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(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ...
PUBLIC HEARING - COMMITTEE RECORDS

1995-96
(session year)

Assembly
(Assembly, Senate or Joint)

Committee on Insurance, Securities and Corporate Policy...

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
  (**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
  (**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

* Contents organized for archiving by: Stefanie Rose (LRB) (October 2012)

Assembly

Record of Committee Proceedings

Assembly Bill 545

AN ACT relating to tax-exempt individual employe medical savings accounts established by employers or self-employed persons with the difference between the cost of catastrophic and comprehensive health care coverage. Introduced by Representatives Harsdorf, Urban, Prosser, Albers, Ourada, Grothman, Porter, Hahn, Vrakas, Duff, Musser, Ainsworth, Walker, Grobschmidt, Ziegelbauer, Schneiders, Olsen, Ladwig, Ott, Brandemuehl, Ward, Green, F. Lasee, Seratti, Kreibich, Plache, Goetsch, Gard, Nass, Kaufert, Silbaugh, La Fave and Lehman; cosponsored by Senators Buettner, Rosenzweig, Darling, Schultz, Petak and Panzer.

December 14, 1995

PUBLIC HEARING HELD

Present: (12) Representatives Albers, Lasee, Underheim, Kreibich, Lazich, Hoven, Green, Baldus, Notestein, Robson, Cullen, and Ziegelbauer.

Absent: (1) Lorge.

Appearances For the Bill

- Representative Frank Urban, author
- Heather Wells for Representative Sheila Harsdorf, author
- Brent Embrey-Golden Rule Insurance
- Deanna Irick
- Tom Maroun-American Medical Security, Green Bay
- Claudia Elsner-American Medical Security, Green Bay
- Russ Weisensel-Wisconsin Agri-business Council
- Melody Taggart
- Bill G. Smith-National Federation of Independent Business, Madison
- Debbie Paris
- Dan Schwartzer-Wisconsin Association of Health Underwriters, Madison
- Dismas Becker-Golden Rule Insurance, Milwaukee
- Terry Mc Ardle-Stoughton (Departed before called to testify)

Appearances Against the Bill

- Kelly Rosati-Association of Wisconsin HMOs
- Allan Patek-Employers Health Insurance, Green Bay
- Ken Opin-Wisconsin Federation of Teachers and

Wisconsin Education Association Council, Madison
▸ James Tenuta-Wisconsin Association of Life and Health Insurers

Appearances for Information Only
None

Registrations For the Bill
▸ William Ward-Milwaukee Police Association, 1840 Farwell Ave, Milwaukee
▸ Marvin J. Leitzke, Jr.-Health Sharing, 516 s. Center St. Deerfield
▸ Paul Zimmerman-Wisconsin Farm Bureau, 7010 Mineral Point Road, Madison
▸ Bob Goldman-Wisconsin Restaurant Association, 31 S Henry St. Madison
▸ Senator Carol Buettner
▸ Representative John La Fave
▸ Ron R. Statz-National Farmers Association, Sauk City
▸ M. Colleen Wilson-State Medical Society, 330 E Lakeside Street, Madison
▸ Steve Miller-Independent Business Association of Wisconsin, 1400 E Washington #282 Madison
▸ Joan Hansen-Wisconsin Manufacturers & Commerce 501 E Washington Madison
▸ Amy Mc Gee-American Medical Security, PO Box 19032 Green Bay

Registrations Against the Bill
▸ Joanne Ricca-Wisconsin State ALF-CIO, 6333 W Bluemound Road Milwaukee
▸ Alice O'Connor-Physicians Plus
▸ Marry Haffenbredl-Atrium Health Plan, 4222 Bagley Road Madison
▸ Andy Franken-Wausau Insurance, 2000 Westwood Drive Wausau

Assembly Committee on Insurance, Securities, and Corporate Policy

DATE 1-17-96

Moved by Lorge Seconded by Kreibich

AB_____ SB_____ Clearinghouse Rule_____

AJR_____ SJR_____ Appointment_____

A_____ SR_____ Other_____

A/S Amdt_____

A/S Amdt_____ to A/S Amdt_____

A/S Sub Amdt AB 545

A/S Amdt_____ to A/S Sub Amdt_____

A/S Amdt_____ to A/S Amdt_____ to A/S Sub Amdt_____

Be recommended for:

- ☐ Passage
- ☒ Introduction as amended
- ☐ Adoption
- ☐ Rejection
- ☐ Indefinite Postponement
- ☐ Tabling
- ☐ Concurrence
- ☐ Nonconcurrence
- ☐ Confirmation

	Committee Member	Aye	No	Absent	Not Voting
1.	Rep. Sheryl Albers, Chair	X			
2.	Rep. William Lorge, Vice-Chair	X			
3.	Rep. Gregg Underheim	X			
4.	Rep. Robin Kreibich	X			
5.	Rep. Mary Lazich	X			
6.	Rep. Tim Hoven	X			
7.	Rep. Frank Lasee	X			
8.	Rep. Mark Green				
9.	Rep. Al Baldus	X			
10.	Rep. Barbara Notestein	X			
11.	Rep. Judy Robson	X			
12.	Rep. David Cullen	X			
13.	Rep. Robert Ziegelbauer	X			
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Assembly Committee on Insurance, Securities, and Corporate Policy

DATE 1-17-96

Moved by Underheim Seconded by Ziegelbauer

AB 915 SB _____ Clearinghouse Rule _____

AJR _____ SJR _____ Appointment _____

A _____ SR _____ Other _____

A/S Amdt _____

A/S Amdt _____ to A/S Amdt _____

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Assembly Committee on Insurance, Securities, and Corporate Policy

DATE 1-17-96

Moved by Underheim Seconded by Lorge

AB ~~705~~ SB Clearinghouse Rule

AJR SJR Appointment

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A/S Amdt LRB 3197 to A/S Sub Amdt AB545

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Be recommended for:

- ☒ ~~Passage~~
- ☐ Introduction
- ☒ Adoption
- ☐ Rejection
- ☐ Indefinite Postponement
- ☐ Tabling
- ☐ Concurrence
- ☐ Nonconcurrence
- ☐ Confirmation

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1.	Rep. Sheryl Albers, Chair	X			
2.	Rep. William Lorge, Vice-Chair	X			
3.	Rep. Gregg Underheim	X			
4.	Rep. Robin Kreibich	X			
5.	Rep. Mary Lazich	X			
6.	Rep. Tim Hoven	X			
7.	Rep. Frank Lasee	X			
8.	Rep. Mark Green		X		
9.	Rep. Al Baldus	X			
10.	Rep. Barbara Notestein	X			
11.	Rep. Judy Robson		X		
12.	Rep. David Cullen		X		
13.	Rep. Robert Ziegelbauer	X			
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Assembly Committee on Insurance, Securities, and Corporate Policy

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AB _____ SB _____ Clearinghouse Rule _____
AJR _____ SJR _____ Appointment _____
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A/S Amdt _____ _____
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Be recommended for:

- ☒ ~~Indefinite Postponement~~
- ☐ Passage
- ☐ Introduction
- ☒ ~~Adoption~~
- ☐ Rejection
- ☐ Tabling
- ☐ Concurrence
- ☐ Nonconcurrence
- ☐ Confirmation

	Committee Member	Aye	No	Absent	Not Voting
1.	Rep. Sheryl Albers, Chair		X		
2.	Rep. William Lorge, Vice-Chair		X		
3.	Rep. Gregg Underheim		X		
4.	Rep. Robin Kreibich		X		
5.	Rep. Mary Lazich		X		
6.	Rep. Tim Hoven		X		
7.	Rep. Frank Lasee		X		
8.	Rep. Mark Green		X		
9.	Rep. Al Baldus	X			
10.	Rep. Barbara Notestein	X			
11.	Rep. Judy Robson	X			
12.	Rep. David Cullen	X			
13.	Rep. Robert Ziegelbauer	X			
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Assembly Committee on Insurance, Securities, and Corporate Policy

DATE 1-17-96

Moved by Green Seconded by Underheim

AB_____ SB_____ Clearinghouse Rule_____

AJR_____ SJR_____ Appointment_____

A_____ SR_____ Other_____

A/S Amdt_____ _____

A/S Amdt_____ to A/S Amdt_____

A/S Sub Amdt AB545

A/S Amdt_____ to A/S Sub Amdt_____

A/S Amdt_____ to A/S Amdt_____ to A/S Sub Amdt_____

Be recommended for:

- ☒ Passage
- ☐ Introduction
- ☒ Adoption as amended
- ☐ Rejection
- ☐ Indefinite Postponement
- ☐ Tabling
- ☐ Concurrence
- ☐ Nonconcurrence
- ☐ Confirmation

	Committee Member	Aye	No	Absent	Not Voting
1.	Rep. Sheryl Albers, Chair	X			
2.	Rep. William Lorge, Vice-Chair	X			
3.	Rep. Gregg Underheim	X			
4.	Rep. Robin Kreibich	X			
5.	Rep. Mary Lazich	X			
6.	Rep. Tim Hoven	X			
7.	Rep. Frank Lasee	X			
8.	Rep. Mark Green	X			
9.	Rep. Al Baldus	X			
10.	Rep. Barbara Notestein		X		
11.	Rep. Judy Robson		X		
12.	Rep. David Cullen		X		
13.	Rep. Robert Ziegelbauer		X		
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Assembly Committee on Insurance, Securities, and Corporate Policy

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Moved by Green Seconded by Kreibich

AB_____ SB_____ Clearinghouse Rule_____

AJR_____ SJR_____ Appointment_____

A_____ SR_____ Other_____

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Be recommended for:

- ☒ Passage or amendment
- ☐ Introduction
- ☐ Adoption
- ☐ Rejection
- ☐ Indefinite Postponement
- ☐ Tabling
- ☐ Concurrence
- ☐ Nonconcurrence
- ☐ Confirmation

	Committee Member	Aye	No	Absent	Not Voting
1.	Rep. Sheryl Albers, Chair	X			
2.	Rep. William Lorge, Vice-Chair		X		
3.	Rep. Gregg Underheim	X			
4.	Rep. Robin Kreibich	X			
5.	Rep. Mary Lazich	X			
6.	Rep. Tim Hoven	X			
7.	Rep. Frank Lasee	X			
8.	Rep. Mark Green	X			
9.	Rep. Al Baldus		X		
10.	Rep. Barbara Notestein		X		
11.	Rep. Judy Robson		X		
12.	Rep. David Cullen		X		
13.	Rep. Robert Ziegelbauer		X		
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MOTION CARRIED ☒ MOTION FAILED ☐

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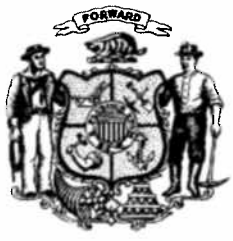
WISCONSIN STATE LEGISLATURE


FORWARD

WI Producer

Bayland
Insurance Group, Inc.

726 Willard Drive
Green Bay, WI 54304
Phone: 414-497-7000
Fax: 414-497-4774

TO: MAGGIE LUTHE

SUBJECT: WHY I LIKE MSA'S

DATE: 12-7-95

FROM: WAYNE YOUNKIE

NUMBER OF PAGES (INCLUDING COVER PAGE): ____

COMMENTS: I LIKE MSA'S BECAUSE IT PROVIDES EMPLOYEES & THEIR FAMILIES PROTECTION FROM MEDICAL EXPENSES EARLY IN THE PLAN YEAR. UNLIKE TRADITIONAL INSURANCE WHERE YOU PAY FIRST & THE MSA PAYS YOU FIRST

IT'S A GREAT WAY TO GET EMPLOYEES & EMPLOYERS WORKING TOGETHER AS A TEAM TO CONTROL HEALTH COSTS.

MSA'S PAY BOTH WAYS

a.) THEY PAY IF YOU HAVE CLAIMS

b.) IF YOU DON'T USE YOUR MSA YOU GET THE MONEY BACK

IT'S A WIN-WIN PROPOSITION

MSA'S ARE HERE TO STAY & WILL REVOLUTIONIZE THE HEALTH CARE INDUSTRY IN THE 21ST CENTURY

IL Producer

"Medical Savings Accounts, we believe, are the answer to runaway medical costs in this country, which now equal roughly 14% of our nation's GDP. With Medical Savings Accounts, we believe that 90% of covered employees will receive some money back at the end of the year. That gives employees a powerful incentive to purchase medical care efficiently, like they do for other services."

Bill Powell, Powell Insurance Service, Inc.
Northfield, Illinois

TO: DAVID WHEELER
GOLDEN RULE

414-827-9886

FROM:
BILL POWELL

WI Empl

I believe the MSA plan is excellent. This plan gives me & my family the protection we need without a big price tag. I like being able to control my health costs without jeopardizing my family's health care. The refund at the end of the year is great but I would never let that stand in the way of obtaining medical treatment needed. The high deductible plan allows us to pay for the smaller claims out of pocket and utilize the fund for any large unexpected claims. I have found this plan to be very cost effective because the Drs are willing to negotiate expenses when they know it is coming out of the patients pocket. I also like the fact that I can choose my own Drs. This is definitely the plan of my choice!

Jane Krause

"As an employee of Golden Rule Insurance Company I had the option of choosing between a traditional insurance plan or the Medical Savings Account. The benefits of the Medical Savings Account outnumber the traditional plan greatly. My main concern, and I believe the concern of most, was the high deductible. After comparing both plans, the Medical Savings Account vs. the traditional 500 deductible 80/20 plan, my out of pocket expense on the Medical Savings Account was less. The benefit is my employer funds 50% of my 2000 deductible which leaves an out of pocket expense of $1000 compared to the $1500 out of pocket on the traditional plan. With a savings of $500 who would complain! The most appealing feature of the Medical Savings account is the money back at the end of the year. I'm spending my own money so I'm more aware of medical costs and if I don't use the money in my account it's mine at the end of the year. There isn't another plan available that provides such a benefit!"

Cheryl Barbian

WI Employee

After weighing the choice between a Blue Cross group plan and the Medical Savings account, my spouse and I determined the MSA would be the best route to go. Since becoming involved in the MSA two years ago, I have seen no increase in premium and have become a "consumer" of health care services.

The greatest benefit with having the MSA is I am now in control of my healthcare. The MSA made me realize I am buying a service and I have every right to play an active role in the care I and my spouse receive. As a result of playing an active role, I have seen no increase in my portion of the health care premium and even receive money back at the end of the year.

Initially, when my spouse and I determined we would go to the MSA, I was concerned I would avoid medical care so I would receive money at the end of the year. To my surprise, I found I actually sought out more health care services since I could use my fund to pay 1st dollar benefits rather than have to first meet a deductible.

I have found the MSA plan and concept to be the real answer to the concerns of health care in this country. The simple answer to this countries problem with health care is public awareness and the MSA gives the individual the power to control their own health care.

Thad Vaitkus
Milwaukee Regional Office Manager
Golden Rule Insurance Company

WI Emp

I am very glad that I chose to switch from traditional insurance coverage to the MSA. I see, and have experienced, no drawbacks to the MSA as opposed to traditional coverage, but a large advantage. It is very appealing to me that the money in my account that I have not used for medical expenses comes back to me as the end of the year. I have always received the reimbursements from my account very quickly after my requests were submitted. I have heard the objection to the MSA that the fact that money goes back to the insured if it is not used for medical expenses may cause some people to not go to the doctor when they should. Personally, though, this fact has never kept me from getting medical care when I felt it was necessary. I cannot say that the plan has caused me to become a wiser consumer of medical services. Even before I had the MSA I was not abusive about receiving medical services when they were not needed due to the insurance coverage I had. For some people, though, I believe the MSA concept would significantly reduce, if not eliminate such abuse. Any plan which can do this beneficial to me not only as an employee of an insurance company, but also as a citizen of a country facing the health care dilemma our government is facing today.

Tricia Treml

WI Empl.

The MSA plan works well for me because in a typical year I have few health care expenses. My MSA fund allows me to have first dollar benefits available for those expenses. Any left over money in the fund is mine to keep. It is also reassuring to know that if I have unexpected health care expenses my maximum out of pocket is $1000 - less than that of most traditional plans.

The MSA gives me a double advantage in that it rewards me for being cost-conscious and provides me with excellent comprehensive health care coverage. Judy Monroe

Employee

To Whom It May Concern

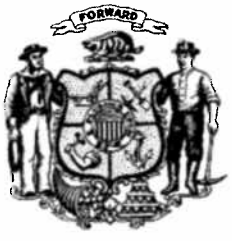
Re: Medical Savings Account (MSA's)

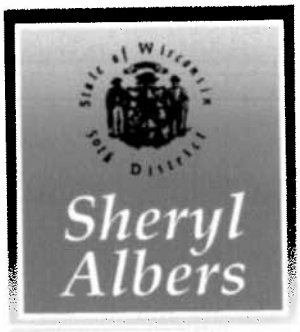
I believe Medical Savings Account ~~aaa~~ are the best thing since sliced bread.

I have been on an MSA for three years. I have a reward for living + staying healthy.

Margaret Jane Lubbe

WISCONSIN STATE LEGISLATURE





TO: Assembly Insurance, Securities and Corporate Policy Committee members

FROM: Representative Sheryl Albers

RE: Substitute amendment for Medical Savings Account Bill (AB 545)

DATE: December 13, 1995

The Committee on Tax Exemptions voted for a favorable recommendation today on Assembly Bill 545, relating to a tax-exempt individual employe medical savings accounts established by employers or self-employed persons with the difference between the cost of catastrophic and comprehensive health care coverage.

The Assembly Insurance, Securities and Corporate Policy Committee, however, will be taking up the substitute amendment to this bill, which just became available today, at our hearing tomorrow. A copy of the substitute amendment is attached.

Thank you for your attention to this matter.

Office: P.O. Box 8952 • State Capitol • Madison, WI 53708-8952 • (608) 266-8531
Message Hotline: (800) 362-9472

Home: S6896 Seeley Creek Rd.• Loganville, WI 53943 • (608) 727-5084


FORWARD
E PLURIBUS UNUM

Association of
Wisconsin HMOs

Larry A. Rambo
President

Nancy J. Wenzel
Executive Director

2 East Mifflin Street • Suite 701 • Madison, Wisconsin 53703 • 608-255-8599 • Fax 608-255-8627

TESTIMONY OF AB 545, MEDICAL SAVINGS ACCOUNTS, DECEMBER 14, 1995

Kelly M. Rosati
Director of Government Affairs

Thank you Chairperson Albers and members of the Assembly Insurance, Securities, and Corporate Policy Committee for the opportunity to testify on Assembly Bill 545.

The Association of Wisconsin HMOs opposes AB 545 in its current form. While we recognize some of the improvements in the substitute amendment, we continue to have concerns with several of the proposal's provisions. The Association's concerns fall primarily in three areas: tax treatment; adverse selection; and managed care compatibility.

TAX TREATMENT

The Association had serious concerns with the tax treatment of improper withdrawals under the original AB 545. The substitute amendment addressed most, but not all, of those concerns. The Association continues to believe that the penalty provision in Section 5 (page 3, lines 5-9) is too small to serve as an effective deterrent to the improper withdrawal of funds from medical savings accounts (MSAs). To create a real disincentive for improper withdrawals, a penalty much greater than 10% is needed. An increased penalty provision, combined with the other tax treatment changes reflected in the substitute amendment, would have a much more equitable effect on the use of health care dollars in Wisconsin.

The Association has an additional concern regarding the regulatory aspect of withdrawals. How will the state ensure that withdrawn MSA funds are, in fact, used for medical purposes only? While the substitute amendment requires the accounts be established at financial institutions which are FDIC insured, it is silent on the issue of appropriate withdrawal compliance.

ADVERSE SELECTION

The Association is very concerned about the effect medical savings accounts (MSAs) will have on adverse selection. It is critical that individuals not be permitted to choose MSAs when in good health only to use "portability" to switch to more comprehensive health plans, such as HMOs, if their health deteriorates. If individuals were allowed portability from MSAs to comprehensive plans, the cost of comprehensive health plans would increase for individuals who most need comprehensive health coverage, while access to that health coverage decreases. It is important not only that portability be prohibited when an individual changes employers, but that it is also prohibited among plans offered by a single employer.

To prohibit such conduct, an additional paragraph must be created as follows:

635.02 (5m)(d) of the statutes is created to read:

"Qualifying coverage" does not mean catastrophic health coverage as defined in s. 632.898 (1)(a) that is linked to a tax-preferred medical savings account used for the payment of medical care expenses.

Additionally, a similar provision should be drafted which would ensure that MSAs are not qualifying coverage for purposes of the portability provisions in Representative Underheim's legislation which has been amended to the Wisconsin Works Welfare Reform proposal. Again, all of these portability prohibition provisions must apply even to multiple plans offered by a single employer.

Even with the safeguard established through a prohibition on MSA portability, there is still an adverse selection concern regarding the type of individuals to which MSAs appeal. It is very likely that only healthy individuals will initially choose MSAs. As a result, only less healthy individuals will remain in comprehensive health benefit plans. Again, this will have the effect of increasing the cost of the comprehensive plans for many Wisconsin employers and employees.

MANAGED CARE COMPATIBILITY

Assembly Bill 545 allows for the establishment of MSAs only in conjunction with catastrophic health benefit plans. MSAs should be available in conjunction with all health benefit plans, not exclusively catastrophic plans. The establishment of MSAs only in conjunction with catastrophic plans creates a government preference for such plans to the detriment of comprehensive managed care plans.

If there must be a limit on the type of plan with which an MSA is compatible, a modification is warranted. Instead of defining catastrophic plans based upon a deductible amount, as occurs on page 3, lines 18-20, define the plan on the more general issue of policy-holder cost-sharing. The current provision could be replaced by the following provision:

(a) ~~"Catastrophic health care coverage"~~ means any health benefit plan with subscriber ~~cost-sharing~~ provisions including, but not limited to, deductibles, co-payments, and co-insurance of at least $1500 if the coverage is single or at least ~~$3,000~~ if the ~~coverage is family~~.

This approach would maintain the original intent of the provision while expanding the choices available to individuals with MSAs. It would also allow health plans associated with MSAs to retain their vital emphasis on preventive and coordinated health care.

But while this suggested approach would be more managed care compatible, there is still a significant downside of MSAs for the health care consumer. Under current managed care plans, consumers reap the benefits of large group purchasing power through negotiated provider discounts for the services received by consumers. Consumers purchasing those same services as individuals will likely pay more for the very same service as would have been paid under a comprehensive health plan. Thus, consumers will be receiving fewer health care services for their dollar.

It is also important that the catastrophic coverage be defined as a health benefit plan subject to the same regulatory oversight by the Office of the Commissioner of Insurance as all other health benefit plans approved for sale in Wisconsin.

In conclusion, it is critical that any MSA proposal passed by the Legislature not undermine this state's commitment to the kind of comprehensive, quality care provided by HMOs to state employees, Medicaid recipients, and individuals in the private marketplace. Wisconsin HMOs have been very successful in their efforts to contain escalating health care costs in Wisconsin, while increasing access to comprehensive, quality health care for Wisconsin employees. The establishment of MSAs should be done in a manner which does not jeopardize that Wisconsin tradition.


FORWARD
E PLURIBUS UNUM

WISCONSIN

Statement by
Bill G. Smith, State Director
on behalf of
National Federation of Independent Business
Wisconsin Chapter

before the

Assembly Committee on
Insurance, Securities and Corporate Policy

December 14, 1995

Assembly Bill 545

Madam Chair and members of the committee, I appreciate the opportunity to appear today on behalf of Wisconsin's small business owners in support of passage of Assembly Bill 545.

The members of NFIB have worked hard for health care reforms that will improve access and affordability. We commend the legislature for responding favorably to the small business health care reform agenda by passing legislation to improve small business access to health care.

The legislation before you today, Assembly Bill 545, addresses the other side of the health care equation for small business owners and their workers by addressing the issue of affordability.

119 M. L. King, Jr. Boulevard, Suite 516 • Madison, Wisconsin 53703 • 608-255-6083 • Fax 608-255-4909

Medical Savings Account legislation has been introduced in over twenty states and several bills are also before the Congress. They are growing in popularity because they appear to be an effective tool in reducing the cost of health insurance while providing employers and employees with incentives to better manage their health care costs.

One company, according to some research I did preparing for today's hearing, saw its health care coverage drop to the community average from 35 percent above average. Another employer cut its medical bill by 40 percent in one year. And a third has seen its health costs drop each year it has had a Medical Savings Account.

While we need to be a little cautions in projecting actual savings that will result from MSAs, the Medical Savings Accounts do seem to make economic sense since 80 percent of the population incurs less than $2,000 in annual medical expenses. That translates into greatly reduced claims or premiums for higher deductible coverage. A policy with a $3,000 deductible (1994) costs roughly one-half, and sometimes one-third, of the cost of a traditional indemnity policy with $250 or $500 deductible, according to the Council for Affordable Health Insurance, a Virginia-based research group that represents small insurers and promotes MSAs.

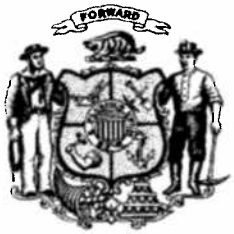
Sixty-seven percent of Wisconsin's small business owners who are members of the NFIB favor legislation that would allow employers to establish Medical Savings Accounts.

Furthermore, 37 percent said they would implement a Medical Savings Account, while 41 percent were undecided.

Madam Chair and Members of the Committee, we urge you to make the Medical Savings Account option available to our small business employers and their employees. Please act promptly and favorably on Assembly Bill 545.

Thank you.

WISCONSIN STATE LEGISLATURE



State Medical Society of Wisconsin
Over 150 Years of Caring

TO: State Representative Sheryl Albers, Chair
Members, Assembly Committee on Insurance

FROM: M. Colleen Wilson, Legislative Counsel
Government Relations

RE: AB 545 relating to Medical Savings Accounts

DATE: December 14, 1995

The State Medical Society of Wisconsin appreciates the opportunity to express its support for AB 545 which would permit the development of medical savings accounts. The Medical Society believes that medical savings accounts are just one of the means of achieving universal health care coverage and ensuring that people have choices in health care.

Medical savings accounts operationalize the concept of individually-owned insurance for the purpose of achieving portability of insurance for employees who switch employers. The lack of portability is an impediment to job mobility manifested in "job lock" which makes many employees reluctant to change jobs for fear of losing their health insurance. Furthermore, accumulated funds in medical savings accounts can provide a source of funds for unemployed workers to purchase bridge insurance until they find employment, especially since continuation insurance is cost prohibitive for many people.

Medical savings accounts also are advantageous in that they place fewer restrictions on the range of covered medical services. Current insurance plans may limit certain services, products or equipment, or require a bureaucratic pre-approval process that delays necessary care. Better choice among therapies can be made based on clinical value.

Medical savings accounts have a built-in cost containment feature in that they let individuals make the choices of what health care should be produced and how much health care is worth through their individual control over expenditures. MSAs accomplish this by letting individuals determine the value of health care by spending their own money on health care, rather than what they perceive as someone else's money.

Again, the Medical Society appreciates the chair's willingness to hold a hearing on this important issue, and respectfully requests the committee's support of AB 545.

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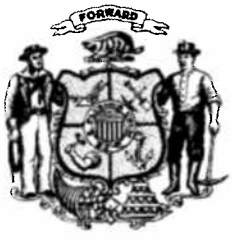
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IBA
WISCONSIN

Independent
Business
Association
of
Wisconsin

Washington Square Building
1400 East Washington Ave., Ste. 282
Madison, WI 53703

608-251-5546
800-362-8027
608-251-5952 FAX

TO: Members, Insurance, Securities and Corporate Policy Committee

FROM: IBA Wisconsin

DATE: December 14, 1995

RE: AB 545/SB 383 , Medical Savings Account Legislation.

The Independent Business Association of Wisconsin urges passage of AB 545 as an important and integral step forward toward needed health care reform. Although there are may reasons to support pasage of these bills, we believe they are desireable because of the fact that they initiate personal responsibility and accountability, along with tangible incentives for individuals to take charge of their health care needs, dollars and long term future and security.

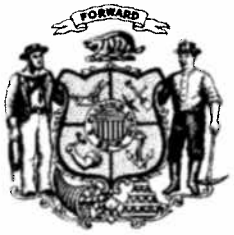
For this reason alone, MSA legislation has become the most popular reform idea with the following 15 states adopting such laws: Arizona, Colorado, Idaho, Illinois, Indiana, Michigan, Missisippi, Missouri, Montana, New Mexico, Oklahoma, Utah, Virginia, Washington and West Virginia.

However, in addition, studies show these states have experienced a reduction in health care costs. A recent study by the EvergreenFreedomFoundation/Washington MSA Project found employee maximum out-of-pocket expenses for an MSA family plan ranged from zero to $1,000, compared to $3,750 for a traditional family plan. Across all companies, the maximum employee out-of-pocket expenses ranged from 0 to $750 under individual MSA plans, compared to $450 to $1,250 under traditional plans according to the study.

Company savings varied for individual coverage. In seven companies, individual MSA plans cost more than traditional plans, but all companies saved using family MSA plans.

Total out of pocket expenses for employees who chose MSA plans were almost always less for both individual and family coverage. The Washington study also noted that most traditional plans require co-payments or other out of pocket expenses for physician visits and prescriptions that were not included in the deductible.

WISCONSIN STATE LEGISLATURE



WISCONSIN

NFIB
National Federation of Independent Business

MEMORANDUM

TO: Assembly Committee on
Insurance, Securities and Corporate Policy

FROM: Bill G. Smith
State Director

DATE: December 18, 1995

RE: **Assembly Bill 545 - Medical Savings Accounts**

During my testimony last week on a proposal to allow the option of Medical Savings Accounts in Wisconsin, I cited ballot results from our members showing support of small business. Representative Lasee requested a copy of the ballot results, and Chairman Albers asked me to share the results with the entire committee. Enclosed you will find the information presented to our members for their vote on this issue, and their response as quoted in my testimony.

Please let me know if you have any questions.

119 M. L. King, Jr. Boulevard, Suite 516 • Madison, Wisconsin 53703 • 608-255-6083 • Fax 608-255-4909

NATIONAL FEDERATION OF INDEPENDENT BUSINESS
WISCONSIN CHAPTER

NFIB WISCONSIN 1995 STATE BALLOT RESULTS

HEALTH CARE--MEDICAL IRA

Background: Many have suggested that the lack of price consciousness by consumers has led to ever-escalating prices in health care and health insurance.

One proposal to bring competition to health care is a medical version of the Individual Retirement Account. Rather than purchasing a typical health insurance plan, a company could purchase an insurance policy with a large deductible of $2,000, then fund a medical IRA with an amount equal to the deductible.

The individual could use money in the medical IRA for purchases, which would in turn apply to the insurance deductible. If the medical IRA was used in full, the insurance policy would pay for any additional costs. Any money not used for medical purposes would be kept by the employee, thus creating the incentive to shop around for medical services. These medical accounts would be given preferential tax treatment and would be portable or convertible at any time. The program would be voluntary.

Proponents say a medical form of IRAs would lead to competition within the health care community and would lead to more affordable care. Additionally, the medical IRA would encourage employees to stay healthy in order to keep as much of the deductible money as possible. A medical IRA plan would be no more expensive than most current health insurance, and could possibly be less expensive, for employers who currently offer health insurance.

Opponents contend that a medical account may act to discourage employees from seeking necessary treatment. Opponents worry that the full deductible may not be provided by the employer. They also point to the administrative and paperwork requirements of such accounts for small employers as a reason for their opposition.

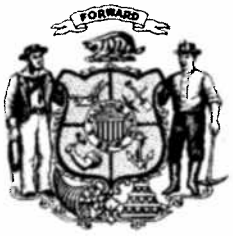
Should employers be allowed to set up special accounts similar to IRAs for employees' health care needs?

67.0% Yes **12.8%** No **20.2%** Undecided

Would you implement this option it were available?

36.8% Yes **22.4%** No **40.9%** Undecided


WISCONSIN STATE LEGISLATURE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WISCONSIN LEGISLATURE

P.O. Box 7882 • Madison, WI 53707-7882

TESTIMONY ON MEDICAL SAVINGS ACCOUNTS

Thank you Chairperson Albers and Committee Members for the opportunity for us to speak in favor of Medical Savings Accounts. My name is Heather Wells, I am testifying on behalf of State Representative Sheila Harsdorf who could not be here this afternoon.

Rep. Harsdorf and Rep. Urban have introduced AB 545, which calls for the creation of individual employee-established medical savings accounts (MSAs), as a means of encouraging health care consumers to manage their own health care needs and placing the health care consumer in control of their own health care expenses.

Under AB 545, employers could offer employees a choice of catastrophic or comprehensive health care coverage. If catastrophic health care is chosen, the employer must make deposits to the medical savings account. The tax-free deposits would equal the difference between the cost of the catastrophic coverage and what the employer would pay for comprehensive coverage. Under AB 545, MSAs would also be available to self-employed individuals.

This plan offers both short- and long-term coverage. It empowers the individual and establishes a competitive medical marketplace based on the free-enterprise system. With regular tax-free deposits by employers, the money in the MSAs would allow minor health care costs to be directly paid from the individuals' Medical Savings Account. MSAs encourage the use of preventative health care which often times is not covered under traditional third party insurance.

Although MSAs are a relatively new concept, they are presently being considered by Congress and many states, and have already been approved for use in 15 states. The MSA concept has already proven it's success by private companies who have offered it to their employees.

MSAs are intended to encourage wise use of health care, providing a direct incentive to those who use health care only when necessary.

The MSA would be the private property of the account holder. It would be portable, allowing employees to take it with them from job to job. During a period of unemployment, funds in the MSA would help pay for non-catastrophic care. In an age where people are changing jobs or getting laid off due to cutbacks, a portable plan is a tremendous asset. Individuals would also be assured a choice of health care providers, since funds from a MSA

could be spent to pay for treatment from any doctor or hospital the individual would choose.

At age 59 and a half, or when the account exceeds $100,000, up to 25 percent of the account could be withdrawn without penalty for non-medical use. MSAs provide financial incentives to encourage wise use of health care benefits. The ability to eventually use a portion of the money for non-health care purposes is a great incentive to encourage the use of preventative health care.

Another added bonus of using MSAs is that when non-catastrophic care is necessary, the patient could pay the health care provider directly, thus lowering administrative costs because there would be no claim processed.

According to statistics from the American Legislative Exchange Council, a $50 dollar physician's fee typically becomes $100 in total costs when third-party payment is involved and all the administrative expenses are accounted for.

This is a win-win situation for everyone. By taking control of their health care, consumers help keep the cost of health care down, which benefits <u>everyone</u>.

We urge the committee to support AB 545.


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WISCONSIN ASSOCIATION OF
WALHI
LIFE AND HEALTH INSURERS

ASSEMBLY BILL 545

The Wisconsin Association of Life and Health Insurers (WALHI) opposes the medical savings account legislation as proposed in Assembly Bill 545.

Although WALHI is not opposed to the concept of medical savings accounts and the goal of individual responsibility with regard to medical care, WALHI opposes this proposal for the following policy reasons:

1. MSA Plans Should Be Compatible With All Health Benefit Plans.

   The proposal does not expressly allow for the use of catastrophic managed care plans. The absence of this provision provides a disincentive for the use of managed care programs which reduce the overall cost of health care.

   In order to maintain the state's commitment to cost containment, the option of MSA accounts ought to be available to participants in all health benefit plans and managed care plans.

   In order to make MSAs compatible with comprehensive or managed care coverage, catastrophic coverage should be defined to include plans that utilize contracted provider networks or high copayments rather than high deductibles.

2. The MSA Plan Should Allow In-Network Utilization

   The bill lacks any provisions which would allow employers or insurance carriers to structure the MSA plan in a manner which allows for the utilization of lower cost provider networks.

3. The MSA Plan Should Deter Gaming of System

   There are no disincentives for participants who want to game the system by moving back and forth between comprehensive and catastrophic plans offered by the employer.

   A provision outlining a waiting period or strict pre-existing condition requirement for individuals moving from catastrophic coverage to comprehensive coverage should be included in any MSA legislation.

--OVER--

3 South Pinckney Street • Suite 822 • Madison, WI 53703 • (608) 258-1770 • Fax (608) 258-1753

4. Covered Expenses Should Include Continuation Coverage

As proposed, expenses for long-term care insurance policies are allowable expenses. In cases of unemployment, premiums for continuation coverage should be allowed as well.

5. The MSA Proposal Is Inconsistent With Wisconsin's Commitment to Managed Care

Wisconsin has been a leader in its commitment to managed care as a mechanism to control rising health care costs. This proposal is a step backwards from increased cost savings through the use of networks and managed care initiatives. While managed care is being stressed for HIRSP enrollees and Medicaid participants in order to provide cost savings, this proposal emphasizes less cost management and therefore less cost savings.


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E PLURIBUS UNUM

National Center for Policy Analysis

BRIEF ANALYSIS
No. 175
For immediate release:
Friday, September 15, 1995

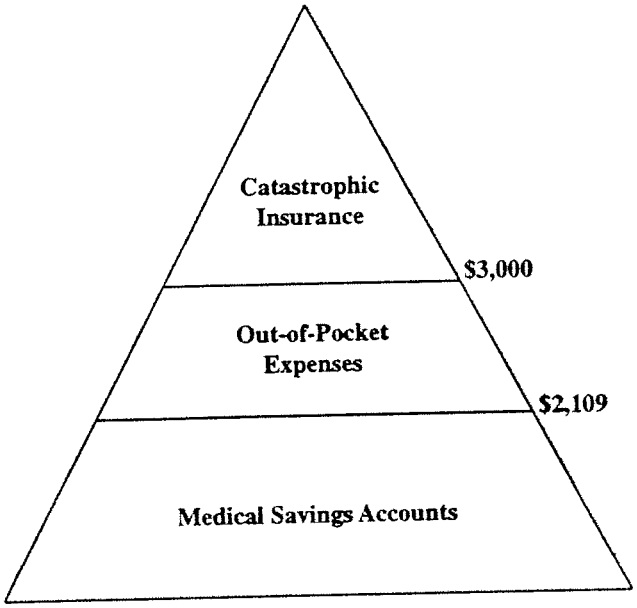
Saving the Medicare System With Medical Savings Accounts

Earlier this year, the National Center for Policy Analysis addressed the Medicare financing crisis with a proposal similar to the one now being considered by the Republican leadership in Congress. Under this plan, the elderly would be given a voucher allowing them to obtain coverage from a full range of private sector options, including a Health Maintenance Organization (HMO). However, the most interesting option would be catastrophic insurance paired with a Medical Savings Account (MSA).

Patient power through Medical Savings Accounts. Under the MSA alternative, the elderly would have catastrophic insurance plus a Medical Savings Account. They would control more of their own health care dollars without answering to a health care bureaucracy and would likely become more value-conscious shoppers in the health care marketplace.

FIGURE I

Restructuring Medicare
(MSAs With Managed Care)



What could private insurers do with voucher money? Milliman & Robertson analyzed the cost of high-deductible policies with and without a managed care element for Medicare beneficiaries and estimated the amount of money that would remain for the MSA. According to the analysis:

Without managed care, private insurers could put about $1,500 in a Medical Savings Account for each beneficiary and the insurance policy would pay for all expenses above $3,000.

With managed care, private insurers could put about $2,100 in a Medical Savings Account and pay for all medical bills above $3,000. [See Figure I.]

Protection against health care costs. One problem with the current Medicare system is that it leaves seniors exposed to thousands of dollars in catastrophic health care expenses. By contrast, the MSA plan would allow beneficiaries to obtain real catastrophic insurance.

For example, more than 418,000 Medicare beneficiaries currently pay more than $5,000 out of pocket every year. Under the plan illustrated in Figure I, their out-of-pocket expenses could not exceed about $900 in 1996.

Cash refunds for being prudent purchasers of care. Under the current Medicare system, if a patient does something to eliminate waste, the benefit of that action goes to the government. But under the MSA option, elderly patients who make wise and frugal choices would realize financial benefits. They would keep any money they had not spent at the end of each year. Thus, Medicare beneficiaries would receive up to $2,100 a year in cash.

Coverage for prescription drugs and other services. Under the current system, Medicare does not pay for most prescription drugs and this leaves the elderly at risk for limitless pharmaceutical expenses. But under the MSA plan, beneficiaries could have coverage for services not currently covered by Medicare by accepting a modest decrease in their MSA balance. For example, the voucher plan would allow private insurers to extend coverage to drugs and other items. Instead of a $2,100

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Washington Office: 727 15th St. N.W., 5th Floor • Washington, DC 20005 • 202-628-6671 • Fax 202-628-6474

For more information: Glenn Mitchell or Windi Fuller 214/386-6272

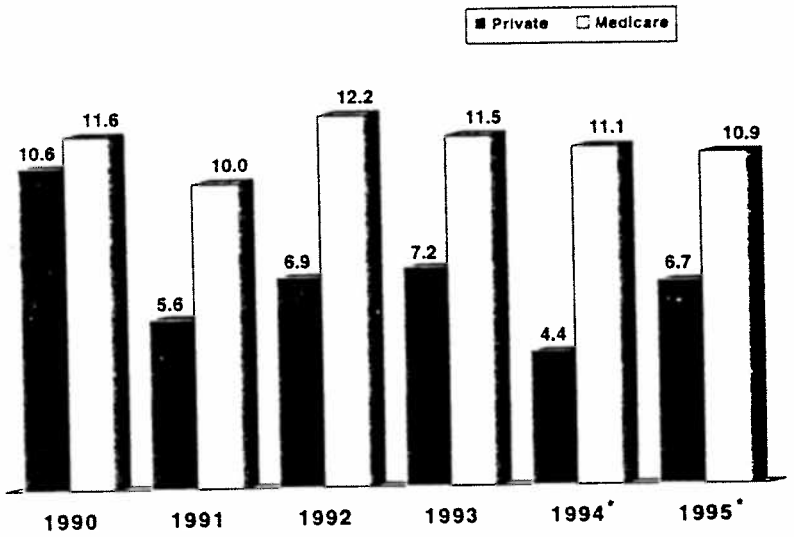
MSA deposit, people could have drug coverage and receive a Medical Savings Account deposit of about $1,500.

Meeting the congressional budget goals without any loss of benefits. A peer-reviewed analysis by Milliman & Robertson demonstrates that this proposal for reforming Medicare could save $270 billion over the next seven years, and that Medicare beneficiaries would get more — not less — protection against health care costs. Specifically, a voucher plan allowing the elderly to switch from Medicare to Medical Savings Accounts and catastrophic health insurance would save as much as $195 billion without any other changes.

FIGURE II

Health Care Spending

(Average annual percent change)



* Projected

Source: Health Care Financing Administration, National Health Expenditure Accounts.

Extending the program to the disabled and making modest reductions in the amount of the voucher would save an additional $40 billion.

Such options as means-testing benefits by requiring the highest-income elderly to pay higher premiums or increasing the age of eligibility (currently 65) by one month per year would save at least $30 billion more.

More savings and an economic boost. Currently, Medicare costs are growing faster than private sector health care costs, causing medical inflation for everyone. [See Figure II.] Less health care spending by the elderly would ease the pressure on all medical prices and slow the rate of increase in health spending. Using the National Center for Policy Analysis/Fiscal Associates Health Care Model, the NCPA finds that by the year 2005, Medicare spending would be 18 percent lower than currently projected spending, and total U.S. health care costs would be 8.7 percent lower. Spending on all health care would decrease by $186 billion and the output of other goods and services would increase by $241 billion.

Best news of all: seniors would benefit. This MSA plan is better than traditional Medicare in at least five ways:

- The plan provid-es full coverage for expenses over the deductible, while Medicare leaves seniors exposed to catastrophic expenses that could devastate their savings.
- With the MSA, out-of-pocket exposure could be virtually eliminated by encouraging the 70 percent of the elderly now paying for private Medigap insurance to contribute their Medigap premiums (about $1,200 per year) to their MSA.
- The MSA funds could be used to pay for health expenses such as prescription drugs, which are not covered by Medicare.
- At the end of the year, the beneficiaries could withdraw and spend their remaining MSA funds for any purpose, thus sharing directly in the reward for keeping Medicare costs down.
- People with MSAs plus catastrophic insurance would be free from Medicare rationing restrictions and from concerns about quality of and access to care.

This Brief Analysis was prepared by NCPA President John Goodman, Senior Fellow Peter Ferrara and Health Policy Director Merrill Matthews Jr.

s Business Daily

wspaper For Important Decision Makers"

Friday, March 18, 1994

Los Angeles, California
Volume 10, No. 239 ©1994

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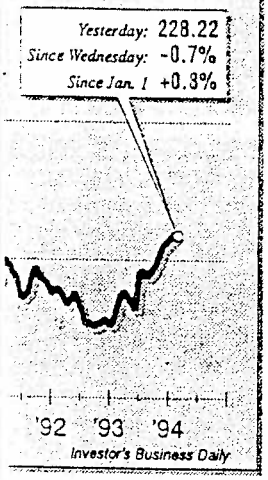


NGTON & WORLD

White House counsel ssbaum testified for about efore a federal grand jury ontacts between White Treasury officials in the affair. The president's se resignation is effective l he was certain that he in his office acted legally . Nussbaum said he did xecutive privilege in his by the jury.

Department contractors t for tens of millions of of equipment, much of n or disposed of as trash, auditors reported. Inves- the General Accounting e inspector general told a ng that contractors run- nuclear weapons plants widespread disregard for ent.

will contribute $430 mil-

NATIONAL ISSUE

EMPLOYEES AS HEALTH REFORMERS

Medical Savings Accounts Curbing Premium Costs

By John Merline
In Washington

Melanie Woodcock is doing her part to help reduce the nation's health-care cost problem.

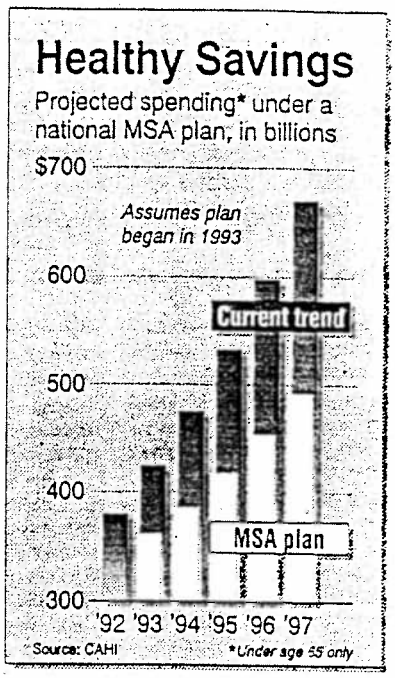
Facing surgery, she negotiated a $3,797 discount from the cost of the nearly $10,000 procedure. For each medical expense her family incurs, she asks for the cost in advance. And, her family makes sure that each test performed is necessary and actually gets performed. "We were charged for two lab tests that weren't even done," she said.

This type of behavior no doubt strikes many people as highly unusual.

The reason Woodcock bothers is that, unlike the vast majority of Americans, she and her family stand to benefit financially for their own careful use of health-care services.

Last year, her employer, Golden Rule Insurance Co. in Indianapolis, began offering employees an innovative insurance policy that attempts to turn its workers into individual health-care reformers.

At the core of the Golden Rule plan is a "medical savings account," an idea that was developed to help reform the nation's health-care system but that has already been adopted with some success by several companies seeking to control their own health-care costs.



Golden Rule realized that, by switching from a plan with a $250 deductible and a $1,000 co-payment requirement to one with a $3,000 deductible and no co-payment, it would save enough in premium costs to give each employee a $1,750 medical savings account.

The worker could use money from the account to pay for health-care costs. The trick is that any money left over in the savings account at the end of the year goes into the employee's pocket.

The success of the plan has surprised even the people in the company who pushed for it.

Some 80% of Golden Rule's employees signed with the MSA plan in the first year. These workers got $468,000 in reimbursements from their medical savings accounts last year. Not surprisingly, enrollment expanded this year.

The company benefited as well. Golden Rule saw no change in its premiums this year.

Golden Rule is not alone.

In 1993, the Council for Affordable Health Insurance, a trade and lobbying group in the Washington, D.C. area, switched from a managed care plan with a $250 deductible to a fee-for-service plan with a $1,000 deductible.

Because the annual premium for the high-deductible plan was about $1,000 less per worker, CAHI made these savings available to its employees, who could keep the money if they didn't spend it on health care.

The result? CAHI's premiums climbed only 4.5% in 1994.

As CAHI employee Victoria Craig noted, the MSA plan allowed her to pay for preventive health services without dipping into her own pocket. "Plus, I received a year-end bonus of $761 before taxes," she said.

CAHI, like Golden Rule, has been an

Continued on Next Page

LEADERS & SUCCESS

EDS' Les Alberthal:

Building On GM Subsidiary's Hard-Driving Team Culture

By Ted Bunker
In Washington

Growing up in the ranch lands of south central Texas

Motors Corp. subsidiary, as chairman, president and chief executive.

Despite rising to the rank of corporate chieftain, Alberthal, 50, is still

the way he likes it.

"Our customers are happy only when we succeed in solving the issues and the problems that we're working with them

EMPLOYEES AS HEALTH REFORMERS

From page 1

advocate of MSAs as part of national health-care reform.

The Spurwink School in Portland, Maine, has implemented a so-called Health Wealth plan developed by Progress Sharing Co. of Saco, Maine. The Health Wealth plan offers workers a high-deductible plan, putting some of the premium savings in a mutual fund account for each worker that can be used to pay out-of-pocket expenses.

"Now it's to their economic benefit to be health-care consumers, whereas it wasn't before," said Fred Prince, president of Progress Sharing.

Impressive Number

In four of the six years since the plan has been in effect, the school has seen its premium drop. The average annual increase in premiums between 1987 and 1992, the last year data were available, was 8.7% — far lower than the national average.

Another company using the Health Wealth program — Knox Semiconductor in Rockport, Maine — had similar results, with only two rate increases in the past six years.

Knox President John Morey claims that the Health Wealth program has saved his company more than $100,000 over three years. "This is an impressive number when you realize we are a company of 42 employees," said Morey.

Quaker Oats has for more than 10 years offered its 11,000 workers a high-deductible plan, putting annual contributions of $300 into personal health accounts, with any unspent funds given to the workers at the end of the year.

Between 1982 and 1992, the company's costs increased at an annual rate of 6.3%.

High Costs Nationally

Dominion Resources, a utility holding company seeks to encourage workers to opt for a $3,000 deductible plan — with no co-payments above that amount and no limitations on which doctors a patient can see — by paying a fixed amount towards premiums. A family that chooses that plan would end up paying roughly $75 a month vs. $210 a month for the low-deductible plan.

Workers can put the savings from choosing the lost-cost plan into a bank account. Some 80% of Dominion's workers have opted for the high-deductible insurance policy.

The company has effectively experienced no increases in its premiums since 1989.

These results are even more impressive when weighed against national trends.

Overall health benefit costs climbed an average 13% a year between 1988 and 1993, according to Foster Higgins, a Princeton, N.J.-based health benefits consulting group.

Even managed care plans — which attempt to control costs by limiting patient choice of doctors and restricting access to specialized care — couldn't beat these companies' experience.

For example, HMO costs climbed an average 13.6% a year between 1988 and 1992. In 1993, they climbed another 6.5%, Higgins data show.

The success of MSA-type plans has not gone unnoticed by the United Mine Workers of America. In a contract signed by the union with the Bituminous Coal Operators Association last December, the union agreed to switch from a plan with a zero deductible to one with a $1,000 deductible.

In exchange, each miner gets $1,000 that can be used to pay for medical expenses within a preferred-provider network. Any unspent funds can be saved by the miner.

In effect, the miners continue to receive first-dollar coverage, but with a strong incentive to minimize their own health spending.

"We were trying to decrease the actual cost of the health-care program," said Morris Fejbusch, vice president of public affairs at the association.

The state of Ohio is considering adopting MSA-type reforms.

Ohio's Potential Savings

Dr. Peter Somani, director of the Ohio Department of Health, estimates that the state could save $29 million in annual health-care costs for its government employees if it offered an MSA option and if only half of the state government's workers signed up.

According to Somani, the savings to the state would likely be higher because that figure counts only savings in premium costs. It does not count any additional savings that might accrue if these state workers change their health-care spending habits.

The underlying premise behind the MSA reform is that it gives each health-care consumer something most currently lack — a strong incentive to be efficient health-care shoppers.

> "We are paying 20% profit on every premium dollar that is retained by the HMOs and insurance companies. Why should we keep paying that profit?"

Most economists agree that, to the extent that health-care costs are out of control in the U.S., the fundamental reason is the lack of consumer interest in the price of medical services.

In the past 30 years, the health-care marketplace has shifted from one dominated by out-of-pocket expenses paid by patients to one dominated by so-called third-party payers — either insurance companies or the government.

Immunizing consumers from the cost of health care has had the effect of making them indifferent to prices, while encouraging them to overutilize health services, economists say.

Consumer Power

MSAs, according to supporters, seek to bring consumers back into the picture by letting them benefit financially from careful spending.

Yet, despite the successes experienced by those companies that have tried it, MSAs continue to remain a relatively obscure reform idea.

One possible explanation is that the idea gets little enthusiastic backing from the insurance industry, which is not too surprising.

Under an MSA plan, much of the money that would have been paid in premiums to insurance companies goes instead into the savings accounts — to be spent either directly on health care or kept by the individual.

"We are paying 20% profit on every premium dollar that is retained by the HMOs and insurance companies. Why should we keep paying that profit?" said Somani.

And, despite the experience of those companies that tried it, there is some question about whether MSAs could work to reform health care on the national level.

In testimony before Congress last fall, First Lady Hillary Rodham Clinton dismissed the MSA idea, saying the plan "does nothing to encourage primary and preventive health care." Under such a plan, people will "postpone seeking help as long as possible" in order to save money.

Weak Incentives

She added that MSA reforms wouldn't guarantee universal coverage. "Many people will not be encouraged, unless required, to be responsible," she said.

Another concern raised is that health-care consumers typically are not in a good position to shop around for health-care services either because they are in an emergency situation or because they are not experts in medicine.

Others complain that the MSA reform plans currently in Congress won't work because the incentives are too weak to encourage any change in behavior.

Most of the plans require people either to spend the MSA money on health care or to keep it locked up until retirement to avoid tax penalties.

"If you tie the money up for that long, you lose the incentive," said Progress Sharing's Prince. "For a kid who's 20 years old, he doesn't care about retirement, he wants to live today."

Prince also worries that adding the tax benefits to the MSA plan still puts too much power in the hands of government.

"If you get a tax break, the government will basically come in and tell you how you have to run your business in order to get the break," said Prince.

Still, one study suggests that a national reform plan that includes MSAs would go a long way to reining in the nation's health-care costs.

The study, by Mark Litow — an actuary at the Seattle-based consulting firm Milliman & Robertson — for the Council on Affordable Health Insurance, found that a nationwide MSA plan would cut health spending $587 billion and would cut the number of uninsured in half over the first five years.

Clinton's plan, in contrast, will boost national spending a total $76 billion in the first five years, according to the Congressional Budget Office.

A Healthy Choice for Sick Patients

By John C. Goodman

Do Americans want choice in health care, or is it choice that they fear most?

That issue must soon be decided by Congress as it considers the benefits of Medical Savings Accounts. The idea behind MSAs is that people should be able to select high-deductible rather than low-deductible insurance and put the premium savings into an account they can use to pay small medical bills. Congress is on the verge of making MSAs available to most Americans through legislation that would: (1) allow employers to make tax-free deposits to MSAs for their employees; (2) permit people who purchase their own health insurance to make tax-deductible deposits to MSAs; and (3) allow seniors covered by Medicare to choose an MSA plan as an option.

Theory and Fact

Critics assert that Medical Savings Accounts are good for the healthy and bad for the sick. Given a choice, they say, only the healthy would choose MSAs, thereby draining from the general insurance pool funds needed to pay the medical bills of others. This viewpoint may be found almost every week on the editorial pages of the New York Times. It is expressed almost daily by congressional Democrats who oppose private-sector health care reform. And this thinking underlies the recent negative assessment of MSAs by the Congressional Budget Office, which claims that an MSA option for Medicare would appeal to only 1% of seniors and would cost the government $2.3 billion.

The facts tell a different story. People with high medical expenses are almost always better off if they can switch to an MSA plan. And if any are worse off as a result of the switch, they would lose very little. In particular, an MSA plan would be a bonanza for high-cost Medicare patients, who would gain a lot more than healthy seniors from such a plan.

The people who gain the least by switching to an MSA plan are not the very sick, but chronic patients with moderately expensive-to-treat conditions—people who generate medical bills in the range of $2,000 to $5,000 a year. But even this group would likely find MSAs attractive. To understand why requires a little background about MSAs.

As many as 1,000 employers have created MSA plans for their employees. These plans differ from traditional insurance in three important ways.

First, instead of making out-of-pocket expenses (to reach a deductible) the first tier of a health plan, MSA plans give the insured access to cash up front. Thus a single mother living from paycheck to paycheck will not neglect to take her child to a doctor because she can't pay the fee. Yet she has an incentive to spend her MSA funds wisely because at the end of the year she gets to withdraw any money remaining in the account.

Second, rather than having a copayment that applies to small bills as well as large ones, MSA plans concentrate out-of-pocket spending in a single corridor—the gap between the MSA deposit and a catastrophic deductible. For example, with a $1,500 MSA deposit and a $2,000 deductible, patients spend the first $1,500 from the MSA, the next $500 out of pocket, and rely on catastrophic insurance to pay all expenses above $2,000. Many MSA plans rely on managed care, or at least a network of physicians, to control costs above the deductible.

While conventional insurance plans usually leave people exposed for several thousand dollars of medical bills, MSA plans typically limit this exposure to $1,000 or less..

Third, because MSA plans create more efficient and more appropriate incentives for patients, they are almost always able to offer their enrollees lower total out-of-pocket exposure than can conventional plans purchased with the same premium dollars. While conventional insurance plans usually leave people exposed for several thousand dollars of medical bills, MSA plans typically limit this exposure to $1,000 or less.

Are you better off or worse off with an MSA plan? To answer that question you must consider all possible contingencies, including the probability that you will have small bills as well as large ones.

Clearly, healthy people are better off with MSAs. Continuing with the above example, a person with no medical expenses would be able to withdraw the annual $1,500 MSA deposit at year-end and spend the money on nonmedical goods and services. But sick people also do well under such a plan. Someone with $10,000 in medical expenses would pay only $500 out of pocket. Under a conventional insurance plan, that person would have paid $1,500, of which $500 would be the deductible and $1,000 would be a 20% copayment on the next $5,000 of expenses.

The person who does least well is someone with only moderate expenses. This is because in the corridor between the MSA deposit and the catastrophic deductible, the patient is paying an out-of-pocket dollar for a dollar of medical care. By contrast, a person with conventional insurance would be paying out of pocket only 20% on the dollar for medical expenses in this range.

In general, someone with $2,000 to $5,000 of medical expenses is (1) experiencing a brief medical episode from which recovery will be relatively quick, (2) on the way toward a serious illness with large future medical bills or (3) suffering from a chronic condition that lingers from year to year (e.g., diabetes). For the reasons given above, people in the first two categories would be better off, over time, with Medical Savings Accounts. By contrast, people with moderately expensive-to-treat chronic conditions might experience little financial gain by choosing an MSA plan over traditional insurance. But they are likely to prefer MSA plans for two reasons.

First, there is often considerable variation in the cost of treating chronic conditions. Given proper incentives, patients and their doctors can lower the cost of care, thus leaving the patient with a greater year-end refund.

Second, even under traditional insurance, the chronically ill are increasingly hassled by managed care bureaucrats who want to impose a cookbook approach on both patients and doctors. Many chronic patients believe that if they could manage their own health care dollars, they would get not only better care but also less expensive care.

What is true of the nonelderly population applies in spades to seniors, who can be bankrupted by medical bills, even though they are covered by Medicare. Indeed, more than 100,000 seniors face out-of-pocket expenses in excess of $5,000 every year for Medicare-covered services.

In a study for the National Center for Policy Analysis, the actuarial firm Milliman & Robertson calculated that Medicare dollars could be used to create genuine catastrophic insurance above $3,000 and to deposit $2,000 in an MSA for all seniors who choose the plan. This means that the most a senior would pay out-of-pocket would be $900.

Currently, about 70% of the elderly purchase supplemental insurance to fill the gaps in Medicare coverage at a cost of about $1,200 a year. Under the MSA plan, such purchases would be unnecessary. They could put the money in the bank instead.

Consistent Conclusions

The conclusions reached here are consistent with studies produced by the American Academy of Actuaries and the Urban Institute. They are inconsistent with a well-publicized study done by the Lewin-VHI consulting firm for a seniors' lobbying group. That study concluded that MSA plans would appeal only to a small number of healthy people. But the Lewin study ignored out-of-pocket expenses, having completely misunderstood what MSAs are designed to do. It appears that the Congressional Budget Office made similar errors.

Progress in health care reform has been delayed until now because the experts most often consulted represent the traditional insurance or health maintenance organization mentalities. Neither group understands MSAs or has ever worked with a real MSA plan. The people who do understand the MSA idea are health-policy analysts who have watched the patient-power revolution in health care. As their voices start to be heard in the policy debate, public opinion undoubtedly will move in favor of MSAs.

Mr. Goodman is president of the Dallas-based National Center for Policy Analysis.

GUEST EDITORIAL

MSAs: Everybody Wins

11/13/95

By SUE BLEVINS

The main criticism against letting Medicare beneficiaries choose a high-deductible health insurance policy and deposit the premium savings in a medical savings account is the claim that only the healthiest and wealthiest seniors would choose them.

Seniors who are sick or expect high health-care expenditures, the critics say, would stay in traditional Medicare or join a Medicare health maintenance organization.

This process of "adverse selection" — a situation in which the healthiest people shift to one insurance pool while the sickest remain in another — would lead to higher, rather than lower, overall Medicare costs. It would thus cost the federal government more money than it is currently spending.

But these assumptions are not based on empirical evidence. Nor do they account for the large numbers of Medicare enrollees who would actually benefit — financially and medically — from choosing an MSA plan.

MSAs give people the chance to move from conventional, low-deductible health insurance plans to ones with a high deductible (say $2,000 to $3,000), and to put the savings in personal accounts. Beneficiaries pay all medical bills up to the deductible from their MSAs and out-of-pocket funds. Catastrophic insurance covers all expenses above the deductible.

An actuarial analysis for the National Center for Policy Analysis has estimated that, under the GOP plan, Medicare would both pay for the catastrophic policy and put $1,500 to $2,100 a year into the retiree's MSA. Medicare would deposit $1,500 a year into MSAs for seniors who choose a fee-for-service catastrophic policy, $2,100 for those who chose a managed-care catastrophic policy.

This policy would pay 100% of expenses after medical bills have reached $3,000.

Since Medicare has already placed $1,500 or more in the senior's MSA, his or her maximum out-of-pocket exposure would thus be $1,500 in the fee-for-service plan, $900 in the managed-care plan.

The benefits are obvious for those who are healthy. And that's 71% of Americans aged 65 and over, according to the National Center for Health Statistics. In 1991, 16% of seniors reported their health as "excellent," while 23% termed it "very good" and 32% "good."

Actual Medicare payments tell the same story. The Health Care Financing Administration found that 73% of Medicare enrollees incurred payments of less than $2,000 in 1992. To break that down, 21% incurred no payments, another 33% had payments less than $500, and 19% incurred between $500 and $1,999.

All told, 54% of Medicare enrollees incurred no payments or payments of less than $500. Thus, some 17 million seniors could accrue at least $1,000 per year in their own Medical Savings Account with the MSA fee-for-service plan, or $1,600 in the MSA/managed-care option.

These health-care dollars could: (1) pay for services that Medicare does not cover, such as eye glasses and prescription drugs; (2) cover the next year's Medicare premiums; (3) be saved for future health expenses; or (4) be withdrawn at the end of the year, contingent upon a withdrawal penalty.

Healthy seniors are not the only winners with MSAs. Nearly 30% of elderly Americans report their health status as being "fair or poor." These reports are supported by actual Medicare payments. In 1992, nearly 27% of Medicare enrollees incurred payments of $2,000 or more. Payments for 10% ranged from $2,000 to $4,999, while 17% of enrollees incurred payments of $5,000 or more.

How would these seniors benefit from the MSA option? Its catastrophic insurance would cap their potential out-of-pocket costs.

Older Americans in these categories are clearly at higher risk of even greater illness. Under the current Medicare fee-for-service system, some 480,000 seniors — 1.5% of all beneficiaries — face a cost-sharing liability of $5,000 or more.

Cost-sharing liability is the amount of money that beneficiaries are responsible for paying. These expenses include co-payments, deductibles and hospital bills, as well as money used to purchase Medigap insurance to help cover these Medicare expenses.

However, over 3.6 million seniors do not have supplemental insurance to help with their cost-sharing liability. They have to pay out-of-pocket for any cost-sharing liability. If major illness strikes, these seniors are liable for huge medical bills.

By contrast, seniors would never have to pay more than $900 or $1,500 out-of-pocket, if they chose the managed care or fee-for-service MSA plans. Either way, MSA plans provide seniors greater financial security regarding their future medical expenses.

This would bring peace of mind to the millions of Medicare beneficiaries who must now worry about being financially devastated by medical expenses.

Sue Blevins is a health-policy research consultant, based in Boston, Mass.

Antidote for Health Care Costs

6/29/95

By Suzie A. Blevins

IMAGINE for a moment that car insurance worked like health insurance. In addition to covering major repairs, this new system of car insurance would also cover car maintenance, such as oil changes. Consumers would no longer have an incentive to shop around for the cheapest oil change since they would not be paying out-of-pocket for this service. Instead they would demand the highest-quality oil without regard to cost. And auto mechanics would no longer have an incentive to keep costs low.

Enter the Automobile Maintenance Organizations (AMOs). Similar to Health Maintenance Organizations (HMOs), AMOs would keep costs low by cutting deals with mechanics and controlling unnecessary services. In this scenario, you, the consumer, would pay a flat fee and in return the AMO would manage all of your car services – both maintenance and major repairs. You would be assigned to a "Primary Care Mechanic" who would oversee your preventive automobile maintenance. The AMO would set standards for when your car needed an oil change and would restrict you to certain mechanics and auto repair shops. These restrictions would be offset, however, by cheap insurance premiums.

So what's the problem? AMOs limit your freedom to choose. AMOs give insurers the power to decide which mechanic and which shop you can go to. This is exactly what has happened in the health care industry. Over the past decade employers have begun cutting deals with insurance plans and HMOs to lower costs. And although this has helped curtail spending, it has simultaneously restricted consumer choice.

There is a better way for employers and government to cut health costs and decrease unnecessary consumption, while at the same time empowering consumers. Establish Medical Savings Accounts.

Medical Savings Accounts (MSAs) are tax-deferred accounts set up for individuals to pay for routine medical care. Rather than sitting in the insurers' or HMOs' bank accounts, money for routine health care is placed in an individual Medical Savings Account. Using the car insurance analogy, MSAs work in the following way:

Let's say that on average your employer pays $4,500 per year for your car insurance, covering both maintenance and major repairs. With a Medical Savings Account plan, your employer (or Medicare) would deposit $3,000 into an account for you to purchase routine services. The remaining $1,500 would be used to buy a catastrophic insurance policy for major accidents.

OPINION/ESSAYS

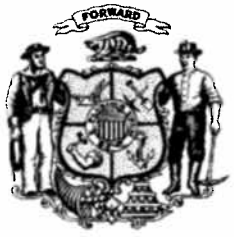
MSAs can lower health spending by making consumers more aware of how their dollars are spent.

The most important feature of MSAs is that they give you the freedom to choose your auto shop (clinic) and mechanic (doctor and/or other practitioner) for routine services. They create an incentive for you to search for high-quality, low-cost services. And unlike flexible spending accounts where you lose what you do not use, MSAs allow unspent funds to accumulate for future use, such as when you are unemployed or between jobs. These accumulated savings could help end the "job-lock" problem where individuals are afraid to change jobs for fear of losing insurance benefits.

A bipartisan bill has been introduced by Reps. Bill Archer (R) of Texas and Andrew Jacobs (D) of Indiana to allow for the establishment of MSAs. The "Family Medical Savings and Investment Act of 1995" will correct the perverse incentives in the health care industry. MSAs can lower health spending by making consumers more aware of how their health care dollars are spent. But most important, they will empower consumers and give greater freedom of choice in health care.

■ *Suzie A. Blevins is a graduate of Harvard's School of Public Health and a fellow at the Institute for Humane Studies at George Mason University.*

WISCONSIN STATE LEGISLATURE



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R for Good Health®

Your Plan Name: GroupMed $15 Gold Piece - groups of two or more

Below is a general outline of benefits. See your certificate for details.

Physician & Other Medical Professional Charges		PPO Provider	Non-PPO Provider
† Each Routine Physical Exam		100% after $15 Copay	Not Covered
† Immunizations		100% after $15 Copay	Not Covered
Each Office or Hospital Visit		100% after $15 Copay	70% of Coins. after Ded.
Each Pathology (Lab) Test		100% after $5 Copay	70% of Coins. after Ded.
Each Radiology (X-ray) Test		100% after $25 Copay	70% of Coins. after Ded.
Each Home Health Care Visit		100% after $15 Copay	70% of Coins. after Ded.
Each Surgery or Anesthesiology Fee		100% after $25 Copay	70% of Coins. after Ded.
† Each Psychiatric Visit	Inpatient Outpatient	100% after $25 Copay 100% after $25 Copay No daily maximum	70% after Ded. 70% after Ded. $30 daily maximum
Prescription Drug Benefit (Each 34-day supply)		100% after $15 Copay	
LifestyleChoice$		100%	

Hospital & Other Facility Charges			PPO Provider	Non-PPO Provider
Inpatient & Intensive Care (Includes preadmission testing)		[H]	100% after $150 Copay per confinement	70% of Coins. after Ded.
Outpatient Care (Includes facility, X-ray & lab)			100% after $150 Copay per visit	70% of Coins. after Ded.
Outpatient Mammogram			100% after $25 Copay per visit	70% of Coins. after Ded.
Emergency Room (No copay if immediately confined)			100% after $150 Copay per visit	70% of Coins. after Ded.
† Psychiatric Care	Inpatient Outpatient		100% after $150 Copay per confinement 100% after $150 Copay per visit No daily maximum	70% after Ded. 70% after Ded. $30 daily maximum

Plan Maximums		PPO Provider	Non-PPO Provider
Combined Lifetime Maximum (PPO & Non-PPO)		$2,500,000	
Deductible		None	$300 (Max. 3 per family)
Coinsurance (Psych is not included)		100%	70% of $10,000, then 100%
Out-of-Pocket Maximums (Psych & Prescription Drug benefits are not included)	Single Family	$2,000 (Accumulated $4,000 copays)	$3,300 $6,600
† Combined Psychiatric Maximums	Inpatient Outpatient	$2,500/yr. * $750/yr.	* $500/yr.
† Combined Psychiatric Lifetime Maximum (PPO & Non-PPO)		$10,000	

† **Benefits may differ by state, refer to your certificate.**

[H] **See the 100% Hospital Deals insert for participating networks and hospitals.**

* **The combined outpatient psychiatric calendar year maximum is $500 per insured. When a PPO provider is used, an additional $250 benefit is available per insured, per calendar year.**

This plan provides only limited benefits for services provided by non-plan providers.

The following states and networks may have their own benefit outline: *AZ, FL, GA, IN, KY, MD, MI, NC, TN, TX, Plaines Health Networks in IA & IL, and PPOM in OH.*

[redacted]

Please Read Carefully

Unless indicated as an additional coverage in your certificate, the following limitations and exclusions apply:

LIMITATIONS

These limitations apply unless specified as a covered benefit or selected as an optional benefit. The policy limits coverage for expenses resulting from or related to: benefits which are paid or payable by Medicare, whether or not you are enrolled; pre-existing conditions; plastic/cosmetic surgery; blood product storage; routine physical exams; routine injections; prescription drug charges; manipulative therapy; drug abuse, alcoholism, or mental/nervous disorders; immunizations; TMJ and related conditions. **Groups of 2-14:** normal maternity, well baby care, and sterilization.

EXCLUSIONS

The policy excludes coverage for:

Services, treatments, surgery, testing, supplies, or devices that are: not medically necessary; experimental/investigative; for your comfort or related to education, vocation, or weight loss; provided outside of the U.S., except for an emergency; provided by a family member or by a person who resides with the insured; not doctor-approved; above the maximum allowable charge; rendered after your termination date; provided by your employer or government plan; provided free of charge if you did not have this insurance.

Expenses resulting from or related to: custodial care; premarital exams; eye glasses; eye exams to correct refractive error; hearing exams; hearing aids/fittings; dental implants or chewing injuries; orthognathic reconstructive surgery; private duty nursing; infertility or impotency; birth control pills/supplies; sex change operations; elective abortion; reversal of sterilization procedures; family, marriage, speech, vision, or sex therapy; weak, strained, unstable, or unbalanced feet or ankles; bony protuberances of the forefoot/toes; corns, calluses, or toenails; sclerotherapy; blood products when replaced by donation; hair transplants and wigs; emergency room care for other than an emergency; unnecessary weekend hospital admission; learning disabilities or developmental disorders.

Injury or sickness: occurring during or arising from your employment; caused by war or service in the military; civil or criminal battery or felony; taking part in a riot; attempted suicide; or intentional self-inflicted injury while sane or insane.

Drugs: not doctor-prescribed; not U.S. government-approved; obtainable without a written prescription.

The following information applies unless indicated otherwise in your certificate:

Subrogation/Right of Reimbursement

When a party causes or is liable to pay for your injury or sickness, the plan may recover payments made to you for health-care costs that you received for damages in a legal action. The plan may have an automatic lien on your recovery.

Excess Coverage

Benefits are not payable for injury or sickness for which there is other nongroup insurance providing medical payments or medical expense coverage.

American Medical Security Trust/ Prescription for Good Health Trust

American Medical Security markets and administers fully-insured products under policies issued to a multiple employer or a group trust. Because the policy is issued to either an Indiana or an Alabama trust, it may not include the insurance benefits mandated by the laws of your state. This does not apply to Minnesota.

This is an outline only and not intended to serve as legal interpretation of benefits. Reasonable effort has been made to have this outline represent the intent of contract language. However, the contract language stands alone and the complete terms of the coverage will be determined by the master policy. Applicable small group law will apply with respect to pre-existing condition limitations, eligibility, rating and renewability.

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