WASHINGTON POLICY CENTER
Improving lives through market solutions

POLICY NOTES

A Lesson for Government: How Consumer-Based Health Care is Benefiting Workers in the Private Sector

05-01

by Sally C. Pipes, President, Pacific Research Institute

Introduction

As the legislature meets to tackle the looming budget deficit, Washington Policy Center recommends allowing state workers to opt for personal health savings accounts (HSAs) as a way to help get the soaring cost of government under control. (State revenues will increase an estimated $1.5 billion over the next two years, yet state officials plan to increase spending even faster – by $3.3 billion – resulting in a "deficit.")

Buying health coverage is one of the biggest cost drivers for government. Allowing workers to choose an HSA would give them control over their health care dollars, bring consumer choice and price competition to the health care market, and thus overall reduce costs.

More importantly, HSAs would add a major financial benefit for state workers. Right now every dollar the state spends on health coverage goes to insurance carriers, whether it is actually used to buy health services or not. With HSAs, state workers could choose to keep a good portion of that money. Any money not spent on needed health services would stay in the worker's personal account, 100% tax free, and could be rolled over to the next year. The worker would keep all investment earnings that build up in the account, also tax free.

The following article by Sally Pipes uses examples from the private sector to explain how giving employees control over their health care improves benefits for workers and reduces costs for employers.

Despite its enormous popularity with consumers, Wal-Mart is under attack for paying nonunion wages and supposedly shorting employees on health care coverage. The massive discounter recently dodged an electoral bullet aimed at it by union and other left-wing activists in California that would have forced it to offer a government-approved health care plan or ante up millions in additional taxes. Although victorious this time around, Wal-Mart's status quo is anything but stable.

Wal-Mart's critics often compare it to Costco, another successful, largely nonunion discount retailer, and find its compensation and benefits package wanting. Costco pays an average wage of $16 an hour and offers a generous health care package. Wal-Mart, in comparison, pays on average only $10 an hour and covers roughly two-thirds of the cost of its employees' health care.

Critics charge that many Wal-Mart employees work such few hours and make such little money that they burden the public system by signing up for Medicaid and other government health care programs.

Rising Costs

Both retailers ought to look to a third company: Whole Foods. The cutting-edge healthy-food retailer combines a zealous belief in the free market, a dedication to employees and a fierce focus on the customer. It's been wildly successful in the competitive grocery sector.

Its CEO, John Mackey, thinks the company has found a workable solution to the high cost of employee health care – health reimbursement accounts (HRAs).

In 2002, the Fortune 1000 retailer hit a wall with its spending on employee health. The company spent $7 million more on employee health care than it collected in premiums, and costs were projected to continue rising.

Whole Foods' employees, or team members, valued their health coverage. But left unchanged, the three plans the company offered employees would soon start to compromise profits and wages.

Expenses Capped

Mackey ran across a solution among the scribblings of free market health care advocates: consumer-driven health care, with health reimbursement accounts at the core. Under such a plan, Whole Foods would no longer pay for routine medical care, but rather offer a high-deductible health insurance plan with a tax-advantaged savings account from which team members could pay routine expenses.

The plan, for which the company pays 100% of premiums for longtime employees, started paying for medical claims after a $1,000 deductible. It pays for prescriptions after an employee has spent $500. Total employee out of pocket spending is capped at $3,500 a year. In addition, the company deposits $300 to $1,800 in employee personal wellness accounts, depending on length of service. Any money not spent in one year can roll over, tax free, to be used in the future.

When presented with the option, Whole Foods team members adopted the program by an overwhelming vote of 83%. It is proving to be a win-win solution for everyone. In the first year, costs dropped by 42%. A total of $14 million of unused money rolled over for use in the future. Mackey expects the plan to move to even higher deductibles as account balances increase. He also expects employees will vote to adopt a similar program, health savings accounts, that lets them keep the money if they leave Whole Foods.

A health plan based on health reimbursement accounts would be a boon for Wal-Mart and Costco. By relying on high-deductible insurance, it controls the administrative costs associated with processing thousands of small claims.

Just as people compare prices and often end up at Wal-Mart and Costco for a purchase, employees will have an incentive to shop prudently for routine health care as any money they save stays in their account. Contributions to the savings account can be based on employee tenure, rewarding longevity and reducing expensive employee turnover.

Whole Foods, for example, puts in $300 for employees with up to one year's service and $1,800 for employees who have worked nearly five years. And an HRA plan even blunts the employer pain when employees leave. Only the employer can deposit money into the HRA. And when an employee leaves the firm, the money stays behind. For high turnover employers, this will have the effect of lowering the health care costs for employees who stay. That's not a bad side effect.

Less Is More

A consumer-driven plan would prove profitable for both Wal-Mart and its employees, as it has for Whole Foods. The average retailer spends $5,804 on health care for each employee. Wal-Mart spends $3,500 per employee. Whole Foods now spends $2,998. A consumer-driven health care plan might just be the tool that lets Wal-Mart answer its critics, serve its employees and keep the public coming through its doors for the rock-bottom prices on which they depend.

Reprinted by permission. ***Sally C. Pipes*** *is president and CEO of the California-based Pacific Research Institute and author of "Miracle Cure: How to Solve America's Health-Care Crisis and Why Canada Isn't the Answer." She can be reached at spipes@pacificresearch.org.*