Consumer Driven Health Plans: Policy Interactions and Implications for States

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Current State context

- Public concern over the increasing cost of health care
- Limited “new money” to enact or enhance existing publicly-sponsored insurance programs
- Limited appetite for large-scale governmental involvement in managing or controlling health costs
- But, pressure to act due to employer and consumer concerns over cost increases

Consumer Driven Health Plans

- Seen as a potential tool to address the concerns of employers and consumers
- Many state policymakers and others intuitively like the idea of incentives for consumers to be more cost-conscious and wise in their of health care services
- Other policymakers are concerned about the effect that CDHPs may have on risk pools, on overall market stability, and some question how much cost savings can be achieved from the plans

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Why should States care about as CDHPs?

- State as Regulator
- State as Employer/Benefit provider
- State as Marketplace and Policy Oversight Entity

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State as Regulator, continued

- There are a number of reasons why States, in their regulatory function, should care about CDHPs:
  - Risk segmentation and market stability
    - Hibbard, et al., Parente, et al. evidence
  - Budgetary implications (HSAs)
  - Federal compliance (HSAs)

State as Purchaser

- In most states, the state employee group is among the largest group purchasers
- State employee workforces tends to be:
  - Older than average
  - More heavily unionized than average
  - Generally, comprehensive benefits as part of compensation packages bargained

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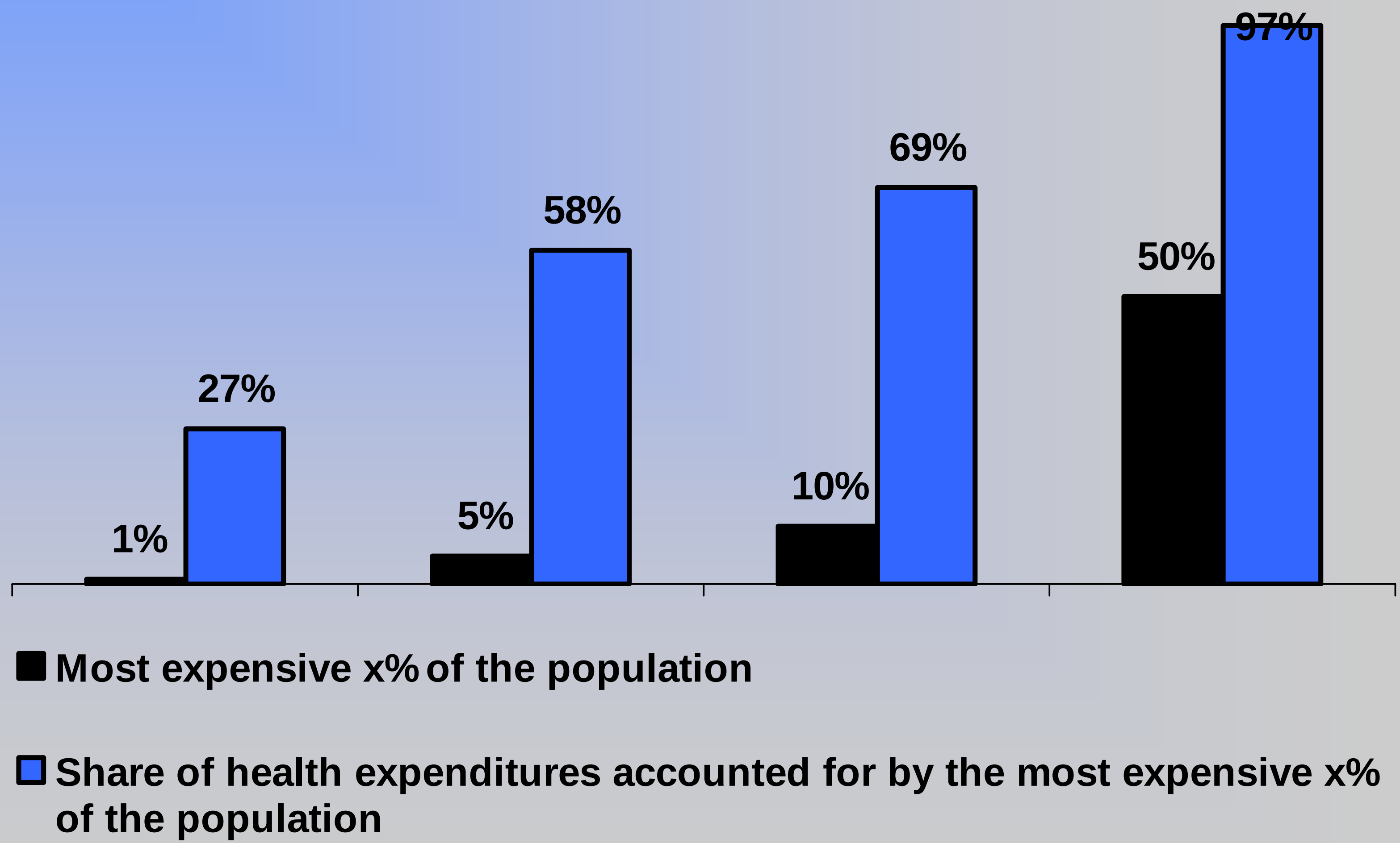
State as Purchaser

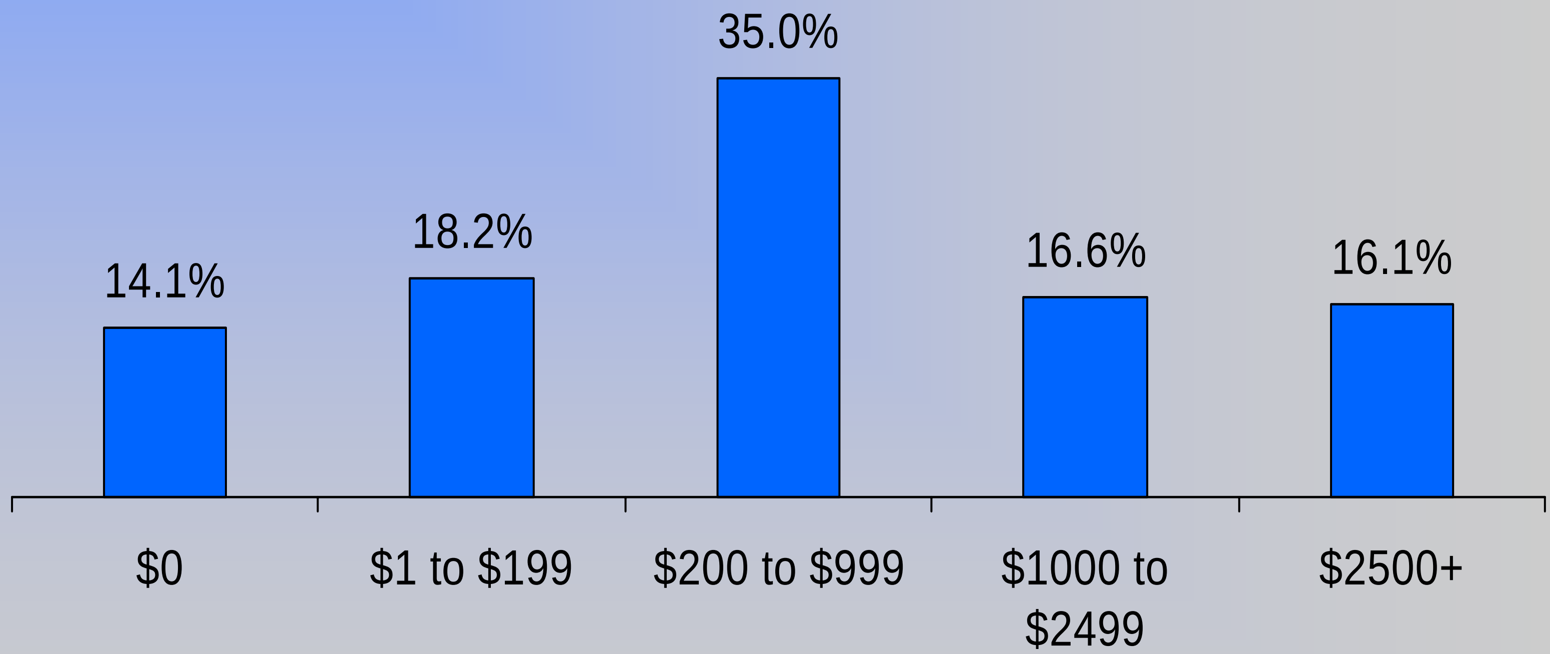
- States, in their role as employers and purchasers of health care benefits, should care about CDHPs due to:
  - Risk segmentation possibilities
  - Contribution policies
  - Union-bargained environment

Concentration of Health Care Spending: A Small Share of the Population Accounts for Most Health Care Spending



Source: Berk and Monheit, Health Affairs, March/April 2001.

Distribution of Health Spending Among People with Private Health Insurance



Source: Agency for Healthcare Research and Quality, Medical Expenditure Panel Survey.

State as Marketplace and Policy Oversight Entity

- The promise of CDHPs is the hope that, With their own health dollars at stake, consumers may make more cost-efficient choices regarding their health care use
  - Ultimately, may lead to a more responsive health system overall
- However, States also should consider the effects of CDHPs on their overall health care markets

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State as Marketplace and Policy Oversight Entity

- A number of areas for States to monitor:
  - Will there be cost savings to the overall system?
    - Parente, et al., Hibbard, et al. findings
  - Is cost and quality information sufficient for consumers, as envisioned under ideal CDHP scenarios, to be able to discern relative differences
    - If not, whose responsibility is it to provide this information? What is the role of States?
    - Rosenthal findings
  - How will risk segmentation issue play out over time?
    - Early findings may not capture full effect

State as Marketplace and Policy Oversight Entity

- A number of areas for States to monitor (continued):
  - How will the increased cost sharing under CDHPs impact on affordability, especially for lower-income workers?
  - As consumers are expected to pay more directly out of pocket for care, will there be any impact on uncompensated care?
  - Will patients be more likely to use less or delay needed care due to cost sharing? Or will no-deductible preventive care mitigate this potential?

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Conclusions

- CDHPs are a market innovation that have both strong advocates and detractors
- Early findings show that the plans may be attracting a younger and healthier group, with lower baseline usage of health services
  - Monitor for changes over time, and risk pool stability issues
- Because CDHPs are a relatively new innovation, ongoing monitoring of their effect will be critical for states

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