



May 25, 2009

The Honorable Max Baucus, Chairman
The Honorable Charles Grassley, Ranking Member
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510-6200

Dear Sirs:

I appreciate the opportunity to comment on the third of the Senate Finance Committee series of policy options papers, "Financing Comprehensive Health Care Reform: Proposed Health System Savings and Revenue Options".

The second paper of the series stated that reforms would "ensure a competitive insurance market in which plans compete on price and quality rather than on their ability to segment risk." As an actuary, I personally share this perspective and believe achieving this goal will be challenging. The challenges are likely to be made even more difficult given the taxation and contribution assistance differences that exist between employer and non-employer provided health care.

Without such assistance, few individuals would purchase health insurance. We see this with the unemployed. For the unemployed, there are two primary conditions under which they purchase insurance: a) where the potential for having an insured event overwhelms the premium cost or b) where the purchasing individual is sufficiently risk averse such that the premium charged is viewed as fair for the risk insured. Generally, two populations become insured under these conditions: a) the chronically ill having access to guarantee issue policies under COBRA or b) young, healthy individuals that can access the medically underwritten individual market at significantly lower premiums than under COBRA. For those in-between, they generally choose to self-insure the risk until they can again access the employer market. As much of the typical health care activities are elective, this works fine, unless the individual or their family suffers a catastrophic event or discovers a new chronic condition while unemployed.

This third group, that seeks to self-insure the risk, would be well-served with:

- a) a mechanism for prefunding post-employment health care needs on a tax-advantaged basis,
- b) access to an affordable, guarantee issue policy to cover catastrophic needs, and
- c) access to health care pricing that does not unduly disadvantage cash-paying consumers

Health savings accounts (HSAs) represent one approach to addressing the needs of this third group and the tax disparities that exist between the employer-sponsored and individual markets. Further, I believe the expansion and increased flexibility afforded HSAs have proven effective at increasing personal responsibility and improving an individual's control over their health care dollar. With proactive health care reforms that support cash-paying customers, I further believe that HSAs offer an effective private alternative that will encourage insurance providers to enhance their service offerings in order to remain competitive with the self-insurance option.

An issue that remains a concern and is worsened by the policy options under consideration is the incentive that exists within today's system for large employers to hire young, inexpensive employees and actively manage their workforce to shift older, less healthy workers to the individual market. I encourage the Committee to consider this issue as it evaluates policy options for health savings accounts, health reimbursement arrangements, flexible spending accounts, and other available health care financing options.

I believe that we have a terrific opportunity to address not only today's health care crisis, but also tomorrow's looming long-term care crisis. I encourage the Committee to pursue options that encourage personal responsibility, support consumer involvement in the health care purchase decision, and remove the disadvantages experienced by cash-paying consumers.

Respectfully Yours,

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