

Health accounts would eat up savings

Costing \$59B over five years, accounts offset changes to Medicare

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President Bush's proposal to expand tax-free health savings accounts would cost the U.S. Treasury \$59 billion over five years, more than offsetting the savings he seeks from limiting the growth of Medicare.

Bush promoted health savings accounts in his State of the Union speech last week to help control growing health care costs.

Overall, the president would increase the budget for the Department of Health and Human Services (HHS) by 9.1% but slow the rapid growth of Medicare by \$36 billion over five years. Medicare is the federal health program for those 65 and older and the disabled.

HHS Secretary Michael Leavitt said hard choices had to be made as the society ages. "Medicare today represents 3.4% of the entire gross domestic product," Leavitt said. "Allowed to continue at the same rate, it would be 8.1% by 2040 and 14% by 2070. No nation can sustain that level of growth."

Highlights of the budget include:

- Offering more tax deductions and credits for health savings accounts would cost the Treasury \$59 billion over five years and \$156 billion over 10 years. Health savings accounts were created in 2003. Under the law, the accounts must be coupled with health insurance policies that carry at least a \$1,050 annual deductible for individuals or \$2,100 for families. They allow people to set aside money, tax free, to cover medical costs. To encourage use of the accounts, Bush wants to increase the amount policyholders can contribute annually to the savings account.

Supporters, who include the National Center for Policy Analysis, say the accounts and insurance will slow health care inflation by getting people to spend more of their own money on care. They say the accounts will also encourage people to set aside funds for medical costs.

Critics, including the Consumers Union, say the accounts benefit mainly the healthy and wealthy and could drive up costs for others.

The \$59 billion cost estimate has raised concern among some conservatives who support the accounts. Joseph Antos of the American Enterprise Institute said he likes the idea. But "to me, that's a considerable amount of money," he said. "This is a more expansive proposal in terms of committing federal resources to health care than one could have anticipated from the State of the Union address."

- Smaller increases in Medicare payments to hospitals, nursing homes and home health care agencies. An independent commission has recommended this as one step toward solving

Medicare's looming budget problems.

Over five years, that means about \$8 billion in reduced payment to hospitals, \$5.1 billion to nursing homes and \$3.5 billion to home health care providers. The Medicare program costs \$400 billion a year.

"This seems a very modest reduction," said Paul Ginsburg, an economist at the Center for Studying Health System Change, a non-partisan research group.

Chip Kahn of the Federation of American Hospitals said the move comes as hospitals are under increasing financial pressure. "This is no time to cut Medicare payments for services," Kahn said.

- No cuts to the new Medicare drug benefit or to private-sector managed-care plans that provide Medicare services.