



The Council for Affordable Health Insurance's ISSUES & ANSWERS

Solutions for Today's Health Policy Challenges

No. 155

July 2009

Only Consumers Can Bend the Cost Curve

President Obama says that we must lower health care costs, and Budget Director Peter Orszag argues we can “bend the curve” of health care spending and save \$700 billion a year by cutting out waste and unnecessary care. But the methods Orszag and others recommended are unproven, and some have been shown to cost more money than they save. Worse yet, these “experts” are doing their best to kill the only approach that has been proven to work: consumer driven health care.

What Are Consumer Driven Health Plans? Consumer driven health plans (CDHPs) rely on health insurance to cover larger medical expenses and preventive care. And they are usually paired with a tax-free Health Savings Account (HSA) or Health Reimbursement Arrangement (HRA) that can be used to pay for smaller and routine health care expenses. Employers usually provide part or all of the HSA money, and because the money belongs to the employees they become value-conscious shoppers in the health care marketplace.

Increasingly, employers and health insurers are embracing HSAs.

- More people are covered by HSAs than are covered by the State Children's Health Insurance Program, or SCHIP (7.7 million).
- More people are covered by HSA plans than the populations of any one of 39 states, and about the same as the number of covered lives under the federal employees' plan. And for good reason: HSAs and consumer driven health plans are bending the curve on health spending.

Empowering Individuals to Make Decisions. It may seem implausible that each consumer can affect much change on our health care system, but evidence is growing that people enrolled in consumer driven health plans get more value out of the system.

For example, most people know they should adopt healthier lifestyles and participate in wellness and prevention programs. But until CDHPs became widely available, there was little financial reason to do so. People were insulated from the cost of health care, and so they were sheltered from the financial implications of their decisions. And if they saved money by choosing lower-cost services, the savings would benefit the health plan or employer, not the consumer.

Consumer driven plans positively change the economic incentives. People finally have a reason to ask questions, shop for price, and choose lower-cost but equally effective services. Once people have control of their own money and are able to make their own choices they:

- Begin to seek out information about the cost and quality of health care services and any alternatives;
- Are more likely to listen to their doctor and look for ways to lower their own costs; and
- May change their lifestyles because it is their money on the line.

Because they are spending their own money, consumers weigh the costs versus the benefits and frequently choose lower-cost treatments. One might not expect that consumers would exercise much discretion when it comes to medical emergencies, but amazing things happen when their own money is at stake.

For example, a study in the *Journal of the American Medical Association* found that people in consumer driven plans have 10 percent fewer emergency room visits overall and 25 percent fewer repeat visits, almost entirely for nonsevere conditions. Regence Blue Shield found that people decreased their use of hospital emergency services by 32 percent when they switched from a traditional insurance plan to a consumer driven plan compatible with a Health Savings Account.

Employers See Lower Costs. Employers also see dramatic changes with consumer driven coverage, including not only lower premiums but lower rates of growth. Premium savings vary depending on many factors, but adopting a higher deductible generally 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. The average premium for single people totaled \$4,800 for HMOs and PPOs, \$4,500 for an HRA, and \$3,500 for an HSA. Aetna recently reported that over a six-year period, employers who switched to a consumer driven plan saved \$21 million per 10,000 employees.

- 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. 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.
- Lower premiums are only half of the success story. 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. The Academy of Actuaries reviewed several of these studies and validated these conclusions.

The Actuaries' Study. The American Academy of Actuaries recently released "Emerging Data on Consumer Driven Health Plans," which provides the definitive proof that putting consumers in charge of health care is the only sustainable way to reduce the growth in health care spending.

The study concluded that cost savings are not a result of avoiding appropriate care. In fact, the studies show that necessary care is being obtained in equal or greater amount relative to traditional plans.

In general, the Academy found that consumer driven plan participants received recommended care for chronic conditions at the same or higher levels than traditional (i.e., non-consumer driven) plan participants. For example, a study by Cigna showed increased use of maintenance medications by chronically ill persons after they enrolled in a consumer driven plan. Furthermore, the actuaries determined that all of the studies reviewed reported a significant increase in use of preventive services — ranging from 4 percent to 23 percent higher across the studies — for consumer driven health plan participants.

Costs for consumer driven health plans are falling because people are becoming more engaged in their own health — something policymakers have been trying to achieve without success for decades. Consumers with a consumer driven health plan participate in wellness and prevention programs at higher rates than others, and they choose generic medications over name brands, avoid using hospital emergency rooms in favor of retail clinics or their own doctor, and comply better with recommended treatment programs.

According to the Academy, "The Aetna study noted that CDH members use generic drugs at a higher rate than control group members, which is evidence of behavior change that should result in lower cost without associated quality declines. Similarly, the Cigna study found that drug utilization was higher, but the cost per prescription was lower, which implies that it is likely that CDH participants favor generics."

Just for 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 recent experience and new research have found that not to be true. One analysis 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. For example, analysis by Cigna has confirmed that medical costs among those with hypertension or diabetes are substantially less when enrolled in CDHPs, "while their treatment regimens were the same or better than those in traditional HMOs and PPOs."

Conclusion. These results should not be surprising. Consumer driven health care is bending the health spending curve because it gets people more actively involved with their own treatment, and no one is more concerned with their own treatment than people who are ill.

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