

Ten Ways Consumer Driven Health Care is a Proven Success

By Greg Scandlen

A revolution is underway in American health care, but you won't read about it newspapers or see it on TV.

The revolution involves a growing number of Americans who are reclaiming their right to buy health care goods and services that *they* decide are beneficial. They are shrugging off the heavy hand of regulation by Washington politicians, insurance companies, pharmaceutical firms, hospitals, medical organizations, federal agencies, and giant employers, all of whom are fighting over who gets what of the trillions of dollars Americans spend each year on health care.

This is a Consumer Driven Health Care Revolution.

The revolution got underway six years ago, when consumers were able to redirect some of the health care money they earned 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. Once they possessed both the money and information, consumers forced changes in 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 maximum coverage they were unlikely to use, increasing numbers of consumers decided to buy less-expensive insurance for expensive services and products while banking the monetary 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.¹ This is an astonishing rate of growth for an approach that began just six years ago.

But these insurance plans are only the beginning. The important thing is what happens after consumers have more control. Already, consumer driven plans are having a profound effect on the health care system.

The growing use of generic drugs, retail clinics, medical tourism, concierge medicine, physician-

¹ Robin Cohen, et.al., "Health Insurance Coverage: Early Release of Estimates from the National Health Interview Survey, January - March 2008" Center for Disease Control, ,
<http://www.cdc.gov/nchs/data/nhis/earlyrelease/insur200809.htm>

owned specialty hospitals, and the reduction in the use of hospital emergency rooms 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. As a result, spending on prescription drugs dropped by 2 percent in the year ended Sept. 30, 2008, physician office visits are down 1.5 percent, and hospital admissions are down by 2 percent.³

The Consumer Driven Health Care Revolution has only just begun, and here's why it will grow:

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.

A survey of employer plans conducted by the Kaiser Family Foundation in 2008 found that the average annual premium for a family plan totaled \$13,100 for HMO coverage, \$11,600 for a PPO, and \$9,100 for an HSA.⁴ The average premium for single people totaled \$4,800 for HMOs and PPOs, \$4,500 for an HRA, and \$3,500 for an HSA.

Similarly, the Mercer Company surveyed employers in 2007 and found the per-employee premium (combining family and worker-only coverage) averaged \$7,400 for a PPO, \$7,100 for an HMO, but only \$6,200 for an HRA, and \$5,700 for an HSA.⁵

In 2008, Mercer found that Consumer Driven Health Plans (blending HRAs and HSAs) cost \$6,200 per employee while PPOs cost \$7,800, even though the average deductible in a PPO had doubled to \$1,000 between 2007 and 2008.⁶

Aetna recently reported that over a six-year period, employers who switched to a consumer

² Joanne Wojcik, "Skimping on health care feared in tough times," Business Insurance, November 3, 2008. http://www.businessinsurance.com/cgi-bin/article.pl?article_id=26367

³ Reed Abelson, "Hospitals See Drop in Paying Patients," New York Times, November 6, 2008. http://www.nytimes.com/2008/11/07/business/07hospital.html?_r=2&th&emc=th&oref=slogin

⁴ Employer Health Benefits 2008 Annual Survey, Kaiser Family Foundation, <http://ehbs.kff.org/>

⁵ National Survey of Employer-Sponsored Health Plans, The Mercer Company, November 19, 2007, <http://www.mercer.com/referencecontent.htm?idContent=1287790>

⁶ National Survey of Employer-Sponsored Health Plans, The Mercer Company, November 19, 2008, <http://www.mercer.com/summary.htm?idContent=1328445>

driven plan saved \$21 million per 10,000 employees. ⁷

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, not just to their insurance companies.

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

Initial reductions in premiums are only the beginning. The Mercer company found that the annual rate of increase for Consumer Driven Health Plans was about half of that for PPOs and HMOs. ⁸

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 2008.⁹ Cigna reported similar results in a study of 440,000 enrollees.¹⁰ Federal employees saw premiums for the Standard Option plan from Blue Cross Blue Shield jump 13.4 percent for families and 12.9 percent for single workers in 2009 while Aetna's HSA program increased by just 7 percent, and similar programs offered by the Postal Workers Union and the Government Employees Health Association had no increase in premiums for four years running. ¹¹

As a consequence, the Kaiser Family Foundation and Mercer report that annual health care costs have grown between 5 percent and 6 percent for the last five years.^{12, 13}

Not all sectors of the nation are reaping the same benefits. In Minnesota, for instance, Blue Cross Blue Shield combines the experience of all of its small group plans, and gives them all the same rate increase from year to year, HSA enrollees and traditional enrollees alike.¹⁴ So people in a consumer driven plan are unable to reap the benefit of their cost containing behavior.

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."¹⁵ Those funds used to go to an insurance company, but now remain the consumer's own property,

⁷ "Aetna Announces Results of a Six-Year Study of Consumer-Directed Health Plans," March, 10, 2009.

<http://finance.yahoo.com/news/Aetna-Announces-Results-of-a-bw-14593229.html>

⁸ Op. Cit., Mercer, 2007.

⁹ "Employers and Consumers Recognize Value of Consumer-Directed Health Plans," WellPoint, October, 2008, <http://www.wellpoint.com/pdf/CDHP.pdf>

¹⁰ "CIGNA Study: Americans with CDHPs Cut Medical Costs Without Cutting Care" January, 2009.

http://newsroom.cigna.com/article_display.cfm?article_id=1006

¹¹ Inside Consumer-Directed Care, October 10, 2008, Vol. 6 No. 19, <http://www.aishealth.com>

¹² Op. Cit. Kaiser Family Foundation, 2008.

¹³ Op. Cit. Mercer, 2008.

¹⁴ Chen May Yee, "Health-savings plans may not live up to name," Minneapolis Star Tribune, April 11, 2008, <http://www.startribune.com/business/17324849.html>

¹⁵ U.S. Treasury Department, May 13, 2008, <http://treasury.gov/press/releases/hp975.htm>

regardless of whether they are contributed by the consumer directly, by his employer, or by anyone else, such as a family member. The money stays in the account, earning interest from the account trustee, 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 \$1,450.¹⁶ Another article put the total amount of deposits in 2,100 banks at \$9.4 billion at the end of 2007.¹⁷ 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 2010.⁸₁

The rapid growth in deposits prompted some insurance companies, including WellPoint, UnitedHealthcare, and the Blue Cross Blue Shield Association, to form their own banks and offer FDIC-guaranteed accounts, and more insurers are likely to follow suit.⁹₁

Employers who offer a Health Reimbursement Account (HRA) instead of a Health Savings Account (HSA) retain control of the money in the account, and employees aren't allowed to contribute their own funds. However, unused amounts typically roll-over and build up from year to year, so employees have a growing source of funds to tap into when they need them. In most cases, employees who leave their company forfeit HRA, although many employers are allowing retirees to use the funds for their retirement health needs.

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. Funds may be withdrawn for other purposes, but the amount is taxed as ordinary income plus a 10 percent penalty for people below age 65.

HRAs share many of these same tax advantages. Funds allocated to the HRA are tax free, build

¹⁶ HSA Market News, June, 2008, http://www.buckconsultants.com/buckconsultants/portals/0/documents/PUBLICATIONS/HSA_Market_News_June2008.pdf

¹⁷ Emily Berry, "Taking it to the Bank," American Medical News, December 22, 2008. <http://www.ama-assn.org/amnews/2008/12/22/bisa1222.htm>

¹⁸ Consumer Driven Market Report, Issue No. 2, 2009

¹⁹ Op.Cit. Emily Berry.

up is tax free, and withdrawals are tax free. However, withdrawals from an HRA may be used only for qualified health care expenses. They may never be used for other purposes.

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 more experience and more research have found that not to be true, no matter how often it is repeated.

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.²⁰ 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.¹₂

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.^{22, 23} 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.”⁴₂

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 obviously true, but 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.

²⁰ Greg Scandlen, “MSAs Can be a Windfall for All,” NCPA Backgrounder #157, November 2, 2001.

²¹ Dahlia Remler and Sherry Glied, “How Much More Cost Sharing Will Health Savings Accounts Bring?” *Health Affairs*, Vol. 25, No. 4, July/August, 2006.

<http://content.healthaffairs.org/cgi/reprint/25/4/1070?maxtoshow=&HITS=10&hits=10&RESULTFORMAT=&fulltext=HSA+healthy&andorexactfulltext=and&searchid=1&FIRSTINDEX=0&resourcetype=HWCIT>

²² Vishal Agrawal, “Consumer-Directed Health Plan Report: Early Evidence is Promising,” McKinsey & Company, June, 2005.

http://www.mckinsey.com/clientservice/payorprovider/Health_Plan_Report.pdf

²³ “UnitedHealth Group Analysis Confirms Chronically Ill Continue Receiving Needed Care When Enrolled in a Consumer-Driven Health Plan,” April 23, 2007. http://findarticles.com/p/articles/mi_m0EIN/is_/ai_n19021682

²⁴ Cigna, 2009, op. cit.

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.⁵²

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, by accepting lower fees, but not so good for the patient.

With a consumer driven plan, and especially with an HSA, you may go to any health care provider you choose, as long as the provider is duly licensed and providing a service recognized as a health care expense by the IRS (which is almost everything).²⁶ 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, as long as it is recognized by the IRS as a legitimate health service.²⁷ 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

²⁵ "Point to Point: The HSA Advantage," American Surveyor, February 15, 2008
<http://www.amerisurv.com/content/view/4739/>

²⁶ The Internal Revenue Service has become the arbiter of what is and is not a "health care service" under section 213(d) of the Internal Revenue Code, illustrating to what degree tax policy has become de facto health policy in the United States. The IRS is constantly changing what is included as a tax deductible medical expense. See Internal Revenue Service Publication #502 (<http://www.irs.gov/publications/p502/ar02.html>) for a complete description of what is allowable.

²⁷ Op. Cit. Internal Revenue Service Publication #502

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.²⁸ 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, almost entirely for non-severe conditions.²⁹

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.³⁰

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

²⁸ “Consumer-Directed Health Plans: Consumer Perspectives. 2007 CDHP Member Experience Report,” Blue Cross Blue Shield Association, December 2007. <http://www.bcbs.com/news/bcbsa/blue-cross-and-blue-shield-12.html>

²⁹ Wharam, Frank J., et.al., “Emergency Department Use and Subsequent Hospitalizations Among Members of a High-Deductible Health Plan,” *Journal of the American Medical Association*, Vol. 297, No. 10, March 14, 2007. <http://jama.ama-assn.org/cgi/content/abstract/297/10/1093>

³⁰ “New BCBSA Survey Finds CDHP Consumers Are More Health And Cost Conscious,” Blue Cross Blue Shield Association press release, October 20, 2008. <http://www.bcbs.com/news/bcbsa/new-bcbsa-survey-finds-cdhp-consumers-are-more-health-and-cost-conscious.html>

high deductible health plans, according to the most recent enrollment figures (from early 2008).¹³ Virtually the entire individual market is in high deductible plans these days.

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. In addition, deductibles have risen sharply among plans not characterized as high-deductible. Mercer's 2008 survey found that the average deductible in a regular PPO doubled from \$500 in 2007 to \$1,000 in 2008³²— just below the threshold to be HSA eligible.

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 2008.³³ Aon Consulting and the International Society of Certified Employee Benefit Specialists (ISCEBS) surveyed 336 employers and found that 45 percent offered a CDHP program, with 39 percent of the rest planning on offering one in the near future.³⁴ The Blue Cross Blue Shield Association conducted a survey that found, "70 percent of consumers reporting that an HSA-eligible product is (now) available to either them or their spouse/partner."⁵³

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.⁶³

³¹ Robin Cohen, et.al., "Health Insurance Coverage: Early Release of Estimates from the National Health Interview Survey, January - March 2008" Center for Disease Control, , <http://www.cdc.gov/nchs/data/nhis/earlyrelease/insur200809.htm>

³² "Mercer survey finds \$1,000 health plan deductible was the norm in 2008," Mercer, November 19, 2008, <http://www.mercer.com/summary.htm?idContent=1328445>

³³ Op. Cit. Mercer, 2008

³⁴ William Sharon, "Employers More Optimistic About CDH Plans," Aon Consulting, October, 2008. <http://www.iscebs.org/PDF/surveys/cdh08findings.pdf>

³⁵ "New BCBSA Survey Finds Enrollment in CDHPs is Up; Consumers Are More Health and Cost Conscious," October 20, 2008, <http://www.bcbs.com/news/bluetvradio/consumerdriven2008/>

³⁶ "Towers Perrin: Confusion Plagues Account Plans," National Underwriter, May 22, 2007.

<http://www.lifeandhealthinsurancenews.com/cms/nulh/Breaking%20News/2007/05/22-towersperrin-ab>

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, but less satisfied with out-of-pocket costs and their health plan generally. 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. ⁷³

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: consumer driven health care.

³⁷ “Findings From the 2007 EBRI/Commonwealth Fund Consumerism in Health Survey,” Employee Benefit Research Institute, March 2008.

http://rs6.net/tn.jsp?t=ddcz5kcab.0.0.zoskxnbab.0&ts=S0322&p=http%3A%2F%2Fwww.ebri.org%2Fpublications%2Fib%2Findex.cfm%3Ffa%3DibDisp%26content_id%3D3897

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