

# **Health Care Under the New Administration: *What to Expect in 2009 and How to Protect Free Markets***

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# Current State of Free Market

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- Congratulations!
  - Market responding to 20% CDH adoption
  - 80% still don't understand "CDHC"
  - We've won the battle – will we lose the war?
- Trend in insurance mandates continues
  - Regina Herzlinger is right: Mandates mean giving up control over treatment decisions
- Choices and consumer empowerment constantly under attack by those who think consumers are stupid
- It's time to stand up and be counted!



# What will “Reform” look like?

# What Will Reform Look Like?

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- A lot depends on the final outcome of the Senate elections (3 races still undecided)
- GOP needs 41 Senators that will vote to block legislation and force things to be done on a bipartisan basis
- House has rules and majority on its side (can do anything it wants)
  - Leadership and Committee chairs much more liberal than general membership

# What Will Reform Look Like?

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- Forget Obama's plan
- Pay attention to plans of:
  - Sen. Baucus
  - Sen. Kennedy
  - Sen. Wyden
  - Rep. Rangel/Stark
  - Rep. Dingell/Waxman

# What Will Reform Look Like?

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- Baucus plan
  - Modeled largely after Massachusetts
  - Play or pay mandate on employers
    - Tax credit for small businesses
  - Individual mandate
    - Subsidies based on income
  - National Health Insurance Exchange
    - Guaranteed issue with no pre-existing conditions
  - Expand Medicaid and SCHIP eligibility
    - SCHIP authorization expires March 2009
  - Allow buy-in to Medicare for people 55-64

# **What Will Reform Look Like?**

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**“Total healthcare spending would increase by \$122.6 billion to \$208.6 billion if uninsured were fully covered.”**

*-- Health Affairs, Jack Hadley et al, Urban Institute, August 25, 2008*

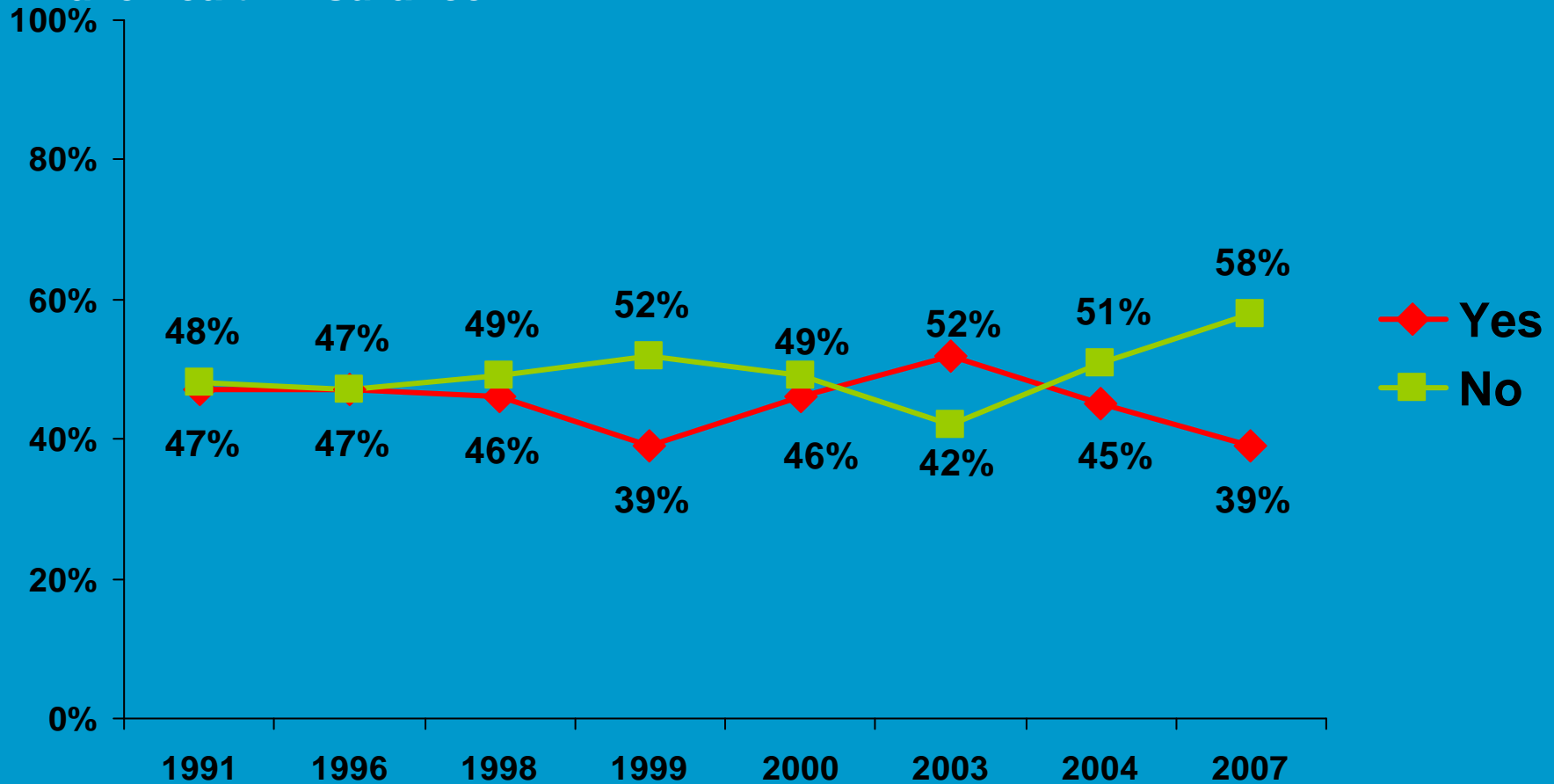
# What Will Reform Look Like?

- Other areas of potential consensus
  - Set up comparative effectiveness system
  - Disease management
  - Pay for quality
  - Prevention
  - Health IT



# Challenge for Any Proposal: Limited Willingness to Pay

Would you be willing to pay more -- either in higher insurance premiums or higher taxes -- to increase the number of Americans who have health insurance?



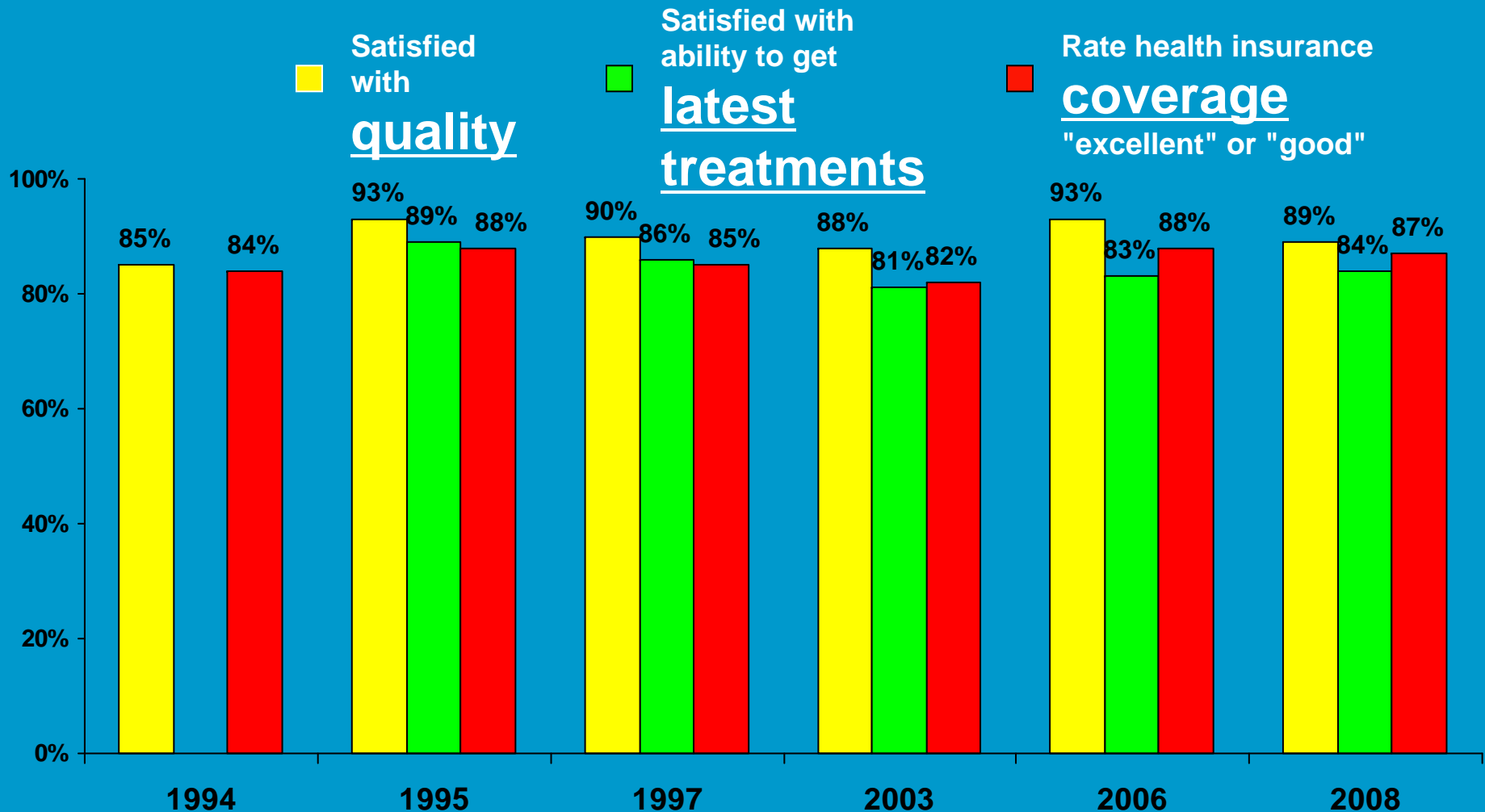
Note: "Don't know/refused" responses not shown

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Sources: NBC News/Wall Street Journal Poll (Jun. 1991), KFF/Harvard School of Public Health Polls (Nov. 1996; Nov. 1998; Oct. 1999; Nov. 2000; Feb. 2003; and Nov. 2004), slight wording variation in *Washington Post*/KFF/Harvard Univ. (June 2007).

# Majority Satisfied with Own Situation

Among those with health care coverage, % who ...



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Sources: ABC News Poll (Jul. 1994, Nov. 1995, Aug. 1997), ABC News/Washington Post Poll (Oct. 2003), ABC News/Kaiser Family Foundation/USA Today Poll (Sept. 2006), Kaiser Family Foundation (June 2008)

# **What Does this Mean for Reform?**

- \$700B was just spent a month ago on financial services industry
- Already \$500 B budget deficit on top of \$7T national debt
- Slow economy will likely lead to increased:
  - spending on Medicaid, unemployment, and other welfare benefits
  - focus on health care costs

# **What Does this Mean for Reform?**

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- **In a tight budget climate (created by Republicans) and Democratic control, you will see:**
  - **MORE REGULATION**
  - **MORE OVERSIGHT**
  - **MORE INVESTIGATION**

# **What Does this Mean for Reform?**

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- House leaders will likely insist on a new Government-run health insurer that will likely compete with private insurers
  - **Will begin with Medicare expansion to pre-retirees**
  - **Will “competition” with government as a major player ultimately fix prices and destroy market forces?**

# What Does this Mean for Reform?

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- While you were sleeping
  - Four advocacy groups (not all are “usual suspects”) launched a \$1 million advertising campaign on Tuesday (11/11) that will ask President-elect Barack Obama to make health care reform a priority during his first 100 days in office
    - Business Roundtable, the National Federation of Independent Business, AARP and the Service Employees International Union
    - “We are going to run this like it is a presidential campaign, but our candidate will be health care reform.”
      - Dennis Rivera, chair of SEIU Healthcare

# What Does Reform Mean for CDHC?

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- Consumer-driven plans are at risk in the next Congress
  - What could Congress do?
    - Repeal HSAs (and HRAs)
    - Eliminate by setting higher standards
      - FEHB or the actuarial equivalent
    - Death by a thousand cuts
      - Substantiation
      - Reduce tax benefits
      - Repeal 2006 HOPE Act changes
    - Let them peacefully co-exist
    - Ignore them
    - Embrace and “improve” them

# What Does Reform Mean for CDHC?

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- Consumer-driven plans may also be at risk under the next Administration
  - What could they do?
    - Repeal HRAs
    - Stop answering questions for HSAs
    - Issue contrary HSA guidance
    - Step up audits and increase oversight of account holders, trustees/custodians, insurance carriers, and employers
    - Encourage OPM to drop options from FEHB
    - Let them peacefully co-exist
    - Ignore them



# **What Does Reform Mean for CDHC?**

- A lot rides on data disproving the frequently heard myths:
  - HSAs only benefit the healthy and wealthy
  - HDHPs discourage preventive care
  - HSAs won't control overall health care spending (80/20 rule)
  - Lack of transparent price and quality information makes shopping hard for consumers

# What Does Reform Mean for CDHC?

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- The Danger of an Individual Mandate
  - An individual mandate requires 2 specific components:
    - What constitutes “health insurance,” i.e., the minimum coverage level required to satisfy the mandate
      - How high will the bar be set?
    - Penalties for non-compliance with the law
  - As we’ve learned with auto insurance (mandated in 49 of 51 states), 14.6% of American motorists remain uninsured
    - 22 states mandate uninsured motorist protection!

# **What Does Reform Mean for CDHC?**

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- Will employers engage in defending CDHC?
  - Large employers
    - Distracted by challenges to ERISA?
    - May care more about:
      - changes to tax treatment of employer-sponsored benefits (e.g., Wyden bill)
      - HRAs than HSAs
  - Small businesses
    - May care more about:
      - tax credits
      - connectors/insurance exchanges
      - Where payroll tax is set under “play or pay” mandate
    - May support an individual mandate

# **What Does Reform Mean for CDHC?**

- Will insurance companies engage on defending CDHC?
  - May be more concerned about:
    - Connectors/insurance exchanges
    - Federal regulation of insurance/portability
    - Guaranteed issue
    - Minimum loss ratio requirements
    - Medicare Advantage and Rx plans
    - Small group market requirements
  - Some insurance carriers have begun to support an individual mandate

# What Does Reform Mean for CDHC?

- Will banks engage on defending CDHC?
  - Many banks are distracted by financial crisis
    - Mergers & acquisitions
    - Focus on mortgages and new regulations
  - HSA market consolidation
  - Credit unions in a stronger financial position but less engaged in HSAs
  - Untested politically
    - Can they generate data?
    - Can they engage customers through grass roots?

# What Does Reform Mean for CDHC?

- Will insurance agents, brokers, consultants, and TPAs engage on defending CDHC?
  - Depends on their current level of engagement
    - Some anti-CDHC because of commissions
    - Some believe CDHC is too hard
- Will consumers engage on defending CDHC?
  - How will they know what is going on?
  - Will they know how to engage in a meaningful way?

# Final Thoughts

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- Past attempts at “health care reform” have all failed
- One party control of Congress and White House does not guarantee success
- Clinton mistakes will not be repeated
- Congress will try to move quickly
  - First 100 days?
- Will Obama veto any plan Congress gives him?
- Will we get to “keep what we have?”
- The time to act is now!

# Final Thoughts

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- Beware the new regime:
  - There will be no place for brokers and agents -- you will be replaced by federal bureaucrats
  - Physicians and hospitals will bear the entire brunt of "cost containment" -- you will be closely monitored to ensure you perform only those "evidence based" services that have been approved by federal bureaucrats
  - Employers will be expected to pay the costs of covering their employees – but you will have no control over what benefits they get or how much it will cost
  - Health plans will still exist – but you will be strictly controlled as to what benefits you may offer, how much you may charge, and what administrative services you may provide
  - Consumers will have a limited choice of health plans and no ability whatsoever to affect their spending -- you will not be allowed to use your money in some other, more important way to benefit your own family



# Final Thoughts

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“If you think health care is expensive now, wait until it’s free.”

-- P.J. O'Rourke

# Mandatory Reading

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- **“Learning to Care About Health Care”**
  - by Philip Klein, published in the July-August 2008 issue of *The American Spectator*
- **“Prescription for Change: Health Plans that Put Consumers in the Driver’s Seat are the Last Chance to Avoid a Government-Controlled Monopoly”**
  - by Gary Ahlquist, David Knott, & Philip Lathrop at Booz Allen Hamilton, *Strategy+Business*, Fall 2005
- **“The Retail Health-Care Solution: A Robust Consumer-Oriented Market Is Rising from the Ashes of the Current System”**
  - by David Knott, Gary Ahlquist, & Rick Edmunds at Booz Allen Hamilton, *Strategy+Business*, Spring 2007

# Contact Info

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