

The Consumer Driven Health Care Revolution

By Greg Scandlen

The Consumer Driven Health Care revolution involves a growing number of Americans who are reclaiming their right to buy services that *they* decide are beneficial. They are shrugging off regulation by politicians, insurance companies, pharmaceutical firms, hospitals, federal agencies, and employers, all of whom are fighting over who gets the dollars Americans spend each year on health care.

This revolution began six years ago, when consumers were able to redirect health care money into new deposits such as health savings accounts, health reimbursement arrangements, flexible spending accounts, and insurance policies with low premiums and high deductibles.

Empowered by control over their own money, consumers increasingly demanded the information needed to make good decisions about their health care. This changes the delivery of services to make health care more efficient, more accountable, more convenient, and certainly more affordable. Instead of paying an insurance company for coverage they were unlikely to use, consumers decided to buy less-expensive insurance while banking the difference to pay for services only when they needed them. Employers liked the revolution, too, because it left them more money with which to raise wages or fund a savings account.

Recent studies find that consumer driven health care plans are being used by 20 percent of the privately insured population. This is an astonishing rate of growth for an approach that began just six years ago. But this is only the beginning. The important thing is what happens after consumers have more control. Consumer driven plans are having a profound effect on the health care system.

The growing use of generic drugs, retail clinics, medical tourism, and the reduction in emergency rooms use may all be attributed to the growth of consumer driven health care. Even the current recession is highlighting a new era of consumerism in health care. Health care spending usually grows in times of recession because workers who fear losing their jobs—and their insurance coverage—try to maximize their use of services before they get laid off. But during this recession, consumers are deciding how best to spend their own money, and are choosing to preserve their funds instead of spending them on unnecessary health care services.

The Consumer Driven Health Care Revolution has only just begun.

1. Consumer Driven Care dramatically reduces premiums.

Health care insurance premiums are tumbling throughout the insurance market as employers and individuals switch to high-deductible health plans. Often the reduction in the price of the premium exceeds the cost of the higher deductible. Savings vary depending on many factors, but generally adopting a higher deductible saves consumers or employers 25-to-40 percent in the price of premiums. These are substantial savings that can be put tax free into consumers' HSA or HRA accounts to spend on the services that are important to consumers.

2. Consumer Driven Care reduces the rate of increase from year to year

Initial reductions in premiums are only the beginning. For example, the Mercer company found that the annual rate of increase for Consumer Driven Health Plans was about half of that for PPOs and HMOs. WellPoint looked at the experience of 8,000 of its group accounts in 2008,

and found that PPO and HMO rates rose between 7 percent and 10 percent from the previous year while costs for its consumer driven plans actually dropped from 2007 to 2008. Cigna reported similar results in a study of 440,000 enrollees.

3. Consumers can use the savings to fund their accounts

In 2009, a single person can put \$3,000 into an HSA, and a family can put in up to \$5,950. In addition, consumers who are age 55 or older can add another \$1,000 as a “catch up.” Those funds used to go to an insurance company, but now remain the consumer’s own property. The money stays in the account, earning interest until the consumer withdraws it. Importantly, the funds may also be used to pay for long term care expenses at a nursing home or in-home health care services.

A report issued by HSA Market News in June, 2008 found that 21 of the leading U.S. banks had 2 million HSA accounts with \$2.9 billion in deposits for an average balance of \$1,450. Another article put the total amount of deposits in 2,100 banks at \$9.4 billion at the end of 2007. Industry wide, the trade publication Consumer Driven Market Report estimated that as of January 2009, more than \$9.2 billion resided in HSA accounts, and will total over \$16 billion by the end of 2010.

4. The money consumers put in the account is triply tax advantaged, saving even more.

HSA balances are growing so quickly because the number of people enrolled in HSAs is growing, and the accounts are earning interest. But the biggest reason is the pronounced tax advantage offered by HSAs. The money deposited by an employer is free of all taxes—income and payroll—just as employer sponsored health insurance premiums are.

Contributions by the account holder are deducted directly from income, and gains on the funds, such as from earned interest, are not taxed. Withdrawals also are tax free if used to pay for qualified medical expenses.

5. Consumer Driven Care is good for the sick as well as the healthy.

Consumer driven health care has often been criticized as being good for the “healthy and the wealthy” but of little value to anyone else. But that is not true. An analysis in 2001 determined that HSAs would reduce health care costs for people with high medical expenses because the out-of-pocket exposure is limited and people reach 100 percent coverage faster than they do in other forms of coverage. A study in *Health Affairs* by Dahlia Remler and Sherry Glied confirmed that, finding that both the healthy and the unhealthy benefit from HSA programs.

Numerous studies have found that people with chronic conditions in consumer driven plans were more likely to comply with treatment programs than people in traditional plans. The Cigna report cited above confirmed that medical costs among those with hypertension or diabetes were substantially less with CDHPs, “while their treatment regimens were the same or better than those in traditional HMOs and PPOs.” These results should not be surprising. Consumer driven health care is intended to get people more actively involved with their own treatment, and no one is more concerned with their own treatment than people who are ill.

6. Consumer Driven Care is good for the poor as well as the wealthy.

Another false charge that is often repeated is that HSA’s don’t benefit low-income people because they pay no income taxes and hence get no tax advantage from an HSA. That is

irrelevant. The greatest advantage of an HSA is not the tax savings but the premium savings. If a consumer can cut the annual cost of premiums from \$6,000 to \$4,000, he has saved \$2,000 that would otherwise go to the insurance company. The value of that extra \$2,000 is far greater for a lower-income worker than for a wealthy one, regardless of their tax situation.

Likewise false is the complaint that lower-income workers cannot afford to cover the higher deductible—it ignores the much higher cost of the premium needed to avoid the higher deductible. If the insurance plan costs \$6,000 with no deductible, but only \$4,000 with a deductible of \$2,000, the cost of the coverage is exactly the same in either situation. But the consumer driven plan enables the worker to save and keep the \$2,000 by changing their behavior. If it is not all spent in the course of a year, it collects interest and grows. Also, a worker who cannot afford to cover the \$2,000 deductible certainly cannot afford the \$6,000 premium to avoid that deductible.

The examples of how this works are legion. One example is from a surveying firm in Baltimore. The company owner says he was paying \$1,200/month per family for a "middle-of-the-road health plan." It switched to an HSA-qualified plan. The company president writes, "Our premiums are around \$550 per month, leaving \$650 available for the firm to deposit into the employee's HSA." The \$5,800 deductible is fully funded by September each year, leaving the company with a lot of money left over. When properly designed and priced, HSAs and HRAs should be every bit as good for lower income people as for those who are better off.

7. Consumers may choose their own provider and their preferred service.

Traditional health insurance means the insurance company picks and chooses what providers it will recognize. These providers may be very good for the insurance company, but not so good for the patient. With a consumer driven plan you may go to any health care provider you choose, as long as the provider is duly licensed and providing a health care service by the IRS (which is almost everything). People who prefer alternative medicine get the same tax treatment for their expenses as those who prefer mainstream medicine. Consumers also have a choice of any health service they may prefer. Consumers are free to use the most expensive name brand drug or the cheapest generic, they may opt for natural childbirth or an in-hospital caesarian section.

Because they are spending their own money, consumers typically choose lower-cost treatments—without the resentment that third-party rationing brings. Even on a service as seemingly essential as the use of hospital emergency rooms, people exercise discretion when their own money is at stake. Regence Blue Shield found that people decreased their use of hospital emergency services by 32 percent when they switched from a traditional plan to an HSA. A study in the *Journal of the American Medical Association* found that people in consumer driven plans have 10 percent fewer ER visits overall and 25 percent fewer repeat visits.

8. People with Consumer Driven Plans change their behavior to get more value out of the system and become better informed about their treatments and costs.

Health care policy experts have been bemoaning the lack of "health literacy" for decades. They have tried browbeating people into paying more attention to costs and quality, to comply with treatment recommendations, to choose generics over name brand drugs, to adopt better life styles, and participate in wellness and prevention programs. None of it has worked. People have not paid attention to these lectures because there has been no reason to do so. Even if they

researched the very best doctors and hospitals and treatment programs, consumers could not act on that information because they are confined to what the health plan will pay for and who it contracts with. If they saved money by choosing lower cost services the savings would benefit the health plan, not the consumer.

Consumer driven approaches change all that. Once people have control of their own money and are able to make their own choices, they suddenly become very interested in seeking out information about costs and quality. They are more likely to listen to their doctor and look for ways to lower their own costs. They are more likely to change their lifestyles because it is their money on the line, not an insurance company's. Similar results have been achieved by virtually every employer and every health plan that adopts consumer driven coverage. People finally have a reason to ask questions, shop for price, and choose lower cost but equally effective services.

9. Consumer Driven Care is taking over the insurance market

Because of all the advantages mentioned here, Consumer Driven health care is fast becoming one of the dominant forms of coverage in the United States. The Center for Disease Control's NHIS survey found that 20.3 percent of the under-65 population with private coverage was enrolled in high deductible health plans, according to the most recent enrollment figures (from early 2008).

Virtually the entire individual market is in high deductible plans. This is a phenomenal rate of growth when one considers that high-deductible plans (defined as plans with a deductible of at least \$1,100 for an individual and \$2,200 for family coverage) barely existed before 2002.

The growth of HSA and HRA enrollment has been similarly impressive. Mercer found that the percentage of employers with over 500 employees who offer consumer driven plans grew from 14 percent in 2007 to 20 percent in 2008. Clearly there is something important happening in the health insurance market. Consumer driven plan enrollment could well exceed HMO enrollment in 2009, and the current recession will only hasten the pace of change as workers and employers struggle to get the most value out of every dollar spent on health care.

10. People with Consumer Driven Care are increasingly satisfied with their coverage.

When these programs were introduced, the level of satisfaction was lower than for traditional plans. Learning a new insurance product is never easy, and it was difficult for people who were accustomed to simply paying a \$20 co-pay for an office visit or a prescription to adapt to a new way of doing things. The advantages were not immediately evident. Plus, too many employers adopted these plans without engaging their workers in the decision. An early survey attributed the lack of satisfaction to inadequate communication from employers

The level of satisfaction has improved. A recent survey from the Employee Benefits Research Institute (EBRI) found that people with consumer driven plans are about equally satisfied as those with traditional benefits on quality of care and choice of doctors. Importantly, the survey finds that people with CDHPs are more satisfied than people with comprehensive coverage on several measurements—such as “encourages adoption of healthy lifestyles” (63 percent vs. 60 percent), “consider costs before seeing a doctor” (74 percent vs. 47 percent), and “health plan will protect me in the event of an expensive illness” (76 percent vs. 72 percent). As the EBRI study authors indicate, the rate of satisfaction on all measures seems to be growing over time, presumably as people become more familiar with the plans and how they work.

Healthy Dissatisfaction

Consumer driven care exposes patients to what health care is really like—high costs, questionable quality, confusion over pricing, fragmented delivery of services, and enormous inconvenience for the patient. There is a lot to be dissatisfied about in American health care, and it may be that people are not so dissatisfied with the health plan as with the reality that our health system is a mess.

This is a healthy dissatisfaction, and in fact is the essential ingredient in changing the health care system. Government has tried, employers have tried, health plans have tried, and all have failed. None of them has been able to make the system more accountable, efficient, convenient, and affordable. In fact, their interventions have only made things worse. They have so tied up the medical providers with bureaucratic red tape that caregivers' first concern must often be rules imposed from outside, not the needs of patients.

Consumer driven care enables activated and empowered consumers to refocus the health care system to do what is most essential: provide individual consumers with the care they need. But to get there, consumers must first learn what a mess health care has become. Once they know what the problems are and can control some of the money, they will be able to force the changes so needed in our system. That is already happening at a blistering pace. There is indeed a revolution underway, but it is not coming from Washington or the state capitols. It is coming from kitchen tables, water coolers, and backyard fences all over America as families realize that giant institutions have made a mess not only of financial investments, manufacturing, and housing, but also of health care. The answer is self-reliance and the freedom to choose for ourselves how our money will be spent:

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