so on, they might need to collect $5,000 just to have anything left over after paying out that $2,500.

"Well that sounds kind of stupid, having to send the insurance company $5,000 just so they can send $2,500 of it back."

Hold that thought. Enter, Health Savings Accounts.

Separating Health Care from Health Insurance

Only Health Savings Accounts distinguish the "care" from the "insurance". They are different issues, and they require different solutions.

To demonstrate the difference, say you currently have a traditional "family plan" through your employer that costs the employer $12,000 a year. Your employer is very generous, and pays for all of it. You see whatever doctors you want, and make "co-payments" of $25 per doctor visit. Beyond that, it's basically all you can eat — the buffet line starts to your left.

With a Health Savings Account, your employer still spends $12,000 a year (in actuality, probably less). But they take $5,000 of the $12,000 and put it into an account with your name on it. The money is now legally yours. It's a form of compensation. With the remaining $7,000, they buy a "High Deductible Health Plan", whose deductible just happens to be $5,000. The HDHP covers you in full for any unlikely tragedy that should it occur, would be financially devastating.

When you go for your physical, since it's a non-risk, near-certain probability event, you pay for the physical with a plastic card linked to your HSA. Here's the kicker: since that $5,000 is your money, whatever balance you have at the end of the year is yours to keep. Note that this is distinctly different from "Flexible Spending Accounts" that many people have, which have a "use it or lose it" aspect to them (thus making them the local eyeglass store's best friend in December).

Next year, your employer deposits another $5,000 into the account and the process repeats. Over time, the balance in the HSA account can grow, and it's yours to keep if you change employers. And hopefully, the health tragedy that your high-deductible plan would cover in full, never happens.

Now you're in a whole new world.

Suddenly you'll pocket the difference in price between one provider of lab work, and a cheaper but totally acceptable alternative. Under a system of widespread HSA's, labs would start advertising their services *and prices* to the retail customer. MRI service providers would do the same, as would doctors' offices.

Can't evaluate one lab versus another? A lot of people might be in that category, so a new company would pop up that would do that for you — the "Consumer Reports" of lab comparisons, if you will. You might even pay more for a lab that had a certain level of certification that you trusted. Think the certifying company might be corruptible? Any more so than your local government agency that might otherwise be mandated to do the same thing, *paid for by additional tax dollars from you?*

Of course, many different types of High Deductible Plans would be offered to cover the catastrophic events, some of which might have their own additional limitations or costs, in return for an even lower annual rate. Just as the labs and MRI providers would undoubtedly compete for business, the insurance companies, returning largely to the business of *pricing risk, not certainty*, would have every incentive to compete as well. *We want to allow the insurance companies to beat **each other** up in the marketplace, rather than beat **us** up.*

"But wait a minute." you say. "In your example, I might have to spend $300 on the physical, where right now I only make a $25 co-payment". True, but where did the $300, or the $25, come from in the first place? In both cases, your employer is the originator of the money, as they are funding the full $12,000. But with the HSA, you have an incentive to retain as much of the $5,000 each year as you can. With the traditional plan and the $25 co-payments, you don't. The concept is the same even if you have to pay a portion of your health insurance costs from each paycheck, as is the more typical case.

Some history, and the future

Remember, our current system of indirect payments for medical care came about as a result of World War II wage controls, under which employers realized they could raise an employee's "compensation" by paying for their medical insurance. Since then, endless additions of regulations and stipulations on what must be covered, and how insurance can be sold, have straitjacketed the free market's ability to work its wonders in the health care sector of our economy. Nowadays, the often "gold-plated" medical benefits given to some unions in lieu of higher wages are killing state budgets. ObamaCare, at its core, just enlarges the very system we already have, the system that is both fundamentally broken and bankrupting us. It can not work.

By contrast, in places where HSA's are being offered, people are voluntarily flocking to them. For example, in the state of Indiana, 70% of state employees have switched into HSA's. The state is projected to save over $20 million in 2010 because of this, and the employees have accumulated over $30 million in their HSA's since the plan's inception. *Ironically, using HSA's can achieve what was originally intended after the WW II wage controls: they can increase an employee's total compensation, but in an actuarially sound way.*

That's not to say that we should force all Americans into HSA's. For certain people, they may not make sense. All that says is that any employer should simply offer HSA's as an option to their existing health care choices, and allow the employees to decide for themselves.

"Well it all sounds intriguing Zarras, but what's the catch behind all this?" The catch is that suddenly you and your doctor are in much greater control of your health care. Since most of your spending is going to be on non-catastrophic events, your insurance company rarely enters into the picture. Also absent are many of the rules and restrictions the government would want to put on your insurance plans and the way you go about purchasing and using them.

And there you have the reason why big-government politicians loathe these plans: their role in your health care is dramatically reduced.