Health Care Reform and Family Values: A Call for Studies in Healthcare Savings Accounts (HSAs)

H. Tristram Engelhardt, Jr.
Rice University

Ruiping Fan
City University of Hong Kong
HSAs for Ageing Societies

- Low fertility, longer life expectancy

- High proportion of old persons (65 and over) in many societies, including Hong Kong, mainland China, Singapore, and the United States
Hong Kong

- 1981: 6.6% (Ho, 2006).
- 2008: 12.6% (Census and Statistics Department, 2009a).
- 2036: 26.4% (estimated) (Census and Statistics Department, 2009b)
Singapore

- 2007: 8.5% (Singapore Department of Statistics, 2008).
- 2030: 20% (estimated) (Ministry of Community Development, Youth and Sports, 2006)
The United States

- 2007: 12.6%.

- By 2030: 19.3%.
  (Department of Health and Human Services, 2008).
Mainland China

- 2008: 8.3%. (People’s Daily Online, 2009).
- 2030: 17%.
Mainland China

Compared with developed countries, mainland China faces more severe challenges by ageing problems:

- One-child policy
- Comparatively poorer social and economic conditions
Public Finance Challenge

- Ever greater demand for a variety of services, especially health care services, primarily or disproportionately by older individuals.

- How to finance sustainably the provision of adequate health care for the elderly?
Equity Challenge

- Increasing proportion of the elderly will not just strain health budgets, but also create "intergenerational injustice":

- the young and future generations will be unfairly required to shoulder the burden of high tax rates in order to pay for the healthcare services for the elderly.
Equity Challenge

- The number and proportion of elderly (not working) retirees grow

- The number and percentage of young (working) taxpayers shrink

- The issue of intergenerational equity becomes pressing
There is good reason to assume that HSAs can help deal with these challenges.

1) The basic idea of HSAs reflects a person’s life-cycle saving capacity and health spending pattern: one can save during economically active years to provide funds for healthcare in the future, especially when elderly and not working.
HSAs

2) Contributing to long term financial sustainability also by curbing the moral hazards inevitably involved in insurance or tax-based systems.

3) Meeting concerns about intergenerational equity: reducing the younger generation’s burden that exists in insurance or tax-based systems in today’s ageing society.
HSAs

- Bauhinia Foundation report (Bauhinia Foundation 2007):

Both proposals suggest that an HSA scheme should be established to supplement Hong Kong’s tax-based healthcare system.
What form of HSAs should be set up in consideration of family values that are upheld in this part of the world:

the locus of responsibility in the family to take care of every family member in need, health care need included.
Family Values

What form of HSAs should be set up in consideration of family values:

- Individual-oriented savings accounts?

Or

- Family-oriented savings accounts?
Family Values

- If it is unfair that the young and future generations suffer increasingly high tax rates to sustain increasingly expansive health services for the elderly non-working,

- it would also be unfair if, given an HSA scheme, families with children have to make more tax payments than families without children for healthcare.
Family Values

- Ethically, this form of HSA scheme is unfair to the families with children because they are financially punished for raising children, while children are the future labor force and future taxpayers who are desperately needed in contemporary, low-fertility, ageing societies.
Call for study in HSAs

- Which structure and character of HSAs can improve the financial sustainability of health care?

- Which structure and character of HSAs can address the issue of intergenerational equity in consideration of family values?
Issues of Equity

- Is an HSA system necessary to respond to the intergenerational equity concerns about health care in contemporary ageing societies?

- Or is it better not to establish any HSAs? If not, then what alternative could be adopted to respond to the intergenerational equity concern?

- If yes, then should HSA be available for health care throughout one’s life or only after retirement?
Issues of Equity

- Should HSAs be funded only by employees, or by both employees and their employers?

- Should government also contribute to HSAs in certain ways, in addition to offering tax incentives?
Issues of Equity

- Does one’s current HSA scheme address the needs of the chronically ill and/or low-income individuals?

- How can the structure of HSAs be modified to achieve such goals?

- Should government make contributions to the HSAs of such persons rather than simply create a tax-based entitlement to health care?
Family Values

Should HSAs be structured to support an individualistic or a family-directed locus of responsibility in health care decision making?

- Depending on the structure of HSAs, they could either encourage a family-based communitarian culture or an independence-emphasizing individualist culture.

- If excess funds cannot be used for family health care or be bequeathed to heirs, this will encourage giving a primary focus to individual rather than family directed concerns.
Do family values require that one’s tax-free HSA be large enough to cover one’s spouse and one’s children so that one will not have to pay income tax on money used for the health care of one’s spouse and children?

If so, how should an HSA scheme be designed to accomplish this goal?
Family Values

- Is it better to establish family HSAs, rather than individual HSAs, for the purpose of curtailing moral hazards in health care expenditures and/or for the purpose of supporting family responsibility and values?

- If so, in what particular ways should a family HSA scheme be structured?

- What should be avoided?
Family Values

- Should adult children be encouraged to contribute to their parents’ HSAs if the funds in those HSAs are depleted?

- Would such a requirement be important to preserve family solidarity?

- What limitations should be imposed on such obligations if they were established?
Financial Sustainability

- Can one’s current HSA scheme effectively curb the moral hazards involved in one’s healthcare system?

- How should a scheme of HSAs be modified so as better to achieve this goal?
Financial Sustainability

- How should HSAs be structured to reduce moral hazards once the amount of the funds in the HSAs has become significant?

- If individuals can have tax-free HSAs, should these be so structured as to allow the use of surplus funds for supplementing retirement income so as to discourage the moral hazard of expending HSAs on high-cost but marginally beneficial care?
Financial Sustainability

- Can the current structure of HSAs in your country/district significantly contribute to limiting total healthcare expenditures so as to make sustainable the financing of your country/district’s health care?

- How do you think this structure should be modified better to achieve this goal?