Lecture09
Health Care
Health Insurance

- You show up to your first real job
- You talk with HR
- You have to decide which health insurance plan you will use
- At the same time, you are:
  - finishing moving
  - registering your vehicle in your new area
  - getting utilities turned on
  - figuring out where the grocery store is
  - learning how to do your job.
Preferred Provider Option

- PPO = Preferred provider organization: groups of independent health care providers who have contracted with Blue Cross Blue Shield to provided low cost care in exchange for the business of BCBS customers.
  - Qualifies for a Flex Spending Account: Pretax money to be used for health care purposes. DOES NOT ROLL OVER from year to year!

HSA PPO (HDHP)

- HDHP = High Deductible Health Plan
- Uses same ‘providers’ as PPO but the patient pays a higher deductible
- A deductible is the amount of money you have to pay before the insurance company begins to pay money
- Under Federal Law, HDHP qualifies for a Health Savings Account (HSA)
  - HSA – Money taken out of your paycheck, pretax, that you can use for health care expenditures
  - Money rolls over from year to year.
Health Insurance Booklet

- **HMO = Health Maintenance Organization**: Similar to PPO in that BCBS contracts with health care providers, but the organization of providers is tighter.
  - Sometimes an entire care center will be owned by an HMO.
  - If you want care, you have to go to the specific care center in the contract.
  - Typically less flexible than PPO.
Other Issues

- **What is coinsurance?**
  - You pay a percentage of the total bill

- **What is Balance Billing?**
  - You pay the full amount of costs over the contracted amount

- **Do you have to pay a copay under the HDHP?**
  - No, You pay first dollar expenditures

- **How do the Pharmacy Plans Compare?**
Health Care Costs

- America is getting older
- Health Care Costs are going up, but **why care?**
- Opportunity Costs
- Draw
3 Reasons why Health Care Costs are on the Rise

1. When your income goes up, do you buy more or less wine?
   - How about Steak?
   - How about Health Care?
   - Some argue that Health Care is a normal good. When our income goes up, we buy more on Health Care.
Health Care Costs

2. How are employer provided health insurance benefits treated for tax purposes?
   ◦ Regular compensation is taxed
   ◦ Health insurance benefits are not taxed
   ◦ Example: Consider federal tax rate of 28%
     • $100 in earnings translates to $72 in take home pay
     • $100 in health insurance benefits translates into $100 in health insurance benefits
   ◦ Notice: This is a tax subsidy to workers (not employers)!!! Since we have more insurance, we are more like to spend on health care
Health Care Costs

3. Third Party Payments

• When you go to the doctor, do you pay the full price for care? Why or why not?

• Insurance lowers the out-of-pocket expenses... lowers out of pocket price

• When price sends and inaccurate signal, what happens?

• Inefficiency... loss of net benefits.

• Draw
Health Effectiveness Curve

- Overuse of health care has led to the idea of the “Flat of the Curve”
  - Assume a messy room
    - How clean does it get in the first 15 minutes of cleaning? Next 15 minutes?...Next?....Next?...Next?
  - Assume an unhealthy person
    - How much help does the first $1000 in expenditures provide?...The next $1000?....Next?
Initially, dollars of spending lead to high benefits. Further spending has diminishing returns.