VIEWPOINT
ON PUBLIC ISSUES
HEALTH CARE

Dillon Insurance Plan Could Generate Monumental Reform

BY JACK MCHUGH AND JANET NEILSON

OCT. 5, 2009 • NO. 2009-34 • ISSN 1093-2240

Summary

A proposal by House Speaker Andy Dillon can save Michigan taxpayers money and improve the state's health care market if high-deductible Health Savings Accounts are used to reform government employee benefits.

Main Text Word Count: 690

Michigan House Speaker Andy Dillon, D-Redford Township, has offered a refreshingly bold proposal to give a state commission the power to determine what kind of health insurance plans are provided for all employees of local governments, schools, colleges, universities and the state.

The details of the actual legislation undercut the potential benefits somewhat by leaving too much discretion to that commission, but the commission still would have the authority to implement a monumentally positive reform not just in containing government employee expenses, but in improving Michigan's entire health care market.

Specifically, the commission could give public employees more control over their health care spending through a high-deductible insurance plan paired with Health Savings Accounts. This would foster a more patient-driven health care system with innumerable direct and indirect benefits.

It would work like this: Rather than covering many routine employee health care costs by giving employees insurance plans with low deductibles, employees would be enrolled in a high-deductible plan, which costs far less. In exchange for being responsible for higher initial medical costs, employees would be given ownership of tax-free Health Savings Accounts. Employees could then place untaxed money in these accounts to be used for health care expenses, and employers could contribute to them, too. For 2009, federal law stipulates that HSA deductibles be at least $1,150 for single coverage and $2,300 for family coverage.

With an HSA, each person then uses the money in his or her account to pay for routine health care expenses up to that high deductible, at which point insurance kicks in and covers all further expenses for that year. The employee — not the employer or insurance company — decides how and where to spend the HSA money. He or she also gets to keep any unspent amounts, which roll over each year and accumulate in the account. If the employee is laid off or changes jobs, the account and money goes with him or her. It can even be used with a new insurance plan at a new job.

Here's what that means. If a serious illness strikes, under a traditional plan the patient's share of those big hospital bills can be shockingly high. With any decent HSA (which is most of them), once the patient hits the deductible, he or she is done with medical bills for that year.

MACKINAC CENTER FOR PUBLIC POLICY

continued on back

When consumers use their own money to pay for those routine annual health care expenses, they turn out to be much better shoppers than when the employer and insurer foot the bills. This results in surprisingly substantial cost savings, some of which are typically shared with the employees through employer contributions to their HSAs.

Two more points are relevant. HSAs may not be for everyone, because they do require a bit more attention and effort by consumers. Government and school workers tend to be exactly the kind of people who benefit most from HSAs — educated professionals. Also, most of these policies do pay for preventive measures like annual checkups, so employees do not have to spend their own HSA money on those things. The incentives to be prudent in this area are not at all diminished.

A Mackinac Center analysis earlier this year showed that $550 million in annual savings are possible from moving state and school employees to HSAs.

Back to Dillon and Michigan government employees. A Mackinac Center analysis earlier this year showed that $550 million in annual savings are possible from moving state and school employees to such a plan. Because all this sounds new and unusual, however, Dillon has not been straightforward regarding the real source of potential savings in his proposal. He has claimed that $900 million can be saved through economies of scale, administrative efficiencies, a larger risk pool, etc.

That's unrealistic. If the Dillon proposal just replicates at the state level what now happens locally — public employers selecting the kind of insurance that gives employees no incentive to become prudent consumers — the savings will be negligible.

But if the opportunity is embraced to create a patient-centered system that rewards prudence and frugality, the benefits could be huge for public employees, taxpayers and other Michigan health care consumers, who would gain from health care providers' being forced to supply better value by hundreds of thousands of newly cost-conscious government workers.

#####

Jack McHugh is senior legislative analyst and Janet Neilson is a health policy communications associate for the Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Mich.

Please contact:
MICHAEL D. JAHR
Director of Communications
140 West Main Street
P.O. Box 568
Midland, Mich. 48640

Phone: 989-631-0900
Fax: 989-631-0964
Jahr@mackinac.org

www.mackinac.org

MACKINAC CENTER FOR PUBLIC POLICY
VIEWPOINT ON PUBLIC ISSUES
HEALTH CARE