

PERSPECTIVE

Promoting Health Care Transparency and Competition



Health Savings Accounts A Possible Solution For Kentucky's Health Care Crisis

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This year will undoubtedly bring another round of overwhelming raises in health insurance premiums which will further raid State coffers and drive Kentuckians out of the private insurance market and into the ranks of the uninsured. Patients have seen little improvement in health care access and have had their premiums and co-pays increase exponentially. Presently, coverage for a family is over \$8000 and this year expected to rise. At the same time, the stock prices of many private insurance companies have increased along with their earnings. Since January of 2000, Humana's stock has increased from \$8 to over \$30 and United Health Care's stock has increased from a little over \$13 to almost \$90. This increase has been fueled in Kentucky by both the aggressive insurance business practices and with the passage of House Bill 250 in the early 1990's which drove many companies out of Kentucky and reduced competition. For the physician this situation has also resulted in reduced payment for services. Last year, the State designated a single company as a sole regional provider for State employees. In rural areas, this gave the insurance companies a virtual monopoly which further decreased the health care provider's ability to negotiate reimbursements.

An environment where many patients and physicians feel they are getting the short end of the stick has resulted in some physicians ordering and some patients demanding effective but costly medical tests and treatments. Aggressive pharmaceutical marketing to physicians by pharmaceutical representatives and to the general public by TV and print advertisements, has resulted in the usage of the latest most expensive designer drugs when other less costly alternatives exist. For example: A commonly advertised and prescribed stomach acid

blocker that can be taken once a day costs \$136 for a month's supply. The over-the-counter alternative taken twice a day, with the same efficacy, costs \$43. The only difference is that the patient needs to take twice as many pills but a month's supply costs \$93 less. You can bet that if the money was coming directly out of the patient's pocket the \$43 alternative would be selected.

This is where Health Savings Accounts (HSA) come in. These accounts hold pre-tax dollars which can be spent on a wide range of health and medical costs ranging from hearing aids and eyeglasses to drug and hospital bills. The monies can be carried over from year to year. If the owner of a HSA dies the account can also be transferred to the surviving spouse without tax consequences. HSAs can also be dissolved and used for retirement or willed to beneficiaries upon the account holder's death. HSA must be used in conjunction with catastrophic (high-deductible) health insurance coverage. This coverage has to have at least a \$1000 deductible but not more than a \$5000 deductible. Thus, nothing is paid for acute health care by the insurance company until at least \$1000 is spent by the patient. However, the insurance company can pay first dollars for preventive care, screening services, immunizations, tobacco cessations programs and weight loss programs. The monies are carried over from year to year and at the death or retirement of the HSA holder; the funds can be withdrawn from the account and taxed at the normal rate. Not all expenses paid out of the HSA need to be covered by the high-deductible insurance policy. Thus, expenses for eyeglasses and over-the-counter drugs do not have to be charged to the insurance policy's deductible in order to be paid by the HSA. As the

Summary
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Health Savings Accounts Puts the Control of Spending the Health Care Dollar Back into the Consumer's Hands. HSAs are a Possible Solution For Kentucky's Health Care Crisis

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**After all, if you could
save \$1000 on an MRI
scan wouldn't you
drive 75 miles to the
next city?**

account expands, this deductible could increase which would decrease patient premiums. For example, if your account grew to \$50,000, you may want a catastrophic health insurance policy which has a deductible of \$5,000 (maximum allowed by law).

Our legislators need to address our antiquated health insurance laws and bring them up to date by allowing Kentucky insurance companies more flexibility to accommodate HSAs. This may include the allowance for higher deductibles and

co-pays. Insurance companies should be required to provide HSAs. Policyholders should also be held fully accountable for their unhealthy life styles. For example, in the life insurance market smokers pay almost twice the premiums as non-smokers. In addition, the State needs to facilitate competition in the health care market by educating its citizens on how to shop for the highest quality medical care at the best price.

State could start to build monies in a HSA which will secure their future. Because all HSA holders are required to have health insurance, this would create a pool of young healthy policyholders which would help to lower the average cost of premiums (provided a competitive insurance market can be created in Kentucky). Holders of HSAs would be very careful on how they spend THEIR money. They would drive to the next town to obtain a discount on medical care and would start to price medications and healthcare costs similar to pricing milk and bread at the grocery store. After all, if you could save \$1000 on an MRI scan wouldn't you drive 75 miles to the next city? These changes would also help to increase the number of insurance companies in the State which will increase competition and drive down costs.

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HSAs should be considered as a possible solution to this year's insurance premium hikes and corresponding crisis in both the private and State employee market. Employers could offer employees some coverage, such as money in a HSA and a very high deductible policy instead of no coverage at all. The employee may pay more out-of-pocket but the dollars would be pretax and could also be used to purchase a wide variety of health care services and products not covered by standard health insurance. The numerous uninsured young citizens of our

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