

Medical Savings Accounts (MSAs): The new way to finance health care services against medicare and medicaid program

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Introduction

Medical health care's huge expense is the fastest growing government's expense during both inflation and deflation periods. Nowadays, almost every country, whether it is a developed or developing country, is worrying about the burden on its medical care services. The trend that the world is becoming an aging world is not avoidable as well as government's medical expenses. Each government has to think carefully about how to face this issue.

The aging population is becoming 12.5% percentage of the total population in USA; that is about 12.6 million (Feldstein, 2002). USA's health care policy, Medicare, covers millions of citizens' health insurance, especially for the aged; and the Medicaid program provides insurances for the poor, low-income groups and one-fourth of the births in the nation. The medical budget is an extremely difficult task for the US federal government to deal with; whether to "decrease" or "increase", to "change" or "amend" the expenditure will face lot of pressure from the public and political forces.

In Asia, Singapore is one of the "four little dragons". It is the only country in the world that can cut down the government's expenses on the medical services successfully. All the countries have to increase medical expenses, except Singapore. She gives back the responsibility to the consumers and private sector. The policy succeeds due to Medical Savings Accounts (MSAs), a personal account for every citizen.

The healthcare system in Macao is quite different from other countries. According to the website of the Macao SAR Government, she expects to spend MOP1,627,963,500 (USD203,495,437.50) in health care expenses in 2005. The health care expense is about 7.54% of the total government expenditure in 2005. This percentage as the total government expenditure is quite closed with the ones in OECD Countries, such as Canada, Australia, Japan and others (Yuen, 1999).

These health care expenses will be used by the 465,000 Macao residents. In 2004, the budget for health care expenses was around 9.55% of the total government expenditure. In 2003, the expenditure for health care was 10.17% of the total government expenditure (Macao SAR Government's website). It shows that the health care expenses were decreasing. However, as all we know, the society is getting aged. The percentage of over 65 years old of residents in Macao was already 8.1% in last year (Macao Statistics and Census Bureau website). That means the healthcare expenditure will be increased, as more of aging needs medical healthcare. Aging population mostly has chronic diseases, consumes more health resources than others in comparison.

The Macao healthcare system provides many subsidiaries to Macao residents (Macao Department Health website). The Macao residents who are over 65 years old can enjoy almost all kinds of medical treatments free of charge. For the others, like the female who is pregnant, students, chronic patients or patients with carcinoma, can also have medical treatments free of charge. And actually, almost all the Macao residents can have medical treatment free of charge by using public health care service, such as going to public hospital or public health care centers. It implies that the Macao SAR Government will have to maintain a high expenditure in health care, no matter the finance of the government is good or not. It will cause crises for the government financial system in the long run.

In this paper, reasons for consuming health care insurance by patients will be stated. Different care plans including Medicare, Medicaid and MSAs will be introduced. Issues of comparisons and effects of these health care plans for the government's budget, consumers or patients' benefits, as well as to the society's scarce resources, will be discussed. Advantages of MSAs against the disadvantages of Medicare and Medicaid will be mentioned for the benefits of government budget and consumers' control.

Rationales for Consuming Health Insurance

Health insurance is an insurance contract for an individual considers him or herself to be at risk of illness; and requires paying for the health care services in exchange for the earlier payment of an insurance premium (Morris, 1998). There are many reasons for an individual to consider having a health insurance, such as unpredictable of illness at the future; and the consequences and outcomes of the conditions after having the illness. Therefore, the payoffs have to be considered for the health care services when there is an illness occurred.

Medicare Program

Before 1965, the role of government of United States just acted one-fifth of the medical services payer (Active Projects Report, 2003). Since 1966, the federal government of United States of America started to finance the medical services for adults who are over 65 years old. Medicare, a type of health insurance, takes part to payoff for the medical care services, and the health care expenditure grows dramatically since then. The government of US pays around 45% of the nation health expenditures.

The medical care expense is expected to increase in the future, that is the commitment set up by the federal government to assist the poor and the aged no matter the cost of the medical care services (Feldstein, 2002). Physicians are easily to access fee-for-service, and the hospitals can obtain their cost-based services, regardless of their quality and high production cost. Therefore, providers do not have to concern about their high expenditures in the medical services.

As a result, the federal government expenditures for Medicare had increased from \$3 billion in 1965 to \$304 billion in 1995 (Feldstein, 2002). The nation's largest health insurance program, Medicare program, covers nearly 40 million Americans. This program consists of Part A and Part B. Part A fees are for inpatient hospital treatment, skilled nursing facility services, and some home health services and hospice care (Active Projects Report 2003). Part B of Medicare covers physicians' services, outpatient clinic and

certain home health facilities.

However, drug prescription, eye examination, dental care services, hearing aids, etc., are not covered. As contracted with some insurance companies to carry out the payments, beneficiaries have the freedom to visit any physicians or clinics they like, and the Medicare program will "pay" for it. Medicare pays for 85% of the bill and the clients will pay the rest.

Recently, there is Part C added to Medicare program, called "Medicare + Choice" in 1997. Different types of health plans are included, such as medical savings account, preferred provider organization and provider sponsored organizations (Active Projects Report, 2003). Beneficiaries can enjoy more benefits, like clinic prescription drugs and hearing aids. There are currently 5 million enrollees covering by "Medicare + Choice".

Medicare in Crisis

Medicare insurance may be going to collapse by 2010, according to Goodman's report (Serafini, 1998). Medicare spending per retiree had grown by 40% from \$4,800 per person in 1995 to \$6,700 per person in 2002.

Medicaid Program

Even Medicare recipients with low-income can be eligible to Medicaid plan. Medicaid is a federal and state health insurance program. The aim of Medicaid is to provide health insurance for poor families with children, aged, and people with disability. The federal government usually assists at least half of the State's spending in Medicaid expenditures. Each State has its standard for the needy groups to qualify for the subsidiary.

Some people may be considered to have higher income, thus not qualified for receiving Medicaid insurance in one state as compared to another state. Therefore, many consumers will likely to "spend down" in order to enjoy the benefits of Medicaid. As a result, the federal and state spending on Medicaid were \$156.50 billion (Cantwell, 1995). It was continued to grow by 19% approximately from 1990 to 1994.

Medicaid in Crisis

This federal and state insurance program enrolls most of the nation's blind, disabled, and poor elderly people. Medicaid covers one-third of all U.S. births and one out of four American children (Mittler, 1995 & Cantwell, 1995). The reports also stated that 60% of the poor in the country is receiving subsidiary from Medicaid. It has become the primary concern of the federal and state legislators for its 20% growth annually from 1988 and 1994.

Medicaid is having a financial crisis. Therefore, some of Medicaid beneficiaries are swift into health maintenance organizations (HMOs) and other managed care plans. It does not help much. Only around two percent is saved annually from the Medicaid budget.

Medical Savings Accounts (MSAs)

The health care plans of Medicare and Medicaid are not running efficient. It gives great financial burden on federal and state governments. The Singapore Government has implemented a successful policy of MSAs, which other countries are interested and would like to take for reference. These health care savings accounts help to reduce the burden of the government's financial budget, and shift back the responsibility to individual consumers. Even with low expenditures, 3% of GDP, on health care resources, Singapore attains 78.4 years of life expectancy and 2.2 per thousand of infant mortality rate (Lim, 2004). USA is trying to implement this saving account locally since 1995 in order to reduce the burden of federal and state expenditures.

(Source for the followings: American College Physicians, 1996 & Lim, 2004)

What Medical Savings Accounts Are

Medical Savings Accounts are a health care plan for individuals or family members. This saving account is both the responsibility of the employees and employers to pay for the funds. It is a person's life long account no matter under what employment.

Running efficiently for the government's health care expenditures will not need increase tremendously, even in recession year.

Strengths of Medical Savings Accounts

- Benefit for accumulating individual savings for future health care expenses
- Allow for tax-deductible wages
- Self fully control for this is a personal account
- Use the fund reasonably for it is an individual savings
- Not affects even employment changes
- Family members can share the surplus of the savings accounts
- Reduce in health insurance premiums due to cost-conscious consumers
- Freely to choose medical providers since MSAs follows the individual
- More concern about their health in order to spend less from the account
- Physician-patient relationships improve for direct payment from users
- Improve in quality care due to have direct influence
- Easy payments using MSAs checks or debit cards for health care services
- Reduce in the cost of administrative and paperwork claim forms
- Reduce the government expenditures

Weakness of Medical Savings Accounts

- Inappropriate purchase of medical services with low cost-conscious consumers
- Increase incentives to use these funds due to surplus accounts
- Reduce government tax revenues from tax-free of MSAs
- Reduce health access for some consumers due to low savings
- A heavy burden for small companies or low-salary groups
- Not enough to pay the costs of catastrophic

coverage or chronic illness

- May cause shift or bargain of providers without consider the quality of care
- Reduce in using high scientific or technical quality of medical care due to high cost

Comparisons of Medicare, Medicaid and MSAs on Government's Financial Budget

The Medicare and Medicaid beneficiaries, regardless of the cost of those services, pay the expenses of the medical services for the aged and poor. The spending of "fee-for-service" for physicians and "cost-based services" for hospitals is increasing without "any" control. Providers do not concern about the cost of the services, and with little fear that the patients will not come.

The federal expenditures for Medicare and Medicaid had increased from \$7 million in 1965 to \$393 million in 1995. Private sector's expenditures had increased from \$28 billion in 1965 to \$487 billion in 1995 (Feldstein, 2002). The huge increase in medical expenditure causes a heavy burden for federal and state governments' financial budget. Recession period, government's deficit or decline in tax revenues will all cause difficulty for the governments to subsidize these programs.

In Singapore, the government's financial health care expenditure on total health care system had declined from 50% in 1996 to 25% in 2000 (Lim, 2003). At the same time, the health care expenditures in private sector climbed up from 50% in 1965 to 75% in 2000. This financial reform helps to loose the hardship for the government's resources.

Comparisons of Medicare, Medicaid and MSAs on Consumers' Benefits

Seniors have to pay thousands of dollars in catastrophic health care expenses even with Medicare insurance. On the other hand, consumers cannot save their premium for future use; if they do not use medical care services recently, the remaining funds will go back to Medicare program. However, purchasers can save

money like a snowball under MSAs. Medicare does not cover the payment for prescription drugs; it will risk the patient's health conditions. Under MSAs plan, drug treatment and others can be paid for (American College Physicians, 1996). Like partial list, acupuncture, chiropractor, and dentist medical expenses can be covered. Major advantage of MSAs is to provide for individuals and families to use for health care services if needed, without the approval of third party or insurance company.

Medical Savings Accounts will create incentives for consumers to reduce the Medicaid cost. The personal accounts help people to involve from low-deductible health insurance program to high deductible; as a result, the premium can be saved into their individual account. There are five states in America (Indiana, Louisiana, Ohio, Oregon and West Virginia) give options for Medicaid recipients to apply for MSAs (Cantwell, 1995).

The long-term care is the rapid growing resources of the Medicaid budget. Elderly consumers have to "spend-down" or hide their property in order to be qualified as the Medicaid recipients. For MSAs consumers, they do not have to conduct these illegal things.

Comparisons of Medicare, Medicaid and MSAs on Society's Scarce Resources

Medicaid's administrative cost was \$3.4 billion in 1995. Annual cost was doubled by the following seven years. The free Medicaid program will encourage overuse of health care services. Enforcing Medicaid the payer of last resort may save \$31.5 billion (Cantwell, 1995). Reducing administrative costs and reducing of waste, fraud and abuse in Medicaid program will save scarce resources for other uses.

In Singapore, the consumers pay most outpatient expenses. In 1995, direct payments by consumers accounted for 57.7% of total medical expenditures, where MSAs provided only 8.5% (Short, 2002). The health care consumers will have "cost-conscious" concept. It means scarce resources will not be wasted and abused.

Conclusion

Depending on insurance or government to provide coverage for people with high utilization shows that higher premium has to be paid by the consumers as well as increase tax burden on taxpayers. That is what MSAs intends to avoid. Introduction of MSAs will change most consumers' beliefs, that medical costs and responsibilities have to be shared among each party (consumers, insurance companies, governments, etc).

Older population also needs long-term care facilities and follow-up visit related to their unstable health status. Additional resources have to be "taken" from other part of society resources. In terms of economic implications, a government has to continuously invest more resources on medical care services in order to meet the needs of the citizens. It may finally ruin the government's financial condition in the future. MSAs may be the most viable choice for reducing the nation's health care expenditures.

This saving account is self-responsible and under self-control. The plan provides consumers to purchase health care services with reasonable cost and quality. The government will be the last resort for subsidizing the poor, if their MSAs are in deficit. Of course, the government will subsidize those consumers, which are cost-conscious, and abuse no scarce medical resource. The government's financial burden can be under control.

Macao, like Singapore very much, is a peaceful and stable society. The people of Macao are easy-going and obedient mostly. Starting the MSAs for residents now has more benefits than other time. During the past few years, Macao is having a good economic environment, with over 20% increase in GDP last year. The percentage of unemployment rate drops to 4.1% recently (Statistics and Census Bureau, website). That provides a good time for all working residents to have the MSAs. This healthcare medical saving plan will much decrease the burden of the government expenditure. In the future, the people of Macao will enjoy the results of the investments they have been investing many years ago.

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