

**TESTIMONY on HEALTH SAVINGS ACCOUNTS
By the Pennsylvania Association of Health Underwriters**

House Insurance and Health & Human Services Committees

Harrisburg, PA

March 2, 2004

Jack Bramson
URL Financial Group Health Division
5320 Jaycee Avenue
Harrisburg, PA 17112
717/540-5690
FAX 717/541-8865
www.urlfinancial.com

Good afternoon. I am Jack Bramson, President of URL Financial group Health Division located in Harrisburg, Pennsylvania. Thank you to both the Insurance Committee and the Health and Human Services Committee for recognizing the importance of having a hearing on Health Savings Accounts. HSAs have tremendous potential.

I am testifying on behalf of my trade association, the Pennsylvania Association of Health Underwriters (PAHU). PAHU represents insurance producers who specialize in offering health insurance and employee benefits. What this means is that insurance producers are the delivery system for health insurance. We are the ones who work with small and larger businesses to analyze their needs and attempt to find them the right coverage at an affordable price. Understanding today's market and cost pressures within our health system that is not always an easy task. Renewals now appear to be running between 15-25%. The risk, as you know, is that small businesses may no longer be able to afford providing health insurance as a benefit. If their employees are forced to go without health insurance, they add to society's costs via emergency room treatment and a further drain on public dollars if they are lucky enough to get into the AdultBasic health program funded by the Tobacco Settlement.

Working with business owners, I can empathize with their burdens. Wanting to provide decent benefits, yet being squeezed into choosing health insurance and buying equipment or business property casualty insurance which because of a hard market, is both necessary and expensive. It is a terrible set of choices facing businesses today.

By way of personal background, I have been in the health insurance business for 32 years. My firm, URL Financial Group, has offered virtually every type of health plan imaginable as we help businesses and individuals adapt to changes in the marketplace. This marks various transition points...from indemnification to HMOs...from HMOs to PPOs...Basically my firm has seen it all. In addition to agency production, currently, about 7,000 insurance producers from PA and Delaware look to URL for insurance products. The agency's business is roughly split between group health programs and individual health products.

Impact on the Marketplace

Other speakers today have explained how HSAs work so I don't need to dwell on what you have already heard. What I want to touch on is their impact on the marketplace. For your information, I have enclosed a one-page fact sheet on HSAs with my testimony. I hope it will be a convenient reference for you and your staff.

One of the core issues has been whether or not group health insurance has a future. When Medical Savings Accounts first came out in 1996, they were regarded by some as the answer. Individuals would be able to choose the doctors they wanted (remember the HMO gatekeepers?), and they would make informed health decisions. I was one of those early optimists. MSAs were attacked because they looked liked cherry-picking, attracting healthy individuals and leaving the sicker among society in a smaller pool with higher premiums.

MSA were also criticized because they threatened to undermine the group market. Most Pennsylvanians receive health benefits through their employer. While individual choice sounds philosophically great, the reality is that people often don't take the initiative.

When do I buy health insurance? Perhaps when I think I'm getting sick? How many people buy long-term care insurance on their own? The answer is not enough. I am told by specialists in this area is that one of the biggest reasons is inertia. Taking the time to wade through the various plans and not seeing an immediate need is a deterrent to long-term care placement. It is only when a health program is offered through an employer that you have significant parts of the population covered.

A Bridge between Individual and Group Health Insurance

I am encouraged by HSAs as they mark a bridge between those who have said that the traditional employer group is dead because cost pressures have forced its demise, preferring to focus on individual products, and those who maintain that there is a future in the group market. It shows that the private sector, with help from the U.S. Congress, can rise to the challenge of bridging the distinction between group and individual coverage.

Health Savings accounts offer the employer a relief from high premiums. Employees also see relief from an increasingly greater share of those premiums. Employees have a larger deductible of perhaps \$ 1,000 but that may be cheaper than what they have to pay now.

Besides, HSAs permit a shared contribution by employer towards the deductible. In addition, HSA money belongs to the employee and is portable. It gives flexibility and personal ownership that come with individual products yet has the advantage that it is employer-sponsored. One option employers have is to offer some sort of gap insurance coverage to help employees meet the costs associated with the high deductible under HSAs.

The Larger Issue of Cost

Even though I want you to do everything you can to promote use of HSAs, please don't lose sight of the larger issue of cost. HSAs reduce the price of the product. Having a higher deductible policy with a savings account component is cheaper than a low deductible product. But it may not be the same thing as reducing the cost of health care.

I feel that there will probably be some cost benefits because some employees and their families will not run to the doctor every time their kid has the sniffles because they think the office visit only costs \$10. With HSAs, families will recognize what a doctor's visit actually costs and will go when they need to. This self-restraint may result in decreased utilization of the system and, as a result, fewer demands on insurance companies. That helps the cost picture but is not, by itself, a silver bullet. Because of the cost of health care and a deductible, a downside to HSAs is similar to the traditional group market. Employees may be scared by the price, not seeing the full benefit.

Larger issues of cost will still have to be dealt with by the General assembly and by the United States Congress. The cost of Medical Malpractice insurance, over use of diagnostic tests such as MRIs, the explosion in prescription drug prices, people's expectations that medicine can cure every ailment, etc. still must be reckoned with. HSAs buy us some time but does not pretend to solve all the cost pressures facing America's health care system. Thankfully, those are issues for another hearing for another day.

Today, however, I am appreciative of the fact that the General Assembly is looking at ways to promote the use of Health Savings Accounts. Since health underwriters are the people who market these products, I encourage you to meet with someone back in your district who can walk you through the specifics as to how businesses and individuals can save with the HSAs. If no one comes to mind, I am sure that PAHU's lobbyist can put you in touch with local expertise. Of course, I would also be happy to serve as your resource.

Thank you again for convening this hearing.