

WHAT'S IN STORE FOR

# Health Insurance?

**Peter Bates**

Lawmakers have proposed several initiatives that could adversely affect the way advisors sell health insurance plans. Here is a brief look at some of these proposals and what you, as a health-insurance advisor, can do to positively influence their outcome.

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**The President's Advisory Panel on Federal Tax Reform.** In January 2005, President Bush created the President's Advisory Panel on Federal Tax Reform and instructed the panel to recommend options that would make the tax code "simpler, fairer and more conducive to economic growth."

The panel proposed two tax reform plans: the Simplified Income Tax Plan and the Growth and Investment Tax Plan. While these differ in some respects, they both propose the same changes to education and health savings plans. If enacted, current health savings accounts (HSAs) will be replaced by save for family accounts, which would cover education, medical, new home costs and retirement-saving needs.

Here is the clincher: There is a \$10,000 yearly limit for families enrolled in these plans. Any cost above that limit would be taxed. "Why is that problematic?" asks Diane Boyle, executive vice president of the Association of Health Insurance Advisors, a conference of NAIFA. "It's putting everything into the same family bucket, like HSAs and children's educational college funds," she

says. "It replaces all current tax-favored savings and most employer-provided benefits, including, for example, cafeteria plans and HSAs. It would fundamentally change the way people receive benefits."

Boyle believes these proposals could also affect employers. If they're not motivated to provide health care, there could be

a noticeable shift from an employer-based, health-care system to an individual-based one.

"It does away with tax benefits for them," adds Dani Kehoe, a tax lawyer and principal with DBK Consulting in Washington, D.C. "The ability to sell extra options is influenced by tax incentives that make them attractive to employers. It's harder to convince someone to provide long-term care insurance to employees if it's an after-tax expense."

Kehoe emphasizes the fact that these plans are

merely recommendations; neither has been adopted. So they are subject to change, and many ideas are being considered, including the alteration of the tax implications for employers. If health-insurance premiums were deductible as compensation—which is a cost of doing business for an employer—employers would find them more attractive.

**Association health plan proposals.** Basically, an association health plan is a health insurance plan sponsored by an association, such as one designed for small-business owners or members of a particular trade, such as doctors.

Three bills have been introduced that promote the formation of AHPs. They are H.R.525, proposed by Rep. Sam Johnson (R-Texas); S.406, proposed by Sens. Jim Talent (R-Mont.) and Olympia Snowe (R-Maine); and S.1955, proposed by Sens. Mike Enzi (R-Wyo.) and Ben Nelson (D-Neb.).

The first two bills, H.R.525 and S.406, create federally certified AHP insurers who can offer self-funded health insurance to employers who are members of professional and trade associations. They preempt state law consumer-protection standards, regulatory oversight and solvency standards.

There is one catch, however. According to Boyle, "AHPs created by H.R.525 and S.406 are not subject to state regulation, solvency standards and state-mandated benefits. Although this creates a more affordable plan for the AHP, it creates a playing field that is not level. An association of small-business owners, for example, would essentially become a health-insurance company."

Adverse-selection scenarios could possibly spring up throughout the country. There could be many AHPs that appeal to young, healthy people unlikely to use their insurance. "An adverse selection could come about," says Kehoe, "when one group of people has access to insurance that doesn't have to comply with the same expensive rules as other kinds of health insurance. Consequently, the less healthy or older people—those who use insurance more frequently—are left in the pool that is buying the non-AHP plan." Costs then will rise.

### A COMPROMISE

There have been so many reactions against H.R.525

**IF THE BILL IS ENACTED, CURRENT HEALTH SAVINGS ACCOUNTS WILL BE REPLACED BY SAVE FOR FAMILY ACCOUNTS.**

**Work-Life Benefits**

and S.406 that Enzi and Nelson introduced S.1955 as a compromise bill. Briefly, this bill allows associations to set up traditional third-party, health-insurance plans for their members. They would have to follow the 1991 National Association of Insurance Commissioners' rating rules instead of their own state's rating rules and would

be subject to state solvency standards. They could ignore local state-mandated benefits as long as they comply with provisions mandated in at least 45 states.

"There would be a federal role in determining what



## TRENDS IN HEALTH INSURANCE by Dave Willis

**W**hile lawmakers are busy proposing health-insurance initiatives, several plans are becoming increasingly popular with consumers looking for ways to deal with spiraling health-care costs. One of these is the health savings account, which allows consumers to pay out-of-pocket expenses with pre-tax dollars. In late January, HSAs got top-level affirmation from no other than President Bush, when he called for an expansion of their use in his State of the Union Address.

But even before the president gave them a push, consumers were turning to them at a rapid clip. According to the Association of Health Insurance Plans, in a recent 10-month period, the number of people covered by high-deductible policies, which complement HSAs, more than tripled to three million.

The timing may be right for advisors to capitalize on HSAs since several factors have come together to make them more attractive. Fred Bean, CLU, president of Little Rock-based Bean Hamilton Corporate Benefits, says that HSAs became a tax-advantaged product in early 2004. "Then it took time for insurance companies and financial institutions to develop systems to administer them," he adds.

Bean, a Central Arkansas AIFA member and past president of the Association of Health Insurance Advisors, believes advisors have an opportunity to get involved now with a product that is, as he says, still in its infancy. But this requires education. "Because of tax ramifications, we can't just say, 'Here's the new brochure,'" he says.

### MINI-MEDS AND MORE

Voluntary products, and in particular mini-medical plans, are also kindling the interest of advisors and consumers alike. According to Lawrence Lounds, CLU, ChFC, CEO of Flint, Michigan-based Security First Benefits, a Flint AIFA member and AHIA president-elect, these health insurance products—while not necessari-

ly comprehensive—gained marketplace acceptance in the wake of growing health-care costs.

"Giving employees opportunities to buy products via payroll deduction can help them meet deductibles and coinsurance," he says. "We've had a number of large groups that in the past have said, 'Absolutely not. We would never do worksite marketing.' This year, we are hearing, 'Come on in.'"

Lounds believes advisors should spend more time talking to employers about these plans. "Until a few years ago, I, like a lot of advisors, was opposed to these products," he says. "They gave a false sense of security." Now, with larger deductibles and coinsurance, they present a viable option, he adds. Companies that are typically the most interested in these plans often pay lower wages, operate under tighter margins and see the reduced cost as something they can pay themselves or that their employees will pay.

### FOCUS ON WELLNESS

The emergence of these new—or newly favored—plans calls for greater focus on keeping costs down. With these plans, consumers often stand to gain the most. Bill Mulcahy, founder of Work & Family Benefits in Parsippany, N.J., believes a focus on family and wellness issues can help consumers make better decisions in health care—and in life. "We offer a complementary, value-added in the form of a work-life benefit that can easily be embedded in a health offering, particularly with HSAs, where the focus is to have people take some responsibility for their health-care decisions," Mulcahy says.

His firm's product combines dependent care consultation/referral with web-based, physician-authored columns and videos on a wide range of topics. The staff also provides resources that help employees balance work and family responsibilities.

*Dave Willis is a frequent contributor to Advisor Today*

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those state law mandates would be," notes Kehoe. A federal commission would advise the Department of Health and Human Services in the creation of rules that would reflect the regulation of the largest number of states. If most states ignore a rule, the commission would recommend no regulation.

## CONTROVERSY ALSO SURROUNDS H.R.2355, THE HEALTH CARE CHOICE ACT.

**Interstate Commerce: Health Care Choice Act.** Controversy also

surrounds H.R.2355, the Health Care Choice Act, introduced by Rep. John Shadegg (R-Ariz.). This bill, which passed the House Energy and Commerce Committee last July, allows health-insurance issuers domiciled in one state to register an individual insurance policy in another state and market the policy in any other state.

When the bill was introduced, Speaker of the House Dennis Hastert released the following remarks, which characterize the impetus for the bill: "I asked John Shadegg to draft this legislation and I think he has done an excellent job. The goal is simple: Give Americans the ability to choose the health-insurance product that best meets their needs. In New Jersey, a family with two kids can purchase a health-insurance policy for as low as \$3,700. Under the Health Care Choice Act, across the river in Pennsylvania, a family would be able to buy a health-insurance policy for as low as \$230 a month—that's at least \$3,500 saved . . . Consumers will no longer be constrained by the options in their hometown or state but will be able to shop on the internet and buy the insurance that best meets their individual or family needs."

Physician and business organizations were quick to support the bill, seeing it as a more affordable, economical and

sensible channel for the purchase of health coverage.

The picture they paint may not be as rosy as it seems, however. As noted by AHIA's Boyle: "This bill has many of the negative features of the AHP. It raises troubling questions. Say you live in New York, for example, but buy a Texas plan because New York has too many cost-raising benefits. Something goes wrong. A claim isn't paid. Who handles the policy? It was issued in New York but it's a Texas policy. What happens if you go to a New York hospital? Is it covered at the same rate? And what about insurance agents? Would they have to be licensed in 50 different states? Or would a New York license be enough? If you are selling across state lines, you may be subject to federal regulation. What law would preempt conflicting state laws?"

## H.R.2355

Kehoe also worries about the bill's effect on the insured. "If you can buy health insurance across state lines, a large portion of the young or healthy population will purchase bare-bones policies, which are cheaper because they don't cover age-related, chronic-disease situations. This decision shifts the risk pool, leaving those who need more expansive coverage at a disadvantage."

According to Kehoe, the basic principle involves the right of the state to determine what's best for its population, rather than having to live with a national standard. Related to this principle is this issue: If state A wants a higher standard of insurance than state B, and the government allows residents to purchase lower-standard insurance in state B, it then undercuts state A. "You end up with policyholders who could get hurt making purchases across state lines without consumer protection and standards that are determined state by state," adds Kehoe.

### WHAT YOU CAN DO

What can you do to make your views known about these proposals? First, join NAIFA's health conference, AHIA, which actively lobbies on these issues. Visit [www.ahia.net](http://www.ahia.net) to learn more. Then, contact your U.S. representative and two U.S. senators. Finally—and most importantly, share this information with your clients, and ask them to contact their elected officials. ■

Peter Bates is a contributor to *Advisor Today*.

**Mini-Medical Plans**