VIEWPOINT
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Health Savings Accounts Can Save Michigan Money

By Michael D. LaFaive and James Porterfield

Summary

The state of Michigan could save millions of dollars per year by switching teachers and public school employees to Health Savings Accounts.

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(Editor's note: The following is based in part on testimony of Fiscal Policy Director Michael D. LaFaive to the Michigan House Tax Policy Committee on June 21, 2009.)

Since 1988, the Mackinac Center has recommended literally hundreds of reform ideas to save billions of dollars and balance the state budget. As this commentary goes to the printer, the state continues to wrestle with its fiscal 2010 budget. Fiscal 2011 is expected to bring more deficits and political drama — next year is an election year — than we have seen with the last seven state budgets combined. Legislators must begin reducing the cost of state government immediately.

One way they can do that is by adopting "health savings accounts" and high-deductible insurance plans for government employees. A health savings account (HSA) is an account into which pre-tax money is placed by an employer or an employee to pay for the employee's ongoing medical expenses. These accounts are married to a high-deductible insurance policy, known as a "consumer-directed health plan," to cover unpredictable big-ticket expenses.

Most people have become familiar with the general concept: The money in the HSA is spent for routine or less costly types of care, up to the point at which the deductible is met and the actual insurance kicks in. For example, a 2009 federal law requires that HSA deductibles be at least $1,150 for self-coverage and $2,300 for family coverage. There are ceilings, too. These accounts are "thrice blessed," because money deposited in the accounts is untaxed by the federal government, earns interest tax free and can be withdrawn and used for qualified medical expenses tax-free.

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Savings accrue to employers — in this case, the state — because high-deductible insurance premiums cost less than premiums associated with more traditional insurance, including PPOs or HMOs. An estimate by the AHIP Center for Policy and Research indicates that the number of people using HSA/CDHPs grew from 1 million in early 2005 to more than 8 million by January 2009. In 2008, large- and small-group HSA coverage leapt 35 percent and 34 percent, respectively.

To estimate what savings might be obtained by the state adopting HSAs for its classified workforce, assume the state would pay 100 percent of the

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premiums for the HDIP and fund 75 percent of the legally allowable employee contributions for each civil servant (state employees currently make premium contributions of 5 percent to 10 percent, depending on their coverage). Based on these and other assumptions, we estimate first-year savings of $106 million from moving civil service state employees into HSAs, and cumulative savings of up to $5.9 billion through 2021. This staggering figure represents the difference between estimated costs of CDHPs growing 3.5 percent annually, an upper bound for such plans, and the upper limit of 9 percent annual increases projected for PPO premiums by the Citizens Research Council of Michigan.

We also calculated the savings for rolling public school employees — almost 209,000 full-time equivalent positions — into a state-administered HSA/CDHP. Our assumptions for upper-bound savings total $451 million in the first year of a switch, with cumulative savings through 2021 of $26 billion. These are potential savings based on expected annual PPO premium increases of 9.3 percent.

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Moving state and public school employees into these consumer-directed health care plans would represent a seismic shift in public policy; that does not mean it could not or should not be done. Indeed, there will be a seismic shift in public policy if we do nothing to address the exploding cost of health coverage for government employees.

Moreover, in almost every case, employees come out ahead with patient-centered HSA plans. To cite just one of many of the advantages, the maximum out-of-pocket expense with HSA/CDHPs is an absolute, hard number, while with traditional insurance, there is no limit to some of the co-pay amounts.

Revolutionizing state employee health care is no small thing. Starting the process may trigger a struggle over whether it is the Legislature or the Civil Service Commission that has the legal right to change the benefit structure of state employees. Regardless of the difficulty or contentiousness of reforming government-employee health insurance, however, there is no more promising way to maintain employee benefits and restore the state's long-term fiscal health.

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