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Hoosiers and Health Savings Accounts

An Indiana experiment that is reducing costs for the state and its employees.

By MITCH DANIELS

As Washington prepares to revisit the subject of health-care reform, perhaps some fresh experience from Middle America would be of value.

When I was elected governor of Indiana five years ago, I asked that a consumer-directed health insurance option, or Health Savings Account (HSA), be added to the conventional plans then available to state employees. I thought this additional choice might work well for at least a few of my co-workers, and in the first year some 4% of us signed up for it.

In Indiana's HSA, the state deposits \$2,750 per year into an account controlled by the employee, out of which he pays all his health bills. Indiana covers the premium for the plan. The intent is that participants will become more cost-conscious and careful about overpayment or overutilization.

Unused funds in the account—to date some \$30 million or about \$2,000 per employee and growing fast—are the worker's permanent property. For the very small number of employees (about 6% last year) who use their entire account balance, the state shares further health costs up to an out-of-pocket maximum of \$8,000, after which the employee is completely protected.

The HSA option has proven highly popular. This year, over 70% of our 30,000 Indiana state workers chose it, by far the highest in public-sector America. Due to the rejection of these plans by government unions, the average use of HSAs in the public sector across the country is just 2%.

What we, and independent health-care experts at Mercer Consulting, have found is that individually owned and directed health-care coverage has a startlingly positive effect on costs for both employees and the state. What follows is a summary of our experience:

State employees enrolled in the consumer-driven plan will save more than \$8 million in 2010 compared to their coworkers in the old-fashioned preferred provider organization (PPO) alternative. In the second straight year in which we've been forced to skip salary increases, workers switching to the HSA are adding thousands of dollars to their take-home pay. (Even if an employee had health issues and incurred the maximum out-of-pocket expenses, he would still be hundreds of dollars ahead.) HSA customers seem highly satisfied; only 3% have opted to switch back to the PPO.

The state is saving, too. In a time of severe budgetary stress, Indiana will save at least \$20 million in 2010 because of our high HSA enrollment. Mercer calculates the state's total costs are being reduced by 11% solely due to the HSA option.

Most important, we are seeing significant changes in behavior, and consequently lower total costs. In 2009, for example, state workers with the HSA visited emergency rooms and physicians 67% less frequently than co-workers with traditional health care. They were much more likely to use generic drugs than those enrolled in the conventional plan, resulting in an average lower cost per prescription of \$18. They were admitted to hospitals less than half as frequently as their colleagues. Differences in health status between the groups account for part of this disparity, but consumer decision-making is, we've found, also a major factor.

Overall, participants in our new plan ran up only \$65 in cost for every \$100 incurred by their associates under the old coverage. Are HSA participants denying themselves needed care in order to save money? The answer, as far as the state of Indiana and Mercer Consulting can find, is no. There is no evidence HSA members are more likely to defer needed care or common-sense preventive measures such as routine physicals or mammograms.

It turns out that, when someone is spending his own money alone for routine expenses, he is far more likely to ask the questions he would ask if purchasing any other good or service: "Is there a generic version of that drug?" "Didn't I take that same test just recently?" "Where can I get the colonoscopy at the best price?"

By contrast, the prevalent model of health plans in this country in effect signals individuals they can buy health care on someone else's credit card. A fast-food meal costs most Americans more out of pocket than a visit to the doctor. What seems free will always be overconsumed, compared to the choices a normal consumer would make. Hence our plan's immense savings.

The Indiana experience confirms what common sense already tells us: A system built on "cost-plus" reimbursement (i.e., the more a physician does, the more he or she gets paid) coupled with "free" to the purchaser consumption, is a machine perfectly designed to overconsume and overspend. It will never be controlled by top-down balloon-squeezing by insurance companies or the government. There will be no meaningful cost control until we are all cost controllers in our own right.

Americans can make sound, thrifty decisions about their own health. If national policy trusted and encouraged them to do so, our skyrocketing health-care costs would decelerate.

Mr. Daniels, a Republican, is governor of Indiana.

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