

13 Medical Savings Accounts within Medical Schemes

13.1 Overview

Medical savings accounts became a feature of the medical scheme environment during the 1990s. Although the regulatory environment did not make provision for them, many commercially oriented schemes began introducing them as a means of risk-rating groups and providing incentives for the out-of-pocket purchases of a range of health services where there is greater consumer discretion.

With the introduction of the Medical Schemes Act No.131 of 1998, medical savings accounts were permitted, but subject to a limitation on the value of the contribution that could go to one.

Most health goods and services are not subject to a high degree of consumer discretion as they are provided on the recommendation and supply of a doctor or other medical professional. For this reason the funding via a risk pool is justified, as services are demanded on the basis of medical necessity rather than personal preference.

Some medical scheme administrators have motivated for the use of medical savings accounts on the basis that they encourage cost savings.

Medical savings accounts do not occur internationally on any significant scale and are generally not supported by government policy. Shifting the risk onto consumers has also not been shown to result in any fundamental shifts in health care services. On the whole they are regarded as measures to reduce the life-cycle and risk-related cross-subsidies typically occurring within large risk pool arrangements.

Within the United States attempts by commercial lobby groups to get federal support for medical savings accounts was partially blocked by the Democrats in 1996. Democrats opposed medical savings accounts fearing they would only appeal to the healthy and wealthy, leaving those with less money and more health problems behind in an increasingly costly risk pool. The net result of the debate was the limitation of medical savings accounts to a demonstration programme. (Families USA, August 1996).

There is no evidence internationally that shifting costs onto consumers encourages more rational purchasing of needed medical services. Consumers will however respond to medical goods and

services that are preferred and not needed. However, by their very nature such goods and services are not insurable, and should be purchased on an out-of-pocket basis.

13.2 Discussion

The policy-related justification for medical savings accounts is very limited, and all evidence suggests that it is counter-productive. Information from the Council for Medical Schemes also indicates that medical savings accounts are not being used in accordance with the provisions of the Act. (This is based on information supplied by the Finance section of the Council for Medical Schemes).

A further concern arises from the potential substitution of a large portion of the overall medical scheme contribution from risk-contributions into non-risk contributions (savings accounts), resulting in reduced risk-pooling within medical schemes. Hidden benefit reductions have most probably occurred for essential medical services through the substitution of a portion of contribution from necessary toward unnecessary health care services.

No objective evidence could be found that self-insurance reduces cost trends of necessary medical services. Cost reductions only occur through strategic and selective purchasing of health goods and services on a collective basis, i.e. public health systems and health insurers, where alternatives to fee-for-service are used. Collective purchasing logically only occurs for services within a risk pool. Individual purchasing of needed health services fragments purchasing power as well as access to services.

Administration companies charge unusually high administration fees for managing medical savings accounts, sometimes upward of 10 percent of contribution. The reconciliation of individual entitlements and interest accruing and charged is essentially unregulated at present. Given that medical savings accounts are essentially the personal savings of an individual, many individuals are likely to be financially worse off than if they placed the funds in their own personal bank account.

13.3 Industry Commission (Australia)

The Industry Commission in Australia evaluated medical savings accounts within their private health insurance industry. They listed the following concerns with such an approach (Industry Commission, 1996).

The most problematic deficiency was that unlike other adaptations to community rating systems, "there is no pooling of risks between individuals. Medical savings accounts are based on the

premise that *much* 'insurance' is really inter-temporal smoothing. But how much is 'much'? The Commission sought, but was unable to obtain, information on the amount of savings needed to meet most people's lifetime health costs."

"Some individuals' lifetime health costs will be low and others high. The latter's savings may be insufficient to meet their health costs. Moreover, a person might get chronically ill when young, before sufficient savings had been amassed."

"MSA's do not take into account the fact that persons needing more than average care would be grossly under funded ... Savings schemes are no substitute for the creation of risk pools which allow individuals to share their risk exposure (although they may assist in creating sufficient savings to buy insurance in retirement)."

"Another problem is posed by those people with low lifetime health costs. They would leave an excess in their savings account at death. What is the appropriate policy for such undepleted savings?"

"Medical savings accounts raise issues about transitional arrangements, portability, prudential requirements and, to a much lesser extent, sovereign risks, similar to those posed by lifetime rating."

"Low income people are able to save less, and so could meet fewer exigencies than others. This is also true for people who opt in and out of the workforce (say because of child rearing)."

"Medical savings accounts would appear to require a completely different set of skills than those possessed by current insurers."

13.4 Recommendations

Medical savings accounts are clearly problematic in a number of important areas of policy and consumer protection. *It is therefore recommended that the current policy be revisited with a view to phasing them out of medical schemes, or at the least substantially diminishing their impact on risk pools and contribution costs. The focus of health policy needs to be on risk-sharing and cost containment. None of these key health policy objectives can be achieved through medical savings accounts.*