



# Opinion

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Most people agree that it is better to own than rent. Ownership allows people to build up assets for the future while at the same time developing positive incentives for maintenance and management of what they possess. Until very recently, Americans have been unable to practice this model in perhaps one of the most important areas in their lives – health insurance.

This is because traditional health insurance is like renting health coverage: A person pays monthly premiums to a health plan in return for access to medical services throughout the annual policy period but accrues no equity. Funds not used in a given year cannot be rolled over for use in future periods when health needs may be greater. Consequently, patients often do not benefit financially for prudent use of medical services.

Using my own experience as an example, I have had employment-based health insurance for about 15 of the past 19 years. Employer and employee contributions totaled about \$30,000 during the coverage periods. Total medical expenses covered by health insurance have been no more than \$1,000. Non-covered, incidental medical costs of about \$2,000 were paid out-of-pocket.

What this means is that 15 years worth of health coverage cost \$30,000 and only returned \$1,000 in covered medical benefits. It can also be argued that health coverage also allowed me a measure of “health security” that is difficult to quantify. How much is this fuzzy concept of health security really worth? A way to estimate it is to calculate how much it would cost to purchase inexpensive, high-deductible health insurance and put the balance of funds into a personal health account such as an MSA or HSA.

A good rule of thumb is that insurance policies with high deductibles of \$1,500 to \$2,500 generally cost about half as much as policies that range from first-dollar coverage to nominal deductibles of \$500 per year. This would suggest that insuring against catastrophic events that were unlikely to occur (e.g. pure insurance) has cost our worker no more than \$15,000 over the past 19 years. The true total is likely much lower given that the \$30,000 paid only resulted in \$1,000 in covered medical expenses. The balance between what I received in care (~\$1,000), and what represents underwriting actual risk (<\$15,000) is the portion of his premiums that were lost to inefficiency, bureaucracy, over-utilization by co-workers and cross-subsidies to those who were benefiting from his largess.

Rough estimates suggest that I could have accumulated \$14,000 dollars over the course of 19 years. To calculate what I really lost, take the net present value of yearly

contributions (minus medical expenses) over the past 19 years. Multiply these by annual values representing a middle-of-the-road investment fund consisting of 50 percent stocks and 50 percent bonds. The average annual rate of return on this hypothetical HSA was about 5.4 percent. The bottom line is that had I started out with an HSA in my first job, and kept it during my entire career, I would now have nearly \$30,000 in an account that I would own and control. If I were to project and deduct an increasing yearly amount for medical needs as I age, I could have had a balance nearing \$100,000 by the time I reached 55.

This is the power of consumer-driven health care. Rather than “renting” coverage and having nothing to show for it if jobs are lost, Americans now have the ability to build up assets in a health savings account and take a direct stock in its oversight and use. Take my one example and multiply that across millions of others and the scope of the change coming to the health care industry, personal savings, and planning for long-term care and other needs begins to become clear. If you are renting now, consider the benefits of ownership.

□ Devon M. Herrick, Ph.D., is a senior fellow at the National Center for Policy Analysis and an adjunct scholar with The Flint Hills Center for Public Policy. This article is based on the recently released Flint Hills Policy Paper “Health Savings Accounts: The Future of Health Care for Kansans.”

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