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Meet the MasterMinds: Paul Zane Pilzer Checks the Pulse of Healthcare Insurance

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Paul Zane Pilzer is a world-renowned economist, a former advisor to two White House administrations, and a bestselling author. His books include ***God Wants You to Be Rich***, ***The Wellness Revolution***, ***Other People's Money***, ***Unlimited Wealth***, and his latest, ***The New Health Insurance Solution***.

A former commentator on NPR and CNN and an adjunct professor at NYU, Pilzer is also an entrepreneur and the cofounder of Extend Benefits LLC, a company that provides individual health benefits to employees of Fortune 500 companies. He's looked carefully at the problems of the US healthcare system and come up with innovative ideas that business leaders and individuals can use to find affordable and high quality health insurance.

MCNews: Healthcare issues are top of mind for many business owners and individuals, mainly because of soaring costs. What do you think is the root of the problem?

Pilzer: The underlying problem is that the healthcare industry is indifferent to the economic and entrepreneurial incentives that make America great. We have a $10 trillion US economy based on free enterprise, and we have a $2 trillion Byzantine economy called the healthcare industry. It operates virtually outside of the US economy with its own rules.

A good example is Moore's Law, which says that computer processing capability doubles for the same price in less than two years. Ultimately, Moore's Law drives more than half of the US economy—improvements to automobiles, computers, televisions, even the information you can access.

That's what drives our economy, except in the healthcare industry. If you think about it, we didn't have a healthcare industry until we had a microscope and technology, so healthcare is high-tech. And Moore's Law *should* apply to healthcare, which means we should continually be getting more for our money.

MCNews: Why doesn't Moore's Law apply to healthcare?

Pilzer: Technology cost savings don't happen without entrepreneurial incentives, starting with the most powerful entrepreneurs in the world: consumers who vote with their feet. Currently, 300 million Americans don't vote on the most important issue in their lives, which is the healthcare of their families.

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MCNews: Is that because most people are in some kind of employer-sponsored healthcare plan and are not making any substantial choices?

Pilzer: Yes. And it's important to understand that people are in these plans primarily because of a 1944 decision that had nothing to do with healthcare. It had to do with wage and price controls.

There was great fear of inflation after World War II, and wage and price controls became sacrosanct. So instead of allowing wage increases, the government said we'll allow companies to pay unlimited health benefits, not just for workers but for workers' families.

Originally companies loved this. By 1960 or 1970, everybody was in an employee health plan. They weren't that expensive and more importantly, it was like a 3:1 benefit. The employer could give you $3 in health benefits and it only cost the company $1 after taxes. Employers got a huge deduction in federal and state taxes for providing benefits, and employees didn't have to pay taxes on the benefits they received.

But that created a system in which the basic consumer mechanisms that have been with us since biblical times—shopping for what you want at the lowest price—no longer functioned.

MCNews: And the employer cost of healthcare just continued to rise?

Pilzer: That's right. The employer is stuck: what started out as a great benefit for employees has become a nightmare. They now call healthcare The Cockroach That Ate Cincinnati after the movie of the same name.

Here is the cold fact: Healthcare costs currently exceed profits for the Fortune 500. Why be in business? If healthcare costs go up 15% a year, even if a CEO can improve company profits 12% a year, it's not enough.

And it does not serve employees either because employers are now in the business of telling everyone what kind of care they can get. The system is at a breaking point where nobody is served.

Most importantly, we've driven the cost of healthcare in the US to three times that of any major nation. And even scarier, we are the unhealthiest nation in the world. We're tied with Australia for that. I believe this is primarily because we've lost track of the individual's responsibility for his or her own healthcare.

MCNews: Do you think employer-sponsored healthcare plans will change in the future?

Pilzer: I believe employer-sponsored healthcare programs will be out of business in twenty years.

Assume those programs will be phased out. They'll require higher and higher deductibles and premiums. Expect that companies will terminate retiree coverage—no matter what the retiree's contract says.

MCNews: Any advice for those who are covered by company-sponsored health insurance?

Pilzer: We have fundamentally changed the rules to the extent that your employer is the last person you should want to provide for your healthcare, from a privacy, financial, and value standpoint.

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They should look for individual or family plans from a major insurance company, starting with the “Blues” in their state. Blue Cross or Blue Shield is a marketing name for seventy-six different companies. They are really good and the toughest to get into, so try to get a policy for your spouse and children with one of those.

You can probably get them the same coverage they're getting through your employer for half the price in most states. Or, depending on how much your employer is paying for your family, it might be a wash for you to get private insurance for your family. But if you lose that job, they still have insurance. And, most important, *you're locked into a rate*. That rate can never be raised because of illness.

Around 30% of employers contribute nothing for a spouse or children. Others may pay all of that cost. So how much money you can save depends on what percent of the cost your employer is paying for your family's healthcare.

MCNews: In addition to their families, should employees also consider buying private health insurance policies for themselves, instead of staying in the employer-sponsored plan?

Pilzer: That's the next step an employee should consider. Analyze whether you should move yourself to a private policy. And that's really tough because most employers pay 90% of the cost for the individual worker. You need to find out what percent your employer pays for your healthcare insurance.

Now separately from that, you should go to your employer and say, you're paying $8,000 a year for healthcare benefits for me and my family; give me a tax-free allowance in that amount and let me buy my own health insurance.

The response may be, but that's illegal. That's a big change you'll see nationwide this fall—a new option employers will be able to use. And large employers, with 10,000 and up employees, are going to offer this option.

So the first thing is move your spouse or family off the company plan, and then consider moving yourself off. And most important, ask your employer if you can opt out of the company plan and get the money to use for healthcare.

MCNews: If you've decided to opt out of an employer-sponsored health plan, what should you consider about getting your own health insurance?

Pilzer: If you've decided you want to opt out of the company plan because you want permanent health insurance, the question is—what kind of health insurance?

You need to decide whether or not you should have a high-deductible health insurance policy. And if you choose a high-deductible policy, you should almost always have a health savings account (HSA).

Another choice is a health reimbursement arrangement (HRA), which is a subset of the HSA. The employer puts money into the plan and the employee can be reimbursed for medical expenses, like insurance deductibles. You're not taxed on the benefit.

MCNews: Can you explain the importance of a health savings account (HSA)?

Pilzer: What we're talking about here is consumer-directed healthcare. You or your employer put say $5,000 a year into a tax-free vehicle. You get a deduction when you put the money in, and then whatever you don't spend of that each year for healthcare rolls forward.

The HSA is like an IRA or 401K for healthcare. Either you or your employer put money into the account. Whatever you don't spend rolls forward, but you own the account. About two million Americans have an HSA, while four million Americans have an HRA.

If the current growth rate of HSAs continues, we'll all have them in ten years. IRAs came out in 1985 and now 47 million families have them. 38 million families have a 401K. There are 110 million families in America, and anyone who's smart enough to have a 401K or an IRA will be able to figure out that they shouldn't don't put another dollar into a 401K or IRA until they fully fund an HSA each year.

MCNews: Can you only use the money in your HSA for medical expenses?

Pilzer: You can also use your HSA to fund your retirement. An HSA has every single feature of an IRA or 401K plus one monster feature: money taken out for healthcare is never taxed. It's the only permanent tax escape vehicle the IRS permits.

If you put money into a 401K or IRA, eventually you absolutely will pay taxes on it. And when you die it's taxed as ordinary income on the day of death. If you put money into an HSA, you get the same benefits plus anytime you take money out for healthcare including Medicare supplements and death expenses, that money comes out tax free. You never pay income taxes on it.

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MCNews: We've focused on company employees. How does your advice apply to self-employed individuals?

Pilzer: Many self-employed people are making the mistake I did when I became self-employed, which is participating in somebody else's group plan. I had a friend who told his wife to continue working three days a month to get the family healthcare. Many people participate in a group plan in one way or another, thinking they are getting a benefit, while in reality they're not.

They may not be aware that the individual health insurance market has become more efficient and cheaper in the last few years. Now it's a better value than group insurance. Historically a self-employed person went into a group plan because the group rate was half the price of an individual policy.

Today that's exactly flipped. Individual insurance is half the price of group. What changed? Over the last two decades, HIPPA and other laws mandated that groups must take anyone without discrimination of any kind regarding their medical condition and history, which has led to higher costs for the group plans.

Anyone can go to ehealthinsurance.com or to my site and get a quote on individual insurance, including those who are self-employed.

MCNews: If you have just a few employees, what are the best options for healthcare to make it economical for your business and the best for your employees?

Pilzer: Don't offer a group healthcare plan. Hands down the best choice would be an allowance program, an HRA, which you would start with roughly whatever you are currently contributing or would contribute to a group plan. Every employee gets an HRA allowance to spend on health insurance and other health items, and whatever they don't spend rolls forward.

Also, find a consultant to help your employees buy the right health insurance policies.

And then separately, offer the HSA just as you offer the 401K. You could match their HSA contributions. So if employees put $2,000 in their HSAs, you'll put in another $2,000. But you don't even need to match contribution.

MCNews: And you'll still save over the group rate as an employer?

Pilzer: Right. The employer could also offer a salary redirection plan. So, in addition to their HSA contributions, employees could direct the employer to take another $2,000 from their salaries and add that to their HSAs. The employer saves on FICA taxes because it comes right off the top.

MCNews: I'm sure you've heard this a million times, but what about pre-existing conditions?

Pilzer: The recent changes regarding pre-existing conditions are the whole reason this thing works now. In the past, 10-20% of your employees had one family member with a preexisting condition that would not allow that person to qualify for an individual policy.

That's no longer the case. Most states now have guaranteed coverage for people with preexisting medical problems. To put this in context, we've always had guaranteed coverage for seniors called Medicare. We've always had guaranteed coverage for poor people called Medicaid. And starting in 2005, we have guaranteed coverage in all states for people who have preexisting conditions and are not poor and not seniors.

Every state is different. That's why I had to write a book with a 100-page appendix. But, in general, if you are rejected for health insurance or "uprated"—meaning charged a higher premium because of a medical condition—you become eligible for what's called state-guaranteed coverage.

If you have a pre-existing condition, or a family member with one, what you should do is put just that person in the state-guaranteed pool and the rest of the family in a regular policy. It's best to look at each individual in your family separately.

As of April 2005, 250,000 families were in state-guaranteed coverage. They're not poor or elderly, but have figured out how the system works. I interviewed an official for one of the state-guaranteed programs who was concerned that I was going to tell people about this. But I feel that's the state's obligation, just like it's your obligation to pay taxes and obey the law.

No one is telling people about their rights and that was my prime motivation for writing the book.

MCNews: Last question: If you could give someone one piece of advice about their healthcare insurance, what would it be?

Pilzer: Take total control of your health insurance, maximize your tax advantages, and take control of your healthcare. When you take control of your health insurance and maximize your tax advantages, you will end up with an HSA or other vehicle that allows you to save tax-free for tomorrow what you don't need today.

You can spend less for health insurance. It's really amazing to realize that we have Home Depot, Pet Depot, and Office Depot, and yet the biggest expense in America is medicine and when's the last time you passed Medical Depot? It's incomprehensible, isn't it?

MCNews: This has been very helpful. Thanks for your time.

For more information on Pilzer visit the Paul Zane Pilzer Web site, ***The New Health Insurance Solution*** book Web site, and Extend Benefits LLC