



## State Should Adopt Health Savings Accounts

By Michael D. LaFaive and James Porterfield

*The following is based on a Sept. 28, 2007, essay by Michael D. LaFaive about potential gross savings from state adoption of health savings accounts.*

### Summary

Michigan could save millions of dollars by adopting increasingly popular health savings accounts for state employees.

Main Text Word Count: 664

Michigan lawmakers are watching official state revenue numbers to see if any cuts will need to be made to balance the current fiscal year's budget. One possible reform the state should consider is "health savings accounts" for state employees. Adopting this health care insurance vehicle could save a very conservative \$16.2 million in the first year, with potential savings growing over time.

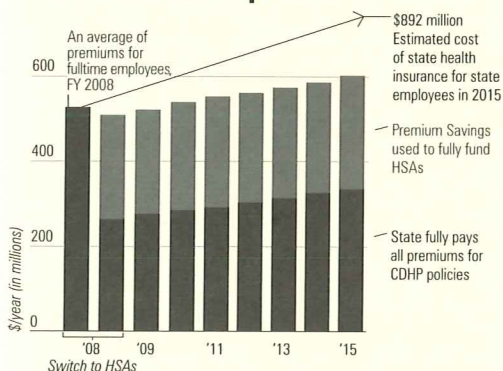
These insurance vehicles marry tax-free savings accounts with consumer-directed health plan (CDHP) insurance policies. The \$16.2 million in savings would be generated by lower premium costs after the state paid 100 percent of the CDHP premiums and funded 100 percent of the legally allowed contributions to the HSAs for 50,000 civil service employees. This would be a huge benefit to state employees as very few employers provide health savings account users 100 percent premium support — much less full funding for HSAs. In fact, according to a survey of 6,000 employers by Information Strategies Inc., fewer than 10 percent of respondents contribute 100 percent of the allowed contributions. In fiscal year 2006, the state paid more than \$590 million in health insurance premiums for its classified state employees. That total leapt to \$638 million in fiscal 2007, an 8.1 percent increase.

An HSA allows employees to deposit money into a tax-free account to use for qualified medical, dental or vision expenses, including annual doctor exams. The account owner spends the money in his/her account until the deductible is met; then the insurance policy kicks in. HSA money that is not spent is allowed to accrue each year, earn interest tax free and is portable.

Revolutionizing state employee health care benefits is no small task. This may result in fights over who has the legal authority to change the benefit structure. If the authority rests specifically with the Civil Service Commission, the Legislature could still ask the commission to change the type of health care benefits provided to state employees.

The popularity of health savings accounts is growing. By 2009 it is estimated that more than 30 million Americans will be enrolled in

### Potential cost (or savings) in state insurance premiums



Sources: Michigan October 2007 HMO premiums; America's Health Insurance Plans April 2007; and Mercer November 2007 surveys. ©2008, J. Porterfield.



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an HSA of some type. Many in Michigan already are, including public school administrators, county employees and the Mackinac Center staff.

Health care is a complicated issue. James Porterfield (co-author of this commentary) has estimated first-year state savings of \$16.2 million based on a number of assumptions. He assumed that all full-time state classified employees are currently covered by an HMO, even though some are covered by the more expensive PPO plan. He also assumed that the state would fully fund the HSAs up to the maximum allowed amount, (\$2,900 for an individual and \$5,800 for a family in 2008) and increase its contribution to the HSAs at 1 percent per year after that.

The graphic on the previous page assumes state budget increases for HMO health insurance premiums would continue at the current national pace of 7.6 percent per year. This is contrasted against what the state would pay under very conservative estimates of an HSA consumer-directed state employee benefits package increasing at 3.5 percent. It is worth noting that Michigan state government premiums have not increased at the "national pace" of 7.6 percent, but rather at 10.4 percent since fiscal 2003. At the more conservative 7.6 percent rate, however, the state will need to pay an estimated \$892 million in HMO health care premiums in the year 2015, instead of \$339 million in premiums under the HSA option. The cumulative savings during this time would exceed \$1.1 billion.

Across Michigan, institutions such as businesses, government, nonprofit organizations and unions are or have attempted to revise the way they address skyrocketing health care costs. The Michigan Education Association, the state's largest union of janitors, cooks, bus drivers and teachers, last summer faced a possible strike from its own workers over its attempt to reduce retiree health benefits and hike premiums for retirees.

The state may soon find its fiscal back against the wall once again. Health savings accounts represent yet another option for providing immediate savings to the state while simultaneously bringing state employee benefits more in line with those of the people paying for them.

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**Michael D. LaFaive is director of the Morey Fiscal Policy Initiative at the Mackinac Center for Public Policy, a research and educational institute in Midland, Mich. James Porterfield serves on the advisory committee for Consumers for Health Care Choices and is an independent research analyst.** Permission to reprint in whole or in part is hereby granted, provided that the authors and the Center are properly cited.

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Michael D. Jahr  
Director of Communications  
140 West Main Street  
P.O. Box 568  
Midland, Mich. 48640

Phone: 989-631-0900  
Fax: 989-631-0964  
[www.mackinac.org](http://www.mackinac.org)  
[Jahr@mackinac.org](mailto:Jahr@mackinac.org)