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Consumer-Driven Health Plans: Potential, Pitfalls and Policy Issues

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Rosenthal Study

- Only 3% of plans using tiered copay model.
- Tiered copay model defined narrowly.
  - 54% in PPOs, 17% in POS plans. 86% with tiered Rx benefits.

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Hibbard et al. Study

- Adverse selection.
  - Health status.
  - Chronic disease.
  - Health related behaviors.
  - Cost savings actions.

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Parente et al. Study

- Apparent counterintuitive results.
  - CDHP drug use initially up, but then declined.
  - PPO decline ever greater.
  - CDHP making greater use of elective hospital admissions.
  - CDHP reduced use of ER.

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Challenges HRAs Face in Controlling Costs

- Do HRAs encourage consumerism?
- 50% of population use very little health care.
- High users are all above the average HRA deductible.
- Initial evidence of adverse selection.
- Only 16% provide cost information.

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Challenges HRAs Face in Controlling Costs

- HRA is funded with employer money.
  - Employee must view the account as their own money.
- Once above deductible comprehensive PPO-style insurance kicks in.
  - Very high users of health care services must be able to influence their own consumption effectively and significantly.
  - Behavior change may only delay point at which deductible is met.
- Other perverse incentives.
  - Induced demand prior to job change.
  - Induced demand if HRA balance.
  - Induced demand among otherwise low-cost users because service deemed “free”.

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Tiered Copay Model

- 20% of population accounts for 80% of spending.
- 11 conditions account for 50% of spending.
- Tiered copay models.
  - Address care at point-of-service.
  - Provide incentives to users of care.
- High users have direct incentive to change own consumption of health care services – high potential to control costs.

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Impact of Cost Sharing on Premiums

(Source: Lee & Tollen, *Health Affairs*, 2002.)

Cost Sharing Level	CoPay or Coinsurance (In/Out)	Deductible (Single, In Network)	OOP Max (Single, In Network)	% Premium Reduction from Level 1
1	$15/30%	None	$1,500	N/a
2	20%/40%	$250	1,500	22.1%
3	20%/40%	500	1,500	27.6%
4	20%/40%	1,000	3,000	34.6%
5	30%/50%	500	1,500	37.7%
6	30%/50%	1,000	3,000	43.2%
7	50%/70%	500	None	44.3%
8	50%/70%	1,000	None	48.4%
9	50%/70%	2,000	None	53.6%

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Consumer-Driven Plans Only for the Healthy and Wealthy?

- Wealthy will buy CDHPs even if unhealthy.
  - Wealthy tend to be older with poorer health status.
  - HSAs may become another tax-favored vehicle to save money.
- Unhealthy will buy CDHPs if previously in restrictive HMOs.
- Initial evidence of adverse selection, but could change over time.

Health Savings Accounts (HSAs)

- Allows for tax-free accumulation of savings.
- Tied to high deductible to make contributions.
- Employee “owned” or portable.
- Catch-up contributions for persons 55-64.
- Tax free distributions.
  - Health care services.
  - COBRA and LTCI premiums.
  - Retiree health premiums for Medicare-eligible retirees.

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Large Employers

- Represent 42% of workers.
- Take-up pattern may or may not be similar to managed care trends.
- Strong interest now, will wane as employers become more educated.
- May prefer HRAs over HSAs.
- HRAs not funded until employee incurs expense.
- HSAs funded before expense incurred.
  - Employers hesitant to hand out money to healthy.
- Savings potential related to high deductible, not HSA.
  - 39% of employers do not plan to fund HSA.

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Small Employers

- Represent 29% of workers.
- Slower to change health benefits generally.
- In 2002, after 3 years of double digit premium increases, only 19% changed plan.
- Maintained current health benefits because of positive impact on:
  - Recruitment and retention.
  - Productivity.
  - Health Status.
  - Overall success of the business.
- Health benefits are the most valued employee benefit by workers.

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Small Employers

- 43% responded to cost increase in several ways:
  - Reduced or eliminated pay, raises, or bonuses.
  - Reduced other employee benefits.
  - Put off equipment and other purchases.
  - Not able to hire needed workers or let workers go.
- Reflects fact that even when cost of benefits are increasing, employers will make trade-offs to maintain those benefits.
- A significant number of employers will NOT adopt HSAs if they think it will be harmful to the overall success of the business.

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Potential for Cost Control

- HSAs offer better incentives than HRAs to change use of health care.
  - Value from HRA only if money is spent.
  - Value from HSA if money is not spent.
- Very high users of health care services are unable to influence their own consumption effectively.

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Public Policy

- Alphabet soup and confusion.
  - HSA, MSA, HRA, FSA.
  - IRA, 401k, 403b, 467, SEP, SERP, Keogh, Simple.
- Regulation of quality and cost information.
- Response to consumerism backlash.

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