

July 1, 1993

INDIVIDUAL AND FAMILY HEALTH INSURANCE ACCOUNTS
Paul Starr**Introduction**

Individual and family health insurance accounts, to be administered by health alliances, offer the hope of creating a strong sense of individual consumer stakeholding in the new system. Currently, many people are under the illusion that they get health insurance virtually for "free" because of unseen employer premium payments. Most of us have no idea how much our health insurance costs. The danger in the new system is that people will still not appreciate the full cost of health insurance because employers bear so much of the burden. A system of individual accounts that receive all employer as well as employee contributions will clarify how much people are paying for their policies and where the money comes from.

For all those who do not fit the classic and increasingly outdated model--the household with a single earner in one full-time job--there is a practical need to consolidate contributions from different employers. Many individuals will also be making direct payments out of self-employment and unearned income; still others will be receiving government subsidies. Somewhere in the system these streams of revenue will have to come together in individual accounts that aggregate and keep track of what's been paid for whom.

By making these accounts the personal (albeit highly regulated) property of individual consumers, we invite them to participate in running the system. For example, because individuals will get quarterly reports on their accounts, they will have the opportunity to check whether employers made required contributions. To some extent, the employees become another monitor of compliance.

The individual account system may also encourage greater voluntary compliance. People will more readily feel that their money is being used for their own benefit, not someone else's. They are less likely to feel that their money is disappearing in a black hole. They will know that a clear record is being established, and evasion may be that much more difficult.

The system also permits us to create a mechanism for reducing undeserved subsidies for dual-earner families where one earner had a low enough income to qualify for a cap, though the family as a whole did not. Under the system described here, the primary earner's employer contribution is reduced by the secondary earner's employer contribution only after all employer subsidies are recaptured. There is no need to get the individual to "pay back" the employer subsidy. This alone will be worth the trouble of creating the individual accounts.

Individual and Family Health Insurance Accounts

General Rules

Requirement to establish accounts. All individuals and families must establish an account for health insurance through a health alliance. At state option, alliances may contract with local banks, employers, or a public agency to establish health accounts for eligible individuals. There is only one account per family. All employer, employee, and other individual contributions for health insurance premiums are deposited in the account, prior to being paid to the health plan in which the individual or family members are enrolled.

Use of funds in health insurance accounts. Premium payments from health insurance accounts are made only upon authorization by the health alliance. When excess funds accumulate, premium payments are made first from tax-free employer contributions. Excess deposits in such accounts may be withdrawn for personal use only upon the alliance's authorization after an end-of-the-year determination that the beneficiary's insurance payment obligations have been met. If withdrawn for personal use, excess tax-free contributions to such accounts are deemed taxable income.

Minimum average balance requirements. States may set a minimum average balance for health insurance accounts up to the value of one month's premium.

Reporting of transactions. Beneficiaries receive quarterly reports of health insurance account transactions. Reports distinguish tax-free from taxable funds.

Deadline for opening and transferring accounts. Individuals establish an account 60 days prior to the first open enrollment in a state. Thereafter, when moving to the region of another alliance or changing employment between a corporate and regional alliance, individuals transfer their account within 30 days of their move.

Subsidies

Application for subsidies. When first opening an account and thereafter at the time of annual enrollment or transfer to a new alliance, beneficiaries receive information on wage- and income-based subsidies. Alliances distribute applications directly and via employers, banks, and designated public agencies; applications are returned to alliances or another agency designated by the state. Individuals can also apply for a subsidy based on a change in life circumstances, such as unemployment or divorce. Beneficiaries who believe they qualify for a wage-based cap and have less than \$1,000 in unearned income sign a declaration at that time. Beneficiaries who believe they qualify

for a subsidy and have more than \$1,000 in unearned income sign a declaration with an estimate of annual unearned income and agree to make quarterly deposits from such income to their accounts or to authorize increased employer withholding.

Determination of eligibility for subsidies to wage earners.

Alliances credit subsidies to the health accounts of wage earners based on self-declarations of estimated unearned income. If employer or employee payroll contributions are capped, the employee's account receives a monthly credit from the alliance based on the weighted-average premium in the alliance and the employee's wages; the amount is immediately paid to the health plan in which the individual is enrolled. The credit is not final until an end-of-the-year determination that the employee qualified for the cap.

Determination of eligibility for subsidies to other individuals.

States designate the alliance or another agency to make periodic subsidy eligibility determinations for the self-employed and nonworking populations. Pending such determinations, alliances pay a credit to the individual's account based on their self-declared income and the weighted-average premium. The credit is not final until an end-of-the-year determination that the individual qualified for the cap.

Single-Earner and Dual-Earner Families

Accounts for full-time single earners and single-earner families.

If uncapped, employer and employee premium contributions for single earners and single-earner families are set to equal monthly premium payments to health plans. If wage-based contributions are capped but the employee has additional unearned income, the employee may authorize the employer to increase the amount withheld from his or her wages to cover the additional required contribution or the employee makes the required payment directly to his or her account.

Accounts for dual-earner families. Spouses establish a single health insurance account to receive all contributions for their policy. The alliance or other institution establishing the account uses a table from the alliance showing the respective obligations of both spouses and their employers to determine a schedule for their payments. This determination is forwarded to both employers. Any disagreement about obligations is resolved by the alliance.

The employer of the lower earner pays 80 percent of the weighted average premium for an individual policy, up to any cap on that employer's contribution. The lower earner pays 20 percent of the premium, up to any cap on the individual based on wages.

The employer of the higher earner owes 80 percent of the weighted average premium for a family policy, less the employer contributions from the secondary earner. However, during the year

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the primary employer pays the full 80 percent of the average premium, up to any cap on its contributions. The primary employer receives a refund out of the secondary employer's contributions only after an end-of-the-year reconciliation by the alliance determines that the family has met its health insurance obligations.

The higher earner pays the premium of the plan chosen by the family less all employer contributions, the secondary earner's payments, and any subsidy to which the family is found entitled based on self-declared family income. The subsidy is not final until the end-of-the-year reconciliation.

Part-Time Workers, the Self-Employed, and Nonworkers

Accounts for part-time workers, the self-employed, and the nonworking population. Individuals who are neither full-time employees themselves, nor the spouse of a full-time employee, establish an account with the alliance to receive employer and employee contributions from part-time wages and direct deposits from self-employment and unearned income. Prior to a subsidy eligibility determination, the alliance or other institution establishing the account uses the beneficiaries' self-declared estimated income and a table from the alliance to determine a schedule for their payments for the plan they select. Beneficiaries receive notice of any change in required payments after review of their applications. The subsidy is not final until the end-of-the-year reconciliation.

End-of-the-Year Reconciliation

End-of-the-year reconciliation for individuals not receiving subsidies. At the end of the year, alliances determine whether individuals have met their health insurance obligations. For dual-earner families that received no subsidy, the alliance provides a refund to the primary employer from the contributions of the secondary employer. For all beneficiaries that received no subsidy, the alliance determines whether there are excess contributions that may be withdrawn for personal use.

End-of-the-year-reconciliation for individuals receiving subsidies. Individuals who received subsidies but had higher incomes than estimated are responsible for repaying excess subsidies. As part of the end-of-the-year reconciliation, states may require submission of state or federal tax reports to alliances or use other agencies to verify income received by beneficiaries during the year. Such agencies may cross-check income data with IRS and Social Security.

Federal excise tax on health account underpayments. Alliances report individual payments for health insurance, self-reported unearned income, and subsidies received for the year. Tax filers who receive subsidies fill out a form as part of their federal income tax to determine whether they received any excess subsidy.

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Individuals who underpaid their health insurance by more than 10 percent pay an excise tax and are subject to automatic withholding of interest, pensions, and other sources of unearned income.

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