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HEALTH INSURANCE

National Health Care

Help your clients understand the disadvantages of a government-run system and encourage them to use consumer-directed plans.

By Greg Dattilo and Dave Racer

Many people believe the U.S. government should take control of health care. They see this as the path to reducing the administrative, marketing and sales costs of health care, making it affordable for everyone. Some agents endorse this idea because they believe it would leave their clients with more discretionary money to put into other financial-planning vehicles. And your clients may be excited about the prospect of what they think will be guaranteed health care.

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What guarantees?

A national health-care system is not the only reform option on the table—and a good thing, too, because there are many disadvantages to such a system that are seldom discussed. Consider these items: According to the Employee Benefits Research Institute, private employers insure 2.25 employees for the same amount of money it takes to insure one government employee. Would a government-run health-care program for the masses be less generous than it is for government employees?

And some of you, being familiar with the industry, may be thinking that administrative costs of private health insurance programs are excessive—often as much as 25, 35 or even 45 percent of premium, while federal administrative costs for Medicare are only 5.6 percent, according to Centers for Medicare and Medicaid Services data. If so, you might be thinking that 20 percent or more of the premium dollar will be freed up if the government manages health care.

But let's take a look at some facts you need to consider—and your clients need to understand—when evaluating that 5.6 percent figure:

- **The private sector:** The federal government relies on the private sector to pay Medicare claims. This means that all administrative costs are neither reflected in that 5.6 percent calculation nor are other line items associated with the cost of doing business, such as fundraising and audit expenses, rent and utilities, and the cost of passing and executing laws. Many of the government's administrative costs are hidden in the minute details of labyrinthine department budgets, rules and regulations—and can never be completely tabulated. In addition, since private insurers pay Medicare claims, they also must pay the administrative cost to scrutinize billings before authorizing payments.
- **State programs:** Medicaid administrative costs are usually ignored. State governments and their subdivisions manage these programs and pay these claims. Federal government statistics show that at least 31 percent of Medicaid dollars never get to providers.
- In a 2006 report, the Minnesota Department of Health and Human Services found that the average administrative cost for private insurers is 8.6 percent. According to federal government tables, administrative costs for private payers across the country average 9.9 percent.

Simply put, there are no premium dollars to capture by shifting health-care administrative costs to government agencies. Rather, history has shown that as governments increase their influence on private transactions, the overall cost goes up. With health care, the quantity and quality of services provided suffer as well.

Your clients also need to consider that no matter which solution prevails, they will still have to pay—government-managed health care is paid for by taxes. So instead of purchasing an insurance policy from you or a health agent, employer clients will pay premiums in the form of taxes to the IRS and answer to federal bureaucrats who enforce laws pertaining to national health care. Instead of dealing with labor negotiators or employees, the employer will be trying to influence a Congressman or arguing with an IRS officer while fighting off a host of special-interest lobbying groups that demand more covered benefits.

The way to go

We can preserve what is great about U.S. health care while making it more affordable. The key is involving consumers in their health-care purchase decisions. If they have money at stake, and see how it is spent, they can demand higher quality and better prices by encouraging competition. In 1965, private citizens paid 43 percent of the nation's health-care bills out-of-pocket; today, they pay 14 percent. In 2003, federal and state governments paid 46 percent of the health-care bill, amounting to \$766 billion. Insurers paid most of the balance, funded by premium dollars raised by health insurance agents.

Help your clients see the value of indemnity health plans—today called high-deductible health plans (HDHPs). These form an integral part of the movement toward consumer-directed health care, in which the insured person is involved in the purchase transaction.

In a March 2006 bulletin, CIGNA reported on the health-care costs for 182,000 policyholders, comparing the spending of those with HDHPs to those with traditional plans. Among those with high-deductible plans, medical costs showed an 8 percent decrease while traditional plan (HMO/PPO) medical costs among the same employer groups increased by 4 percent—for a 12 percent swing in health-care cost. Inpatient costs declined 5 percent for those with HDHPs, and when compared to traditional plans, those costs were about

18 percent lower, according to the study. Outpatient costs also declined by 12 percent for HDHP owners and were 12 percent lower than those with traditional plans. Remarkably, CIGNA found that even those with traditional plans curbed their health-care spending.

What's in it for you?

Even if you do not sell health plans, it's important to understand why consumer-directed health care is a cost-effective way to improve health care for all Americans. All insurance agents can help get the message to their clients. There are so many advantages to free-market health care that don't get talked about, to say nothing of the disadvantages of government-run care. You can help. If HDHPs combined with HSAs become the norm, the future will be brighter for all financial advisors—and their clients. As group health insurance premiums drop by 40 percent or more, premium costs stabilize over the long term and HSAs become fully funded, your clients will have a sounder financial future—something for which you are uniquely qualified to help them plan.

For more information about health-care reform issues, visit the Association of Health Insurance Advisors at www.ahia.net.

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