

**Opponent Testimony on HB 506 Health Savings Accounts
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Chairwoman Kilbane and members of the House Ways and Means Committee, I am Marianne Steger, Director of Health Care and Public Policy for AFSCME Ohio Council 8 which represents more than 41,000 public employees in Ohio. We are a part of the larger AFSCME family of 120,000 active and retired public employees in Ohio. While I work for AFSCME Ohio Council 8 now, just a few months ago I was employed by OCSEA AFSCME Local 11 and in that capacity represented 45,000 union represented state of Ohio employees in a unique partnership with the state of Ohio that designed and managed the health plans for all state employees, including the legislature. I held this position with OCSEA for 19 years. This partnership was successful in actually reducing the cost of health care to the state for its state employees for the last two years. I have spent the last 10 years of my life working extensively on health care policy matters. I am certified as a Group Benefits Associate through the Wharton School of Business and the International Foundation of Employee Benefit Plans. I have lectured around the nation on matters of health care policy.

As a health care policy professional, I come before you today to offer testimony in opposition to the establishment of Health Savings Accounts. I'm sure you have heard from lots of brokers, and others who stand to make a lot of money from these high deductible health plans who will tell you they are the best plan to reduce health care costs. I hope to provide you with a look at these plans from a health care policy point of view. And to allow you to hear from someone who has dedicated her career to responsible health care policy with a solid track record of reducing costs for the state of Ohio and other political subdivisions.

First, let me acknowledge that there is no doubt that health care costs are expanding rapidly. There is no doubt that the nation and Ohio are in the midst of a health care crisis of unprecedented magnitude. There is also no doubt that mandating that every public

employer must offer an HSA will do nothing to ameliorate this crisis. It will also do nothing to expand health care coverage to any of the 1.3 million uninsured Ohioans. These people do not have \$1,000 to \$2,000 to put into such an account and their income is so low they have little tax liability; hence these plans will not help them from a tax savings point of view.

While we all want to reduce the costs of health care, HSAs do nothing to actually make health care more efficient. They don't add needed technology or quality improvements to a system crying out for such reforms. What they do is simply shift the cost of health care from the employer to the employee.

Proponents of HSAs will have you believe that they will lower the cost of health care as employees will now seek out quality and cost efficient providers since they are paying a larger portion of the bill. But buying health care is not the same as buying a car. As car purchasers we have access to information about the quality and cost of the cars we are considering. Health care consumers do not have that information, so as much as we may want employees to be better consumers of health care the system does not exist for them to be that. Do any of you know where to get the cheapest MRI, or coronary bypass procedure? If you needed a foot amputated, would you rush home and call a half dozen doctors and hospitals to price and quality shop? And if you did you likely wouldn't even get the information you would need to make a good decision.

According to repeated polls by Harris Interactive, even when consumers have been provided with data about the quality of providers only 11 to 22% of the consumers even looked at the data. And of those who did, only 2% to 4% said they might change their selection of provider. So from at least this study we know that even when provided with data about the quality of their doctor, the overwhelming number of people will not consider it. That is because people do not choose their doctors based on consumer reports, but more because of the relationship they or a family member has with the doctor.

As stated earlier some claim that HSAs will reduce the cost of health care. Let's look at the empirical data about such claims. The best study we have on consumer health care

spending is the famous Rand Health Insurance Experiment. This study concluded that requiring employees to pay for some cost of health care does reduce costs, but it also had some undesirable consequences. The percent of low income adults who sought “highly effective care for acute conditions” was reduced by 39%. In the end, any plan that causes nearly 40% of its participants to avoid needed treatment will save money in the short run but will cost the plan dearly in the long run.

The Rand Study was not directly on point to HSAs, so we have to look at the nation’s first comprehensive study of high deductible health plans which was completed in October of 2005 by the Employee Benefit Research Institute and the Commonwealth Fund, a copy of which I have attached to my testimony. First, this survey found that people with more comprehensive plans were more satisfied with their plan (63%) as opposed to only 42% in high deductible health plans.

But more importantly, enrollees in high deductible health plans were 2 to 8 times more likely to forego a prescription than people enrolled in non-high deductible plans for drugs that treat high cholesterol, diabetes and heart disease. Also 32% of people in high deductible health plans with incomes below \$50,000 a year did not fill prescriptions compared to 17% in more traditional plans.

Additionally 48% of adults in a high deductible health plan delayed or avoided getting health care due to costs, according to the Employee Benefit Research Institute survey. So the nation’s first survey on these plans shows that a high percentage of people enrolled in them don’t like them and they avoid necessary treatments and prescription drugs. Again short-term savings with increased long term costs.

There is another reason why these plans are bad public policy. As I pointed out the health care system in this nation is in deep crisis. One of the by-products of this crisis is that more and more working Americans and indeed Ohioans are using Medicaid as their only option for health care. To the extent that an employer switches to an HSA plan as its only option, employees at lower income levels will simply not have the money to contribute to an HSA.

They will therefore forgo employer sponsored health care and then turn to Medicaid for coverage.

You only need to look at what happened when Wendy's terminated its traditional health plans and instituted mandatory HSAs. According to the Ohio Department of Job and Family Services as reported in the February 25, 2006 *Columbus Dispatch*, in 2004 Wendy's had 5,848 employees on Medicaid. In 2005, the year Wendy's implemented the HSAs, the number of Wendy's employees on Medicaid increased to 6305. A copy of the *Dispatch* article is attached as well.

While we don't have specifics on why this happened it is interesting that the year HSAs were introduced saw an increase in the number of Wendy's employees on Medicaid. The point is that while these plans reduce tax revenue to the government, they will very likely end up costing the government and tax-payers more as more people end up on Medicaid.

And the problem of increasing numbers of workers on Medicaid is not restricted to the private sector. The March 13, 2006 issue of *Business Insurance* featured a front page article about the growing number of public employees turning to Medicaid as their employers cut health care benefits. A copy of that article is also attached.

While the increase in the number of Ohio's Medicaid recipient may be a problem only when the HSA is the sole plan option, there are also important reasons to be concerned about offering an HSA in addition to the traditional health plans. When employees have a choice, generally only the healthy individuals will select an HSA. Those with chronic conditions or diseases will stay with the plans that have lower deductibles and more comprehensive coverage. This means that the more comprehensive plans will end up with a sicker population with of course higher claims. So for those employers who continue to offer standard health plans, their plans will enter into a death spiral, an insurance term for a plan with a high number of sick enrollees whose rates keep going up and up to cover the higher claims costs. As the rates go up, more healthy people leave the traditional plan. In the end all those public employers around the state will have even more expensive health care costs as the HSA plans took the healthiest people.

HB 506 will in my opinion end up costing Ohio public employers more money as their claims cost increase out of control because of the death spiral caused by adverse selection. By forcing HSAs as an option, the legislature is unwittingly causing a bigger problem for Ohio's Public Employers. Why pass legislation that mandates HSAs must be offered to all public sector employers with this risk of increasing the costs of their comprehensive plans? Why not let each public sector employer in Ohio determine if HSAs are right for them?

There is a lot at stake here, as Doctors Thomas Lee and Kinga Zapert concluded in their article, "Do High Deductible Health Plans Threaten Quality of Care?" Their article appeared in the September 22, 2005 issue of the New England Journal of Medicine:

"Given the findings of research to date, we believe that we should do more than worry about the dangers of shifting costs to consumers; we should prepare for the likelihood that the reliability of their care will worsen as patients realized that they are paying for it. If the rates of mammograms and Pap smears decline and if prescriptions go unfilled it seems clear that the results will include increases in preventable deaths from cancer, heart disease, diabetes and other conditions. In our view the stakes are too high...."

Finally let me say as someone who has spent the past 24 years working cooperatively with employers to find successful solutions to the skyrocketing costs of health care, that this is a matter better left to employers and where they exist their union partners and not something that should be mandated. Thank you.