

What are consumer-directed health plans and could they help CT control health costs?

What are consumer-directed health plans?

Consumer directed health plans (CDHPs) are a new health benefit design that pairs a high-deductible managed care plan with a tax-exempt health savings account (HSA). Consumers may use funds in their HSA to pay for medical costs with pre-tax dollars. CDHP deductibles nationally average \$1901 for individuals and \$4070 for families. Both consumers and employers can contribute to HSAs, but one out of three employers doesn't contribute anything. Because HSAs are cash accounts that belong to the worker, they can cash it out at any time, with a 10% penalty plus taxes. When HSA funds are gone, consumers with health needs have to pay the full cost of their care up to the deductible. HSA balances can be rolled over from year to year and can move with a worker from job to job.

Why are employers moving toward CDHPs?

Money - health insurance premiums rose 9.2 % this year, while inflation is up about half that at 4.7%. Wages grew at half again that rate, only 2.7%.

Employers' savings under CDHPs this year averaged 16% for single coverage and 10% for families over traditional insurance coverage.

One in five US firms now offers a consumer-directed health plan option to workers. One in four of those who don't are either very or somewhat likely to implement them in the near future.

Sounds good, what's the problem?

They won't help stop skyrocketing health costs. The idea behind CDHPs is that consumers are a key reason health costs are out of control. In traditional coverage, consumers pay the same \$10 or \$20 copay regardless of how much the service truly costs. Because CDHPs force consumers to share the costs, the theory predicts that consumers will shop around, driving down costs for everyone. The problem is that consumers have virtually no information about the costs of health care and very little about quality of care - which care is worth more. HMOs and employers with all the data at their disposal have not

been able to reduce inflation. Consumers are given an impossible task with no tools.

The top 10% of health care spenders in employer-sponsored coverage consume 58% of the resources. Those consumers are unlikely to choose CDHPs, as their overall costs will be much higher than in traditional coverage. Moving large numbers of healthier workers into CDHPs will further accelerate premiums for traditional coverage. True health care savings must target high utilizers of care.

Consumers buying health services with cash from their HSAs are paying full retail prices, without the HMO's significant discounts. This is a wasteful way to use precious health care dollars.

HSAs won't work for CT's uninsured. Families living on \$20,000 do not have large cash reserves to pay deductibles and the tax savings of HSAs are marginal. These families may be forced to cash out their HSAs for needed bills or be tempted to "save up" their HSA balances by forgoing check ups and screenings.

What can CT do to protect consumers?

HSAs and consumer-directed health plans were created under federal law, so CT cannot prohibit them. Eight CT insurance companies now offer these products and that number will undoubtedly grow. What can CT policymakers do to limit the harm to consumers?

- ▶▶ Support the development of information systems that allow consumers to assess the value of health services - best practices, prices and quality of care. Consumers have better information in purchasing cars than health care.
- ▶▶ Require first dollar coverage for preventive care in CDHPs
- ▶▶ Support a substantial, on-going consumer education campaign about the rules and risks of CDHPs
- ▶▶ Lobby federal policymakers to include CDHP consumer protections in federal law
- ▶▶ Expand CT's safety net-- as CDHPs grow, CT's uninsured and underinsured populations will swell

Bottom Line:

Connecticut needs to take early action to inform and protect consumers in consumer-directed health plans.

Sources: Employer Health Benefits 2005 Survey, Kaiser Family Foundation
Can "Consumerism" Slow the Rate of Health Benefit Increases, Employee Benefit Research Institute, 2002

Mila Kofman, *Health Savings Accounts: Issues and Implementation Decisions for States*, Academy Health, 2004