

# Consumer-Driven Health: On the Road, With Speed Limits

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# What's Under the Hood

## CDHC -- Elastic Definition, Across A Continuum

### HRAs, HSAs, Hybrids & Variations

HRAs – Employer-Only Money in Tax-Free Spending Account

Generally Notional Funding, Not Portable

Corridor of Cost Sharing Beyond 1<sup>st</sup>-Dollar Spending Acct

More Emphasis on Quality of Care, Enhanced Info,  
Decision Support Tools

Developed in Large, Self-Insured Employer Market

Moving into Regulated/Purchased Insurance Market

# What's Under the Hood

## Elastic Definition, Continuum

HSAs – Improved Version of MSAs (MMA 2003)

Mandatory “High” Deductible

Ceiling on OOP (Stop Loss)

Preventive Care First Dollar

Tax-Advantaged Personal Spending Acct

Started in Individual & Small Grp Mkt

Expanding to Larger Group Markets

# What's Under the Hood

## Elastic Definition, Continuum

### Hybrids

Choice of Insurers & Insurance Products  
Variable OOP Cost Sharing  
Combination of Funded Spending Account  
& Information Support  
Gradual Transition, Soft Incentives  
Depends on Who's Buying

### Evolution

Harness HSA Tax Incentives to  
HC Quality Improvement Agenda

# What's Under the Hood

## Empowerment of End User Consumers

- Transferring (& Sharing) Responsibility & Decision Making
- Engage Them with More Information, Incentives, & Tools to Make Better Choices
- More Point of Service, 1<sup>st</sup>-Party Payment
- Utilization Control : Demand Side, not Supply Side
- From Wholesale to Retail Focus

# Expand Time Horizon for Decision Making (Rollover)

“...may help participants perceive health care as an ongoing, lifetime process to be actively managed rather than a series of single-year, independent benefit periods to be used or forfeited.”

American Academy of Actuaries, Jan 2004

## Behavioral Change:

Near-Term Decisions Affect Long-Term Financial Savings  
& Lifetime Health

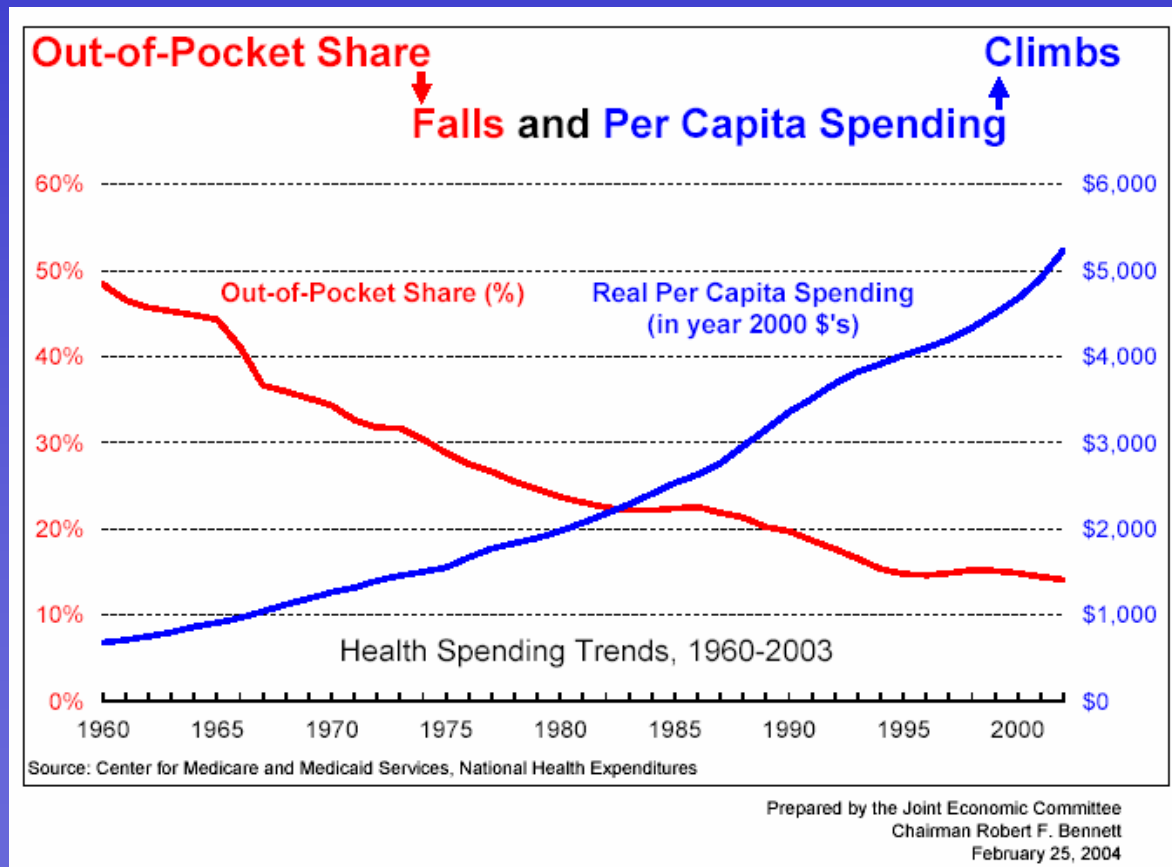
# Why We Got Here

- Post-Managed Care Backlash

Black Box Criteria, Lack of Employee Choice

- Annual Double-Digit % Premium Hikes
- Regulatory & Liability Overload
- Preference Mismatches

# Greater Share for Third-Party Payment Drives Health Spending Higher



# Crying Uncle

- “We are moving from markets in which health benefits have been structured substantially by public policy ... to those that are largely not subject to those rules... This shift to a less regulated market has been taking place while we were looking the other way – in the direction of regulation designed to protect patients’ rights and address some of the more egregious problems with managed care.”

Robert M. Crane, Kaiser Foundation Health Plan,  
March 2002 (*Health Affairs*)

# Et Tu, Too: Kaiser?

- **Kaiser Rolls Out New Plans with Big Deductibles**
- **HMO Targets Young, Healthy**

“Kaiser Permanente is launching several potentially controversial new health plans for individuals and families that slash monthly premiums by as much as 50 percent in exchange for an annual individual deductible of \$1,500. For family coverage, that deductible jumps to \$3,000 annually -- a huge amount in a system that traditionally has focused on one-size-fits-all benefit plans with no deductibles.

San Francisco Business Times, April 30, 2004

# How We Got Here:

- Bottom Up, Private-Sector Innovation  
    Bypassing the Beltway
- Reassembling the Bundled Benefits Dollar
- Self-Insured Early Adopters
- Backdoor, Incremental (Evolution)
- IRS Guidance on HRAs (July 2002)
- HSAs in 2003 MMA; Flexible IRS Regs
- Consumerism+Info Technology+DTC Ads
- Softer Labor Markets, Soaring Costs

# Early Evidence-Based Consumer-Driven Care

“The Performance and Potential of Consumer Driven Care,”  
Joint Economic Committee, Feb. 25, 2004,  
<http://jec.senate.gov>

- Early Trend: Reduces Cost Growth  
(Ten Percent Savings Net of Benefit Reductions)
- Improves Employee Satisfaction
- Enhances Preventive Care
- Employee Education Remains Crucial
- Lack of Broad Outcomes-Based Quality & Cost Info on  
Providers Limits Full Potential

# Early Evidence-Based Consumer-Driven Care

- **Aetna Study (2002 vs. 2003):**
  - Average 3.7% Medical Cost Increase (w/CDHC Option)
  - Double-Digit % Increase (Comparable non-CDHC Aetna)
  - Logan Aluminum (Full Replacement) – 11 % Decrease
- **United iPlan (2-yr Comparison, No Selection Bias)**
  - Significant Reduction in Utilization, More Selective Use
- **Whole Foods (\$1500 Deductible, Spending Account, Zero EE Premium)**
  - Medical Claims Costs Down 13% (One-Yr)
  - Same Per-Employee Total Costs to Employer (2002 vs. 2003)
- **Textron (First Full Replacement Example)**
  - 13% First-Yr Reduction in non-Catastrophic, non-Maternity (Pilot)
  - Total Utilization Still Below non-CDHC Experience (Year Two)
  - But Preventive Care Visits Increased

# Early Evidence-Based Consumer-Driven Care

- HSA Growth (Assurant)

70 % of Purchasers Are Age 40+ (Not Just the Young)

- CDHC Employer Surveys

43% Somewhat to Very Likely to Offer by 2005

73% by 2006 (Mercer, March 2004)

# Early Evidence-Based Consumer-Driven Care

- Enrollees -- Similar Population Distribution
- More Preventive Care
- Lower Costs (Drugs, ER, Office Visits)
- Rollover Balances
- No Ringing Alarm Bells
- Employee Satisfaction

# Critics

- Adverse Selection, Draining the “Pool”
- Dumping Costs on Employees
- Scrimping on Necessary Care
- Chronically Ill Cost the Most, but  
    Need Hands-On Intervention
- Short-Term Savings = Long-Term Costs
- Not Managing High Cost Cases
- Consumers Don't Know/Can't Choose
- Lack Cost & Quality Info

# Critics' Vision of Consumers at the Wheel of Consumer-Drive Health (Heading Straight Over A Cliff)



# Diehard Defenders of HMOs & Comprehensive 3<sup>rd</sup>-Party Insurance (The Dark Knight in Monty Python & the Holy Grail, 1975)



# Losing Ground Defending the Gates to Health Care Decisions (Monty Python & the Holy Grail, 1975)



# Getting More One-Sided as Wounds Add Up



# Pitiful Desperation?



# Rebuttals: Undermining the Risk Pool

## Many, Many Pools Already

(Not One Large Pool for Cross-Subsidies)

- Self-Insured Employers
- Experience Rating
- Different Insurers
- Different States
- Different Blocs of Business

# Rebuttals: Harsh Cost Sharing

Cost Sharing Not Much Greater than in  
Conventional Plans

\$1000+ In-Network Deductible

20% of Employers' PPO Plans (2002)

34% of Employers' PPO Plans (2003)

(Mercer, December 2003)

# Rebuttals: Employer Take-Backs

- *It Was and Is Employee Money*

*Total Compensation = Benefits + Wages*

*Compensating Differentials (Wage Offsets)*

# Rebuttals: Neglecting Necessary Care

- For Chronic Care: Carveouts & Interventions
- 1<sup>st</sup> Dollar Preventive Care Funding
- Persistence of High-Cost Conditions

Long-Term “Net” Savings over Lifetime

80% Retain over 50% of Funds

Only 5% Retain Less than 20%

(Eichner, McClellan, Wise 1996)

# Rebuttals: Blaming CDHC for Problems of Current System

- Current Lack of Evidence-Based Care

Patients Receive only 55% of Recommended Care

- Who Else Is Really Managing Higher Costs Well?
- CDHC Plans Use Same Conventional Practices as PPOs Once Above OOP Stop Loss
- Low-Income Problems Are Due to ...  
Low Incomes

# Rebuttals:

## Consumers Don't Know, Can't Know, Don't Care

- CDHC Triggers Info Demand & Supply
- If They Know What It Costs,  
They'll Ask What It's Worth

# Get Some Perspective

- Imposing Unrealistic Expectations on Health Care
- Measuring on Common Baselines
  - HMOs – 20 Years to Reach Maturity, Penetration
  - 401(k)s – 10 Years
- Compared to What?
- Tax Policy:
  - Mirror of Progressive Rates,
  - Second-Best Pro-Saving Incentives
  - Disarm the Tax Code for other Health \$\$\$?

# Get Some Perspective

- Competition & Change

Resorting Who Captures \$\$\$ & Market Share

- Merging Financial Products & Health Insurance
- Employers & Other Purchasers Won't Pay More
- Every Dollar of Claims Can't Be Covered By Ins
- Couldn't Hurt the Current Small Grp Mkt
- Big Boost for Individual Mkt

# Bottom Lines

- Chill Out & Ride One “Wave” at a Time
  - Decade-Long Structural Change Plays Out
- Many Refinements Ahead
  - Merging Supply & Demand Side Reforms
  - Full Replacement vs. Menu
  - Personalized Info & Value Calculations
  - Longer-Term Relationships
  - Realigned Incentives
- Trial and Error, Shake Down Cruises w/
  - Continuing Evolution

# Bottom Lines

- Unresolved Tension: Reconciling Promises  
Reduce Costs, Enhance Benefits
- Natural Limits on Degree of Change  
Employee Recruitment & Retention  
Everyone Eventually Gets Sick  
Delivery System Limits Pace & Degree  
of Demand Side Incentives