



Op/Ed

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## **Mini-meds can help HSAs succeed**

William Short

[Flint Hills Center for Public Policy](#)

A universal fact that plagues every business from nuclear switch manufacturers to widget producers is the rising cost of providing health benefits to their workforce. The cause of this rise in health care costs can be attributed to over-utilization, unhealthy life styles and a third-party payment system that does a poor job of managing the payment cycle. Employers cannot continue to shoulder the burden associated with the rising cost of health care. As a result, they have begun to investigate more consumer-centric solutions designed to reduce cost by engaging the individual in his or her own health care decisions.

The Health Savings Account (HSA), enacted as part of the Medicare Modernization Act of 2003, when coupled with a qualified High-Deductible Health Plan (HDHP) presents such an opportunity. Individuals can manage their healthcare “risk” below a set deductible. In addition, they gain a financial incentive in the form of pre-tax and/or post-tax funds that roll over from year-to-year and grow on a pre-tax basis. Above that deductible, an HDHP kicks in that serves to hedge against catastrophic risk.

The HDHP-HSA combination does, however, create a gap between dollar one and the deductible. The realization that there is no “first dollar” coverage can scare some employers and consumers off of the product.

Fortunately, help may be available from a more traditional insurance product. To mitigate the “first dollar” exposure risk, it is possible to develop a program utilizing Flexible Spending Accounts (FSA), Health Reimbursement Arrangements (HRA), and a mixture of indemnity plans (mini-meds).

HSAs and FSAs have garnered a decent bit of attention of late, but many people are unaware of mini-meds. The mini-med, though, is hardly a new concept. It is a product that flourished right up to the introduction of the Health Maintenance Organization (HMO) and then fell out of favor with consumers. The HMO was an initial success because it offered the consumers the opportunity to have a third party manage their risk for a set premium price plus low office visit co-pays. However, with time consumers have grown to view HMOs as a poor benefit with an ever-growing price tag.

The min-med is a defined benefit that pays a predetermined cash amount for medical services, which may or may not cover the entire medical bill. This defined benefit feature allows for a

mini-med plan coupled with an HDHP-HSA plan, which could soften the financial burden if a medical event were to occur and individuals did not have the needed funds in their HSAs.

The mini-med accomplishes three goals. It helps individuals reduce their risk of covering their high deductible, helps reduce the overall cost of health care benefits by motivating individuals to become more efficient users of their health plan, and it still manages to provide a rich healthcare benefit. On average an HDHP costs anywhere from 25 to 30 percent less than a traditional health plan, for instance. A plan could therefore include an HDHP, funds contributed to an HSA on a tax-preferred basis, a mini-med plan, and a limited-use FSA.

For example, an individual's plan could have the following components:

- A \$2,500 deductible HDHP that covers all medical expenses once the deductible is met.
- A mini-med that pays a fixed benefit of \$500 per day if admitted to a hospital with a maximum of seven days.
- A limited-use FSA that is set up to pay for vision and dental expenses below the HDHP deductible.

HSAs have the potential to empower consumers and restore a true marketplace in health care. Right now, there is an unfortunate disconnect between buyer and seller in the medical marketplace. For too long, Americans have not had to think about the cost of health care beyond their co-pays and rising insurance premiums.

Consumer-driven healthcare is the best way to re-establish this relationship. In the process, it will improve the quality of care, reduce the uninsured and drive innovation. This potential for change, however, will fall short of its promise if employers and consumers fear taking advantage of the benefits due to perceived financial risk.

Mini-meds provide a particularly helpful tool when combined with the powerful HSA. As it turns out, the biggest ally of HSAs and consumer-driven change in health care may in fact come from an old insurance product whose time has finally arrived: the defined medical benefit plan.

William C. Short is an adjunct scholar with the Kansas-based Flint Hills Center for Public Policy and senior vice president of First Horizon Msaver. He can be reached at [wshort@firsthorizon.com](mailto:wshort@firsthorizon.com).

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