

10 Reasons Consumer-Driven Health Care Works

By Greg Scandlen

The Consumer-Driven Health-Care revolution involves Americans reclaiming their right to buy services that *they* decide are useful. They are shrugging off control by politicians, insurance companies, pharmaceutical firms, hospitals, federal agencies, and employers, all of whom are fighting to get the money Americans spend on health care.

This revolution began six years ago, when consumers were able to redirect health-care money into deposits such as health savings accounts (HSA), 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 health care. This changes the delivery system to make health care more efficient, more accountable, more convenient, and 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. Recent studies find that consumer-driven health-care plans are being used by 20 percent of privately insured people. This is an astonishing rate of growth for an idea that began just six years ago. But this is only the beginning. Consumer-driven plans are having a profound effect on the health-care system. Unfortunately, Congress and the current Administration with their grandiose and expensive reform plans are ignoring what's really happening.

What happens in Consumer-Driven Health Care? When consumers have more control?

1. Consumer-Driven Care dramatically reduces premiums.

Health care insurance premiums are tumbling throughout the 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 deductible. Savings vary depending on many factors, but generally adopting a higher deductible saves consumers or employers 25 to 40 percent on 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 premium reductions 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.

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. Previously those funds went to the insurance company, but now the money remains 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. 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 is tax advantaged, saving even more.

HSA balances are growing so quickly because the number of people enrolled 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 premi-

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ums are. In addition, contributions by the account holder, whether \$590 or \$5,900, are deducted directly from income when filing taxes. Gains on the funds, such as earned interest, are not taxed. Withdrawals from HSAs are tax free if used to pay for medical expenses.

5. Consumer-Driven Care is good for sick and healthy.

Consumer-driven health care has often been criticized as being good for the "healthy and the wealthy" but of little value to others. 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 in other forms of insurance. People with chronic conditions are more likely to comply with treatment programs than those in traditional plans. A Cigna report 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 gets people more actively involved with their own treatment, and no one is more concerned than people who are chronically ill.

6. Consumer-Driven Care is good for poor and wealthy.

Another false charge is that HSAs don't benefit low-income people because these people pay no income taxes in the first place, and hence get no tax advantage. That is irrelevant. The greatest advantage of an HSA is not the tax savings but the premium savings. If a consumer can cut the cost of premiums from \$6,000 to \$4,000, he has saved \$2,000. 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 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. But the consumer-driven plan enables the worker to save the \$2,000 by changing behavior. If it is not spent, it collects interest and grows. A worker who cannot afford the deductible certainly cannot afford the premium. When properly designed, 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 services.












Traditional health insurance means the insurance company chooses the providers it will recognize. These providers may be good for the company, but not the patients. With a consumer-driven plan you may go to any health-care provider, as long as the provider is duly licensed and providing a health service. Alternative medicine gets the same tax treatment as mainstream. Consumers have a choice of any health service. They may use the expensive name brand drug or the generic.

8. People with Consumer-Driven Plans change their behavior, get more value, and become better informed.

Health-care experts bemoaned the lack of "health literacy" for years. They tried browbeating people into paying attention to costs, complying with treatments, choosing generics, adopting better life styles, wellness, and prevention. None of it has worked. People don't pay attention because there is no reason to do so. Even if they researched the best doctors, hospitals, and treatment programs, consumers could not act because

Iowa Statewide Economic Indicators

Data source: <<http://www.iowaworkforce.org/trends>> July 17, 2009

Latest Economic Indicators	Updated as of:	Actual Number	Amount of Change	Time Period Reported
 New Vehicle Registrations	7/2/2009	29,113	-27.60%	April 2008-April 2009
 New Housing Permits	6/26/2009	617	-26.50%	May 2008-May 2009
 Existing Home Sales	5/5/2009	50,400	-11.90%	4th Quarter 2008-1st Quarter 2009
 Total Resident Jobs	7/17/2009	1,578,600	-4,500	May-June 2009
 Non-Farm Employment	7/17/2009	1,499,500	-3,400	May-June 2009
 Factory Jobs	7/17/2009	200,500	-1,800	May-June 2009
 Unemployment Claims	7/17/2009	99,715	111.90%	June 2008-June 2009
 Jobless Rate	7/17/2009	1,104,100	6.20%	June 2009
 Personal Income	3/30/2009	\$36,680	5.70%	4th Quarter 2008-4th Quarter 2009
 Exports of Goods	4/20/2009	\$2,995,225	13.80%	1st Quarter 2008-1st Quarter 2009
 Farmland Values	5/22/2009	NA	2.00%	April 2008-April 2009

they are confined to the health plan and its contractors. Consumer-driven approaches change that. Once people control their money and their choices, they become very interested in costs and quality. They listen to their doctor and lower costs. They change their lifestyles because it is their money. Virtually every plan that adopts consumer-driven coverage has achieved similar results. People have a reason to ask questions, shop for price, and choose lower cost but effective services.

9. Consumer-Driven Care is taking over the insurance market.

Because of all the advantages discussed, Consumer-Driven health care is becoming one of the dominant forms of coverage. 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 enrollment figures from 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, 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 offering consumer plans grew from 14 to 20 percent from 2007-2008.

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 people who were accustomed to simply paying a \$20 co-pay for an office visit had to adapt. Plus, many employers adopted these plans without engaging their workers in the decision. 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 measurements such as “encourages adoption of healthy lifestyles” and “health plan will protect me in the event of an expensive illness.” The rate of satisfaction on all measures seems to be growing.

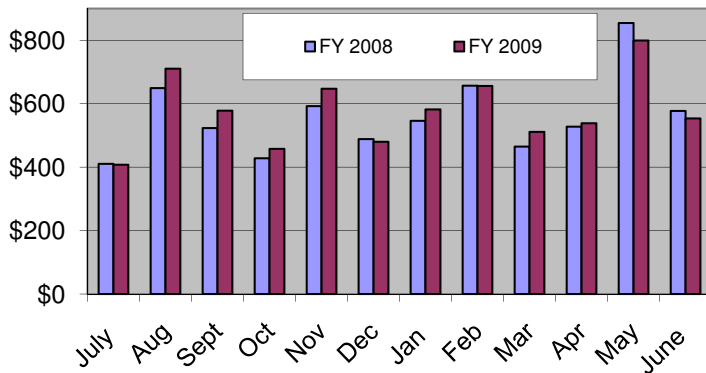
Healthy Dissatisfaction

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. There is a lot to be dissatisfied with in health care. This is a healthy dissatisfaction. It is the essential ingredient in changing the

continued on page 7

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Iowa's Monthly State Revenue and Estimated Net Yearly Revenue (in millions)

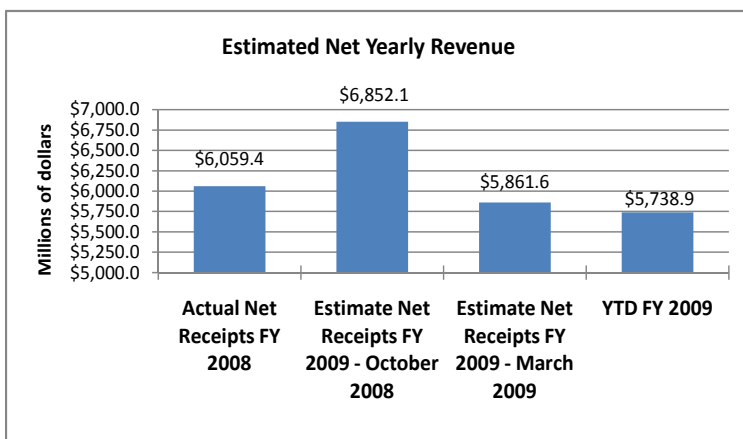


Iowa's Monthly State Revenue:

Monthly FY2009 state revenue was \$553.7 million in June 2009. This is \$23.3 million less than FY2008 for the month. Sales/Use and tobacco taxes were the only increases. At the end of the fiscal year, June 30, total gross cash receipts were \$6,921.5 million.

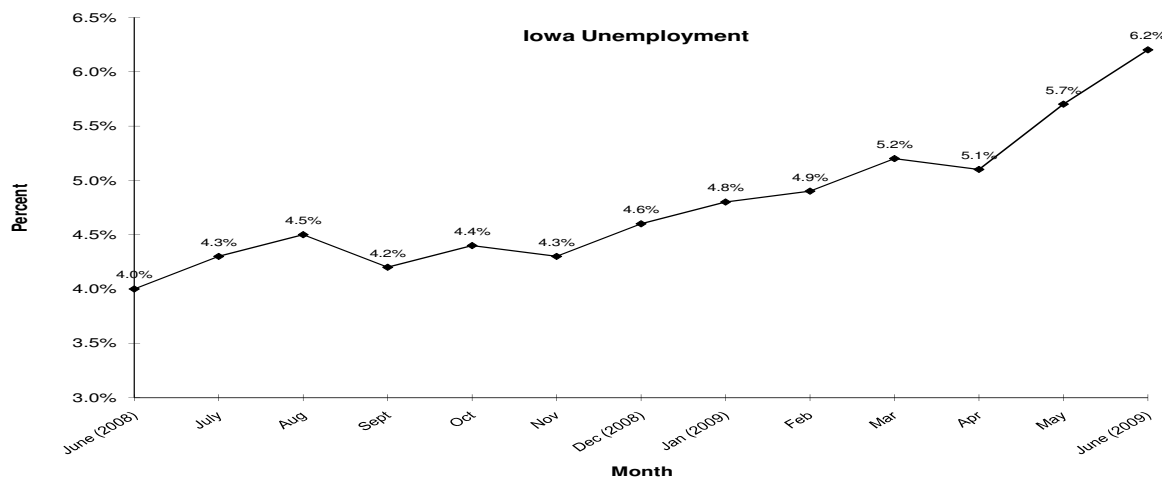
Iowa's Estimated Net Yearly Revenue:

The revised Revenue Estimating Conference March number for FY2009 Net General Fund receipts is now \$5,861.6 million. As of June 30, the net tax receipts for FY 2009 total \$5,738.9 million. This is \$1,113.2 million less than the original, October 2008 estimate of \$6,852.1 million, or over \$1.1 billion less in taxes collected than anticipated.



Source: Legislative Services Agency "Monthly General Fund Revenue Memo," and Revenue Estimating Conference Report

Iowa's Unemployment, June 2008 - Current

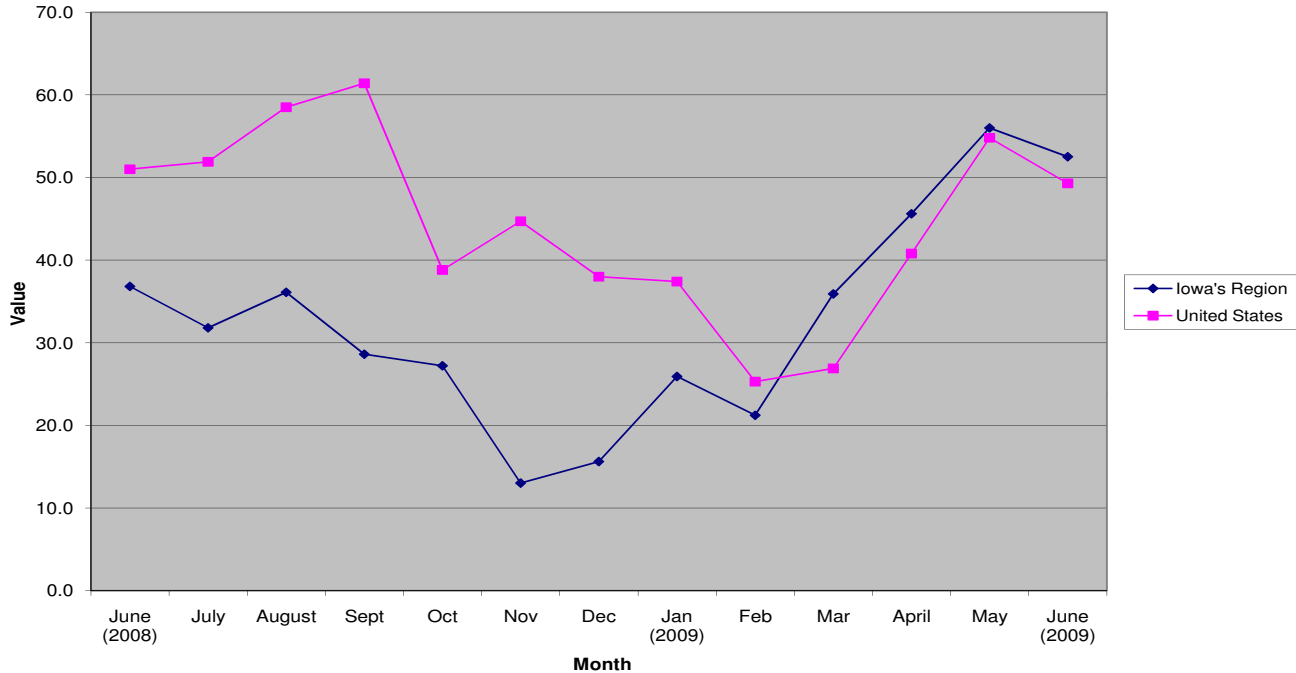


The U.S. unemployment rate in June 2009 was 9.5 percent, up from 5.5 percent one year ago. The Iowa rate is 6.2 percent, a 22-year high. This is up from 4.0 percent in June 2008. Total employment in June was 1,587,600, a decrease of 4,500 jobs since May and down 27,500 from last June. The number of unemployed persons was 104,100, the highest level since February 1986. Iowa's Workforce Development reported that these numbers reflect "a severe and lingering recession."

Source: Iowa Workforce Development, Labor Market Information Bureau, "Monthly Unemployment Rate" News."

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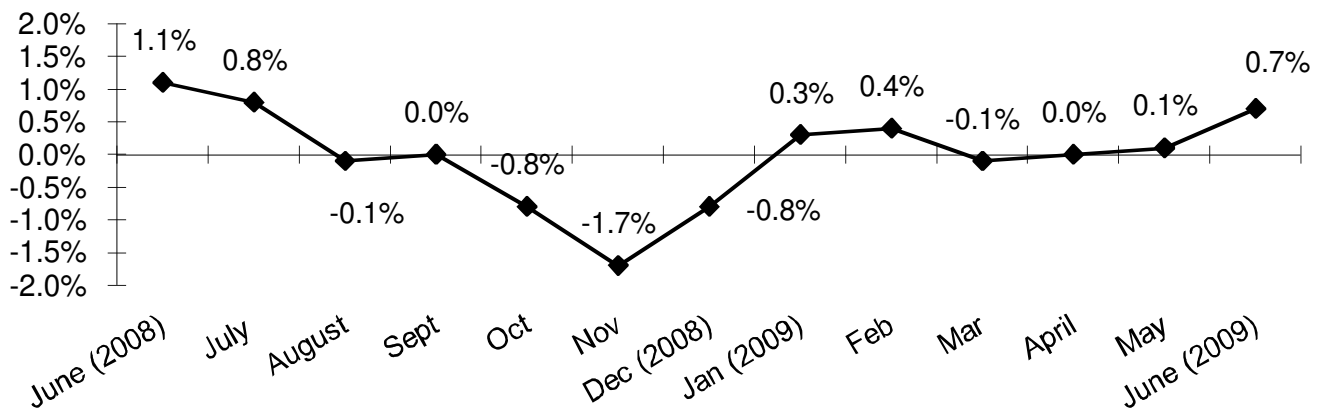
Consumer Confidence Index



As of June 2009, the Consumer Confidence Index (CCI) resumed a downward slide, falling to 49.3 from 54.8 in May. However, this up from the all-time February 2009 low of 25.3. According to the Conference Board, this reflects “a less favorable assessment of business conditions and employment.” The Creighton University Regional CCI for the 11 mid-western states has dropped from a May high of 56 to 52.5. It has been above the national number since March, indicating continuing confidence in the regional above the national economy.

Source: Conference Board, “Consumer Confidence Survey” and Creighton University

Consumer Price Index, Monthly Change



The seasonally adjusted Consumer Price Index for urban consumers increased 0.7 percent in June 2009, driven mostly by an accelerating gasoline index, which was up 17.3 percent and made up 80 percent of the total increase. The index for energy also rose 7.4 percent in June. Electricity declined slightly and food was unchanged. Slight increases were seen across the board in shelter, medical care, new vehicles, used cars and trucks, recreation, and apparel.

Source: U.S. Department of Labor, Bureau of Labor Statistics

REVENUE ESTIMATING CONFERENCE ESTIMATE OF GENERAL FUND RECEIPTS (in millions)

	FY 05 <u>ACTUAL</u>	FY 06 <u>ACTUAL</u>	FY 07 <u>ACTUAL</u>	FY 08 <u>ACTUAL</u>	% Change FY 08 Act vs. FY 07 Act
TAX RECEIPTS					
Personal Income Tax	2,782.3	2,854.2	3,085.9	3,359.7	8.9%
Sales/Use Tax	1,812.3	1,881.1	1,910.1	2,000.2	4.7%
<i>School Infrastructure*</i>					
Corporate Income Tax	280.9	348.6	424.6	483.8	13.9%
Inheritance Tax	78.4	73.1	76.0	78.4	3.2%
Insurance Premium Tax	130.9	121.4	105.2	111.7	6.2%
Cigarette Tax	87.4	89.5	122.0	229.5	88.1%
Tobacco Tax	8.7	9.2	12.1	21.2	75.2%
Beer Tax	14.0	14.2	14.3	14.5	1.4%
Franchise Tax	35.4	35.5	33.3	37.6	12.9%
Miscellaneous Tax	0.6	0.6	1.0	1.0	0.0%
Total Tax Receipts	5,230.9	5,427.4	5,784.5	6,337.6	9.6%
OTHER RECEIPTS					
Institutional Payments	12.7	13.0	12.9	14.9	15.5%
Liquor Profits	59.0	63.8	64.8	72.4	11.7%
Interest	9.7	17.5	28.7	25.3	-11.8%
Fees	72.3	76.2	84.7	82.1	-3.1%
Judicial Revenue	59.2	63.1	66.9	90.0	34.5%
Miscellaneous Receipts	65.1	49.7	35.7	36.1	1.1%
Racing & Gaming	60.0	60.0	60.0	60.0	0.0%
Total Other Receipts	338.0	343.3	353.7	380.8	7.7%
Gross Tax & Other Receipts	5,568.9	5,770.7	6,138.2	6,718.4	9.5%
Accruals (Net)	(31.4)	54.0	37.4	(24.0)	-164.2%
Refunds (Accrual Basis)	(696.9)	(586.0)	(597.9)	(674.8)	12.9%
School Infrastructure Transfer (Accrual)					
Total Net Receipts	4,840.6	5,238.7	5,577.7	6,019.6	7.9%
Transfers (Accrual Basis)**					
Lottery	49.3	79.6	59.3	55.3	-6.7%
Other Transfers	39.1	64.4	9.3	9.6	3.2%
Total Transfers	88.4	144.0	68.6	64.9	-5.4%
Net Receipts Plus Transfers	4,929.0	5,382.7	5,646.3	6,084.5	7.8%
Estimated Gambling Revenues Transferred To Other Funds	160.4	171.5	208.7	220.7	5.7%

* Included in the Sales/Use Tax number above

** Transfers estimated on an accrual basis starting FY2009, October 2009 Estimate

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REVENUE ESTIMATING CONFERENCE ESTIMATE OF GENERAL FUND RECEIPTS (in millions)

12/08 REC FY 09 ESTIMATE	% Change FY 09 Est vs. FY 08 Est	12/08 REC FY 10 ESTIMATE	% Change FY 10 Est vs. FY 09 Est	03/09 REC FY 09 ESTIMATE	% Change FY 09 Est vs. FY 08 Act	03/09 REC FY 10 ESTIMATE	% Change FY 10 Est vs. FY 09 Est
3,424.4	1.9%	3,485.2	1.8%	3,363.1	0.1%	3,309.0	-1.6%
2,418.8	20.9%	2,467.5	2.0%	2,355.1	17.7%	2,397.5	1.8%
358.6		411.2		330.5		401.0	
407.1	-15.9%	366.7	-9.9%	407.3	-15.8%	376.2	-7.6%
83.9	7.0%	83.9	0.0%	78.4	0.0%	78.4	0.0%
115.6	3.5%	115.6	0.0%	112.9	1.1%	108.6	-3.8%
224.0	-2.4%	221.8	-1.0%	217.0	-5.4%	201.9	-7.0%
21.8	2.8%	23.0	5.5%	21.8	2.8%	23.0	5.5%
14.5	0.0%	14.6	0.7%	14.7	1.4%	14.8	0.7%
32.2	-14.4%	29.3	-9.0%	33.5	-10.9%	31.2	-6.9%
1.0	0.0%	1.0	0.0%	1.0	0.0%	1.0	0.0%
6,743.3	6.4%	6,808.6	1.0%	6,604.8	4.2%	6,541.6	-1.0%
13.5	-9.4%	13.5	0.0%	13.7	-8.1%	13.7	0.0%
81.6	12.7%	74.6	-8.6%	81.6	12.7%	74.6	-8.6%
16.5	-34.8%	15.9	-3.6%	14.7	-41.9%	14.1	-4.1%
71.3	-13.2%	74.6	4.6%	71.6	-12.8%	75.1	4.9%
95.0	5.6%	99.0	4.2%	93.3	3.7%	97.3	4.3%
38.3	6.1%	38.0	-0.8%	39.5	9.4%	37.8	-4.3%
60.0	0.0%	60.0	0.0%	60.0	0.0%	60.0	0.0%
376.2	-1.2%	375.6	-0.2%	374.4	-1.7%	372.6	-0.5%
7,119.5	6.0%	7,184.2	0.9%	6,979.2	3.9%	6,914.2	-0.9%
14.9	-162.1%	18.6	24.8%	(0.1)	-99.6%	8.6	100.0%
(755.0)	11.9%	(821.0)	8.7%	(760.0)	12.6%	(821.0)	8.0%
(388.1)		(412.0)		(357.5)		(401.9)	
5,991.3	-0.5%	5,969.8	-0.4%	5,861.6	-2.6%	5,699.9	-2.8%
53.0	-4.2%	54.0	1.9%	53.0	-4.2%	54.0	1.9%
7.7	-19.8%	2.0	-74.0%	55.7	480.2%	2.0	-96.4%
60.7	-6.5%	56.0	-7.7%	108.7	67.5%	56.0	-48.5%
6,052.0	-0.5%	6,025.8	-0.4%	5,970.3	-1.9%	5,755.9	-3.6%
221.4	0.3%	222.0	0.3%	221.4	0.3%	222.0	0.3%

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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. Their interventions have only made things worse. Providers are so tied up with red tape that caregivers' first concern is the rules, not the patient. Current legislation will not change these problems and will probably increase them.

Consumer-driven care enables consumers to refocus the health-care system to do what is most essential: provide consumers with care. But to get there, consumers must first control the money. Then we can force the needed changes. That is already happening. There is indeed a revolution underway, but it is not coming from Washington. It is coming from kitchen tables and water coolers as families realize that giant institutions have made a mess not only of financial investments and housing, but also health care.

The answer is self-reliance and the freedom to choose for ourselves how our money will be spent.

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