

The Role of Consumer-Directed Health Care in Cost Containment

*First National Congress on
Health Care Cost Containment*

October 26, 2011

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Who said this?

“You should never try to tell people what they ought to do because all of their circumstances are different.

“But if you give them very good timely information, they are going to make their own decisions in ways, in general, that are going to be better for them and better for the system as a whole.”

— *Ron Kirby, transportation planning coordinator for the Metropolitan Washington Council of Governments*

Consumer-Directed Health Care Initiatives

CDHC has no guarantee of success and is far from a silver bullet solution to the many problems in the health sector

...But some companies are finding it helps contain costs and boosts prevention and wellness



CDHC is many things...

- **A constellation of offerings that give consumers more power and control over health care decisions**
- **New tools include:**
 - **HSAs, HRAs**
 - **Consumer-focused centers such as MinuteClinics**
 - **Wellness programs and incentives**
 - **Consumer-friendly medical information sources**

FSA, HRAs, and HSAs

■ Flexible Spending Accounts

- available since the mid '80s
- “Use it or lose it” flaw

■ Health Reimbursement Arrangements

- Created in 2002

■ Health Savings Accounts

- Available since 2004

The Vision:

- ❖ Engaging consumers as partners in managing health costs and getting the best value for health care dollars

Three goals:

- **Patient control**: Consumers will have more choices in health care and health insurance arrangements
- **Cost visibility**: They will be more price conscious in shopping for insurance and medical services
- **Savings incentives**: Consumers have more incentives to get the best product, service, and value for their money

Companies can give employees control over a portion of their salary

Cash wages →



Value of health insurance policy

Health Reimbursement Arrangements

One option for employers
...and employees

Health Reimbursement Arrangements

HRA

- Enabled by Treasury and IRS guidance
- Accounts can be funded only by the employer
- Very flexible – no limits on contributions, few dictates on coverage
- Unused balances can be carried forward to pay for health costs at discretion of employers

Health Savings Accounts

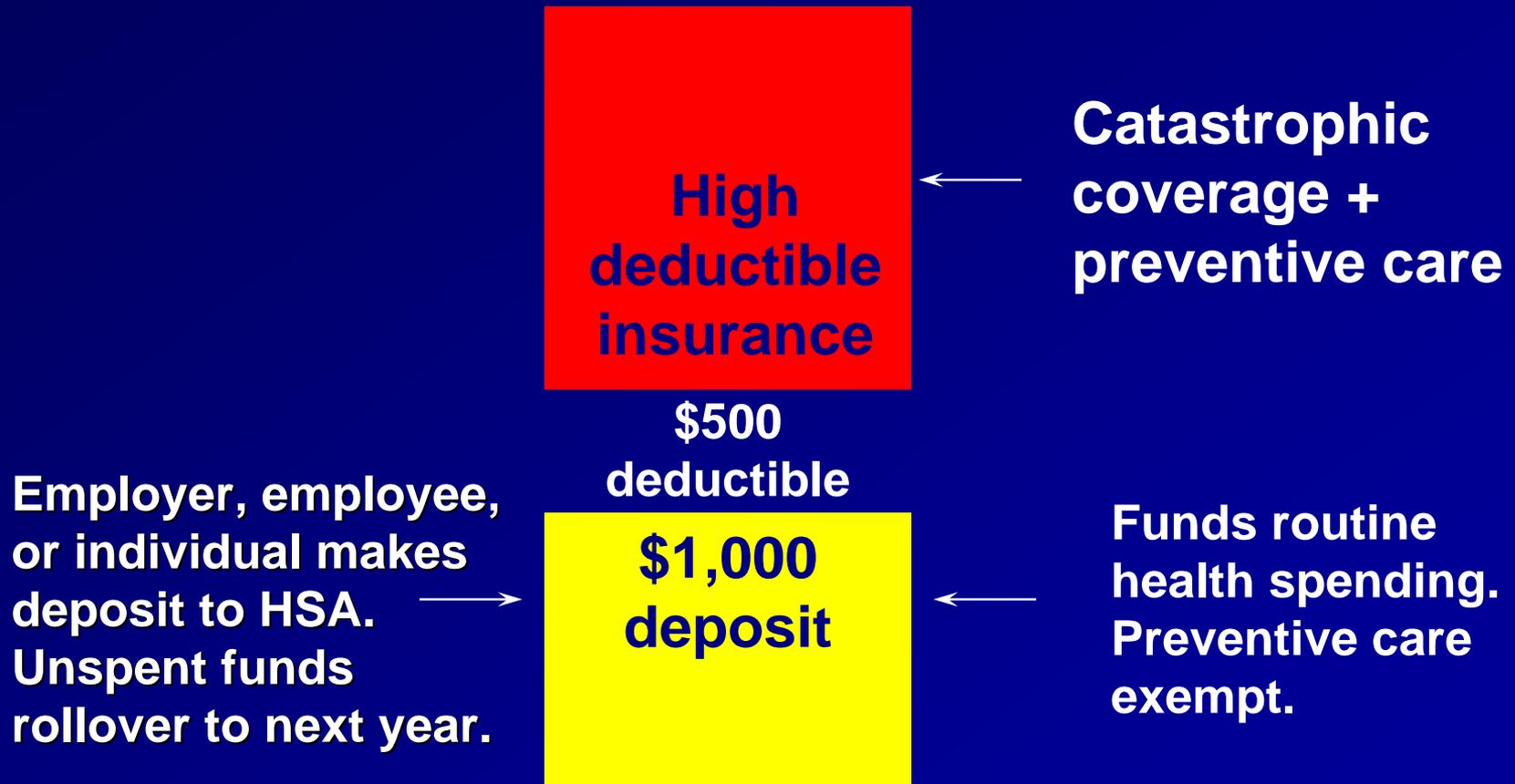
HSA

- Created by Congress as part of Medicare Modernization Act
- Effective January 1, 2004
- The newest option in the consumer-choice tool kit

Health Savings Accounts:

- HSAs allow individuals, employers, or employees to deposit tax-free money into a special account to pay for current and future medical expenses
- Savings are owned by the HSA holder and roll over from year to year
- Individuals must have a “high-deductible health plan” to open an HSA

One example of an HSA

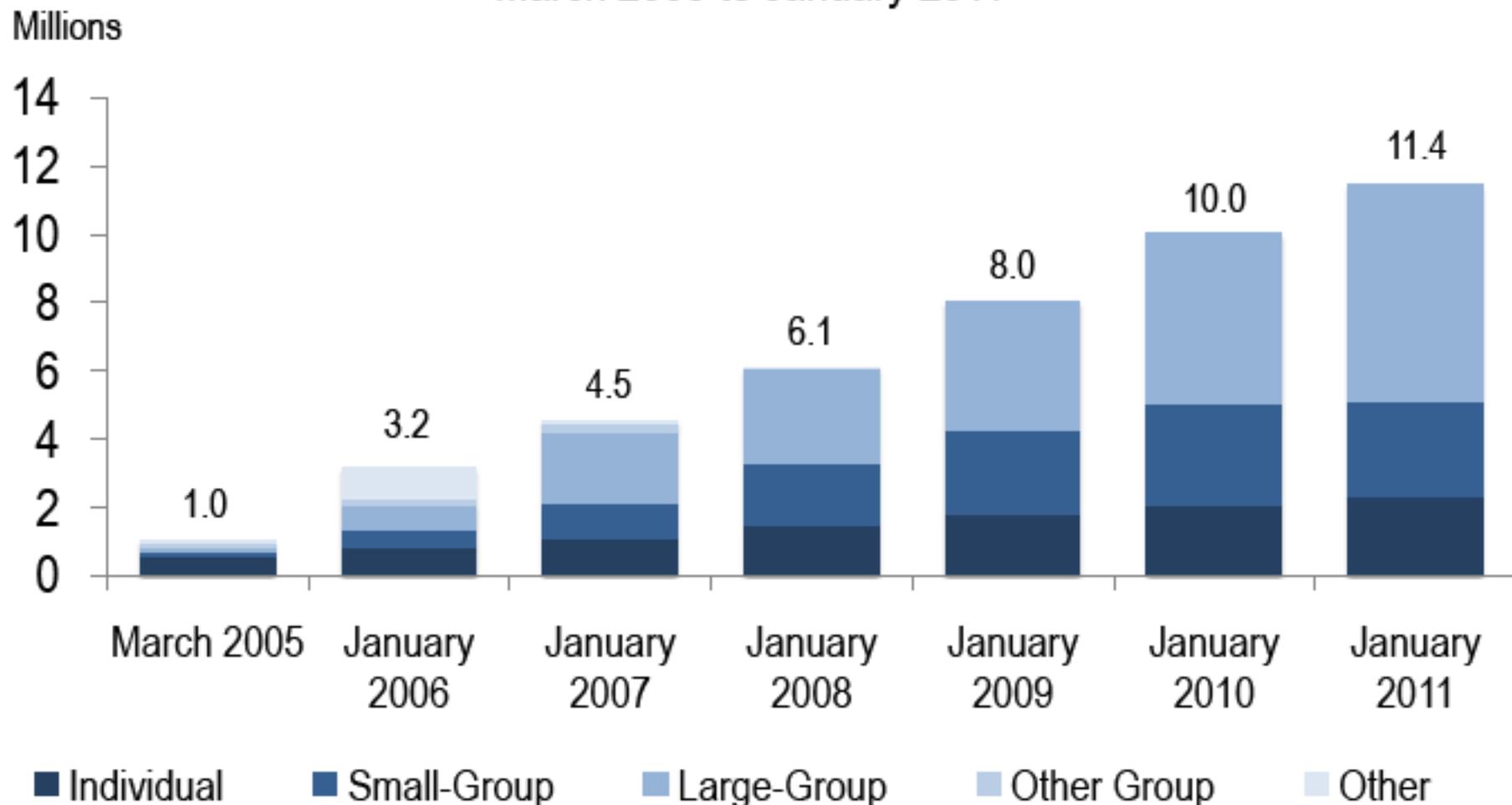


2011 HSA specs

HSA limits are adjusted annually:

- For 2011, the maximum HSA contribution is \$3,050 for an individual and \$6,150 for families.
- Minimum insurance deductible of \$1,200 for individuals, \$2,400 for families
- Out-of-pocket maximum: \$5,950 for individuals and \$11,900 for families

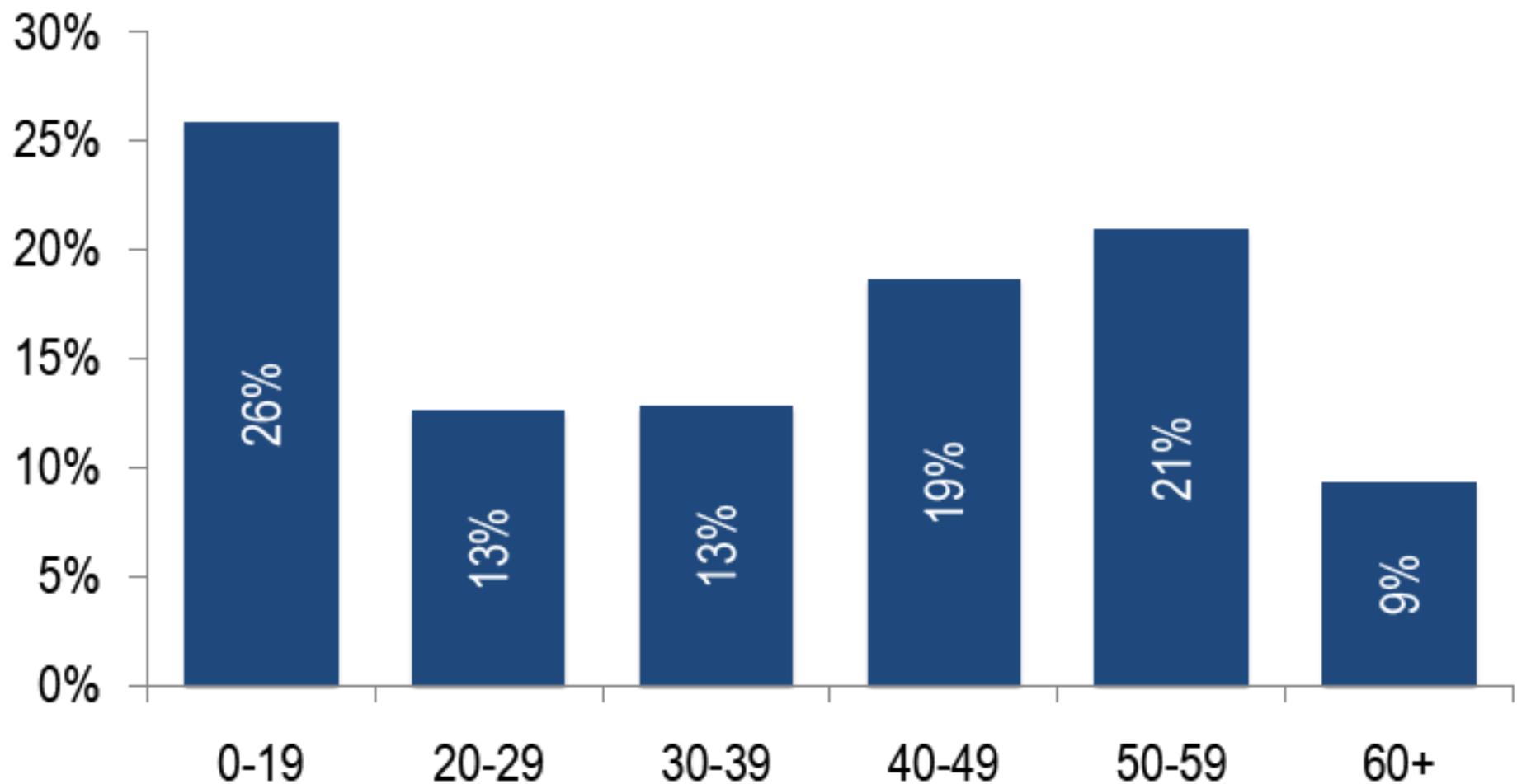
Growth of HSA/HDHP Enrollment, March 2005 to January 2011



Sources: AHP Center for Policy and Research, 2005–2011 HSA/HDHP Census Reports.

Note: For this census, companies reported enrollment in the large- and small-group markets according to their internal reporting standards, or by state-specific requirements for each state. The "other group" category contains enrollment data for companies that could not break down their group membership into large- and small-group categories within the deadline for reporting. The "other" category was necessary to accommodate companies that were able to provide information on the total number of people covered by HSA/HDHP policies but were not able to provide a breakdown by market category within the deadline for reporting.

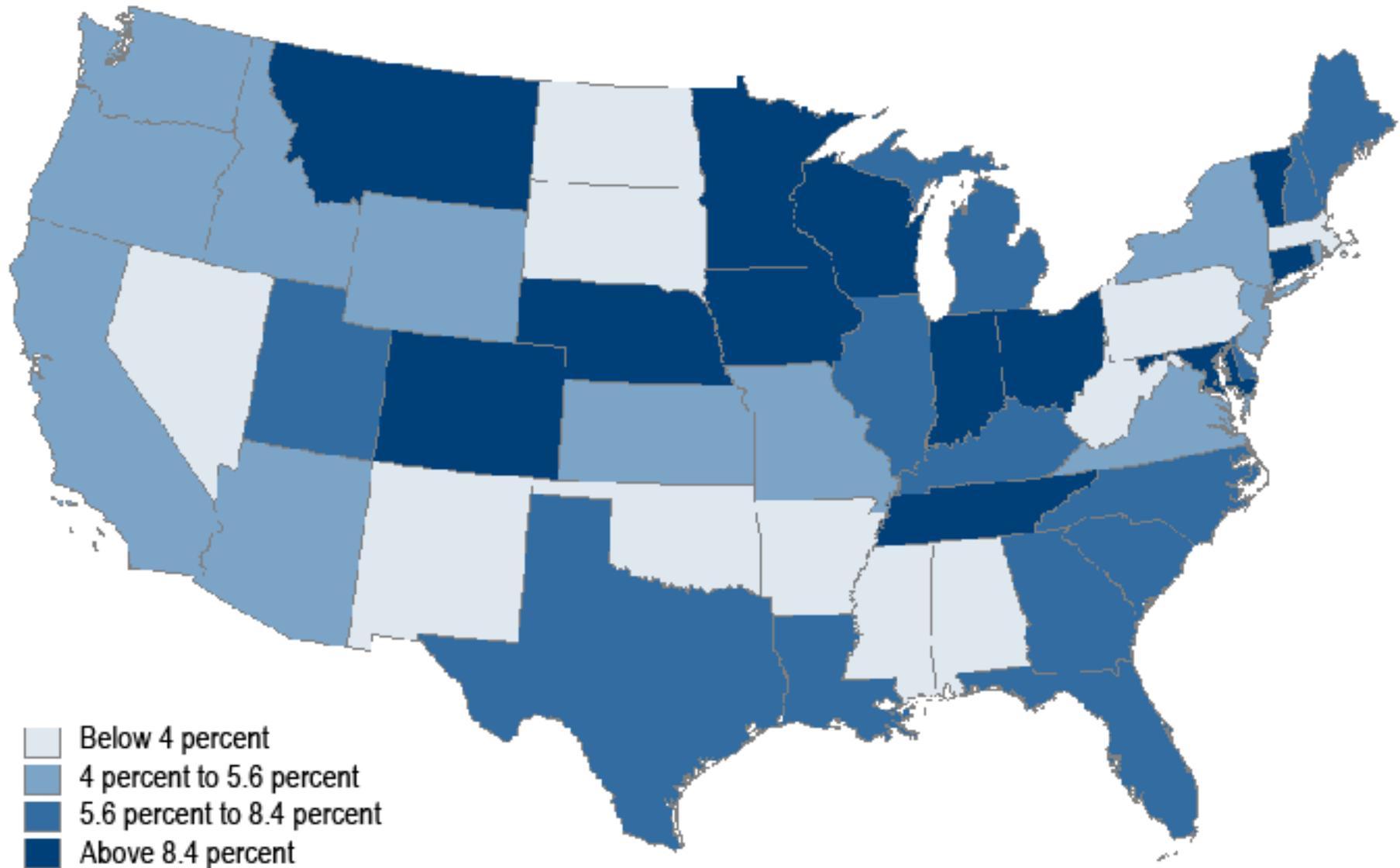
Age Distribution of People Covered by HSA/HDHPs, Individual Market, January 2011



Source: AHIP Center for Policy and Research.

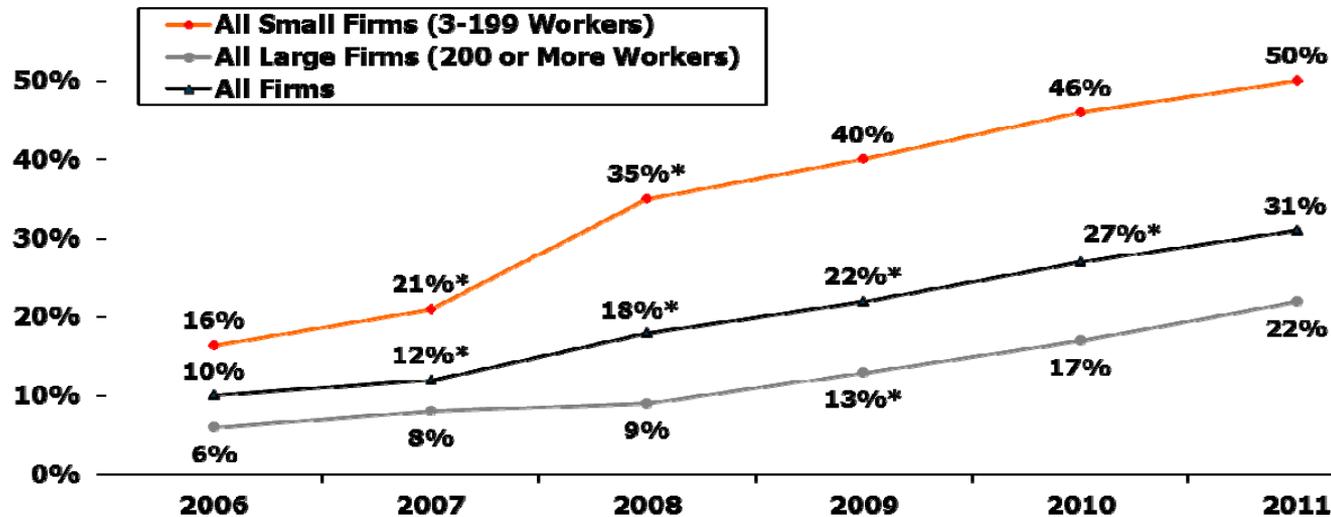
Notes: Most enrollees in the 0-19 age group were dependents covered under family plans. Figures may not sum to 100 percent due to rounding.

Estimated Percent of Lives Under 65 Years with HSA/HDHP Coverage, by State, January 2011



Sources: AHIP Center for Policy and Research, U.S. Census Bureau.

Percentage of Covered Workers Enrolled in a Plan with a General Annual Deductible of \$1,000 or More for Single Coverage, By Firm Size, 2006-2011

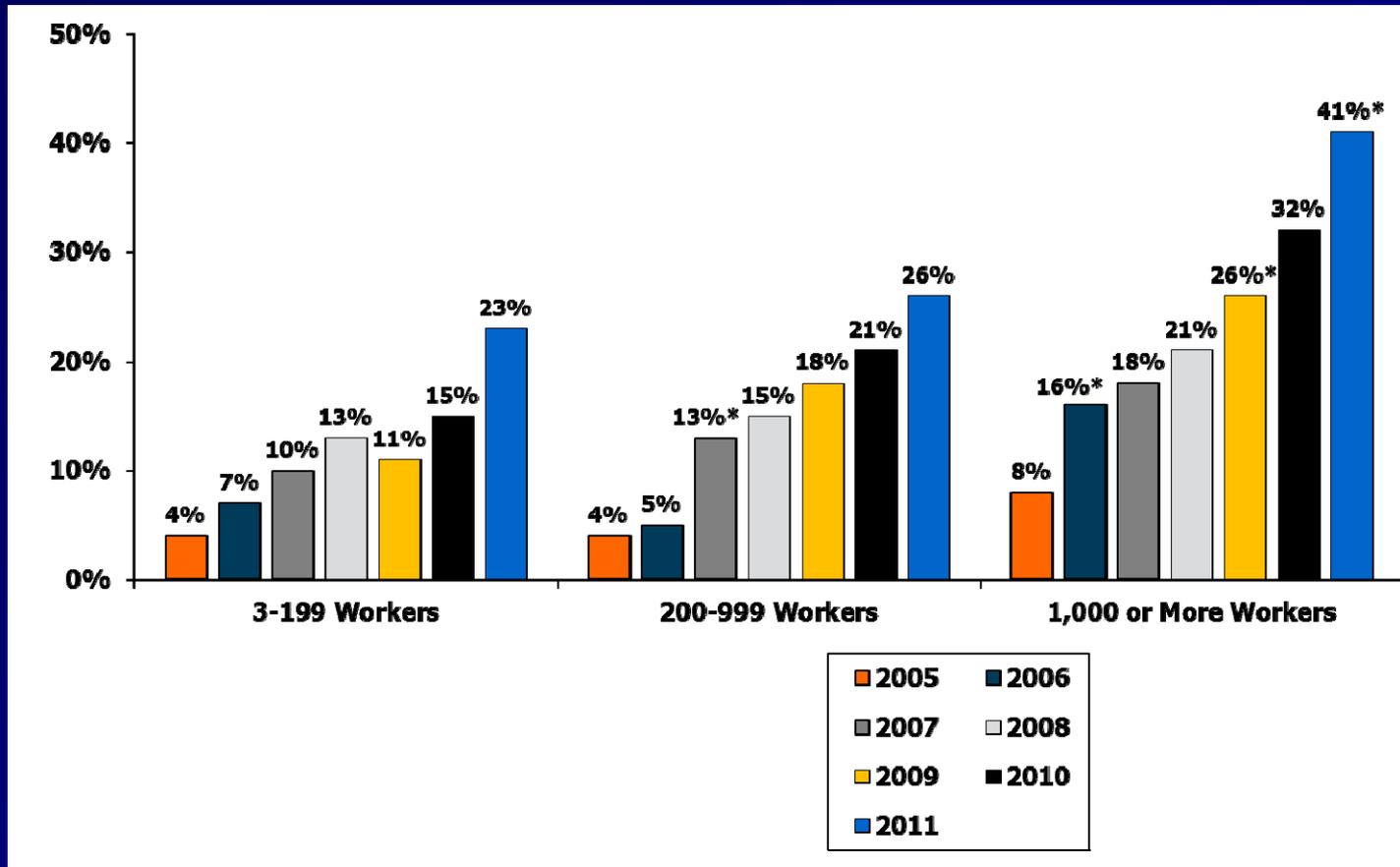


* Estimate is statistically different from estimate for the previous year shown ($p < .05$).

Note: These estimates include workers enrolled in HDHP/SO and other plan types. Because we do not collect information on the attributes of conventional plans, to be conservative, we assumed that workers in conventional plans do not have a deductible of \$1,000 or more. Because of the low enrollment in conventional plans, the impact of this assumption is minimal. Average general annual health plan deductibles for PPOs, POS plans, and HDHP/SOs are for in-network services.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2006-2011.

Among Firms Offering Health Benefits, Percentage That Offer an HDHP, by Firm Size, 2005-2011

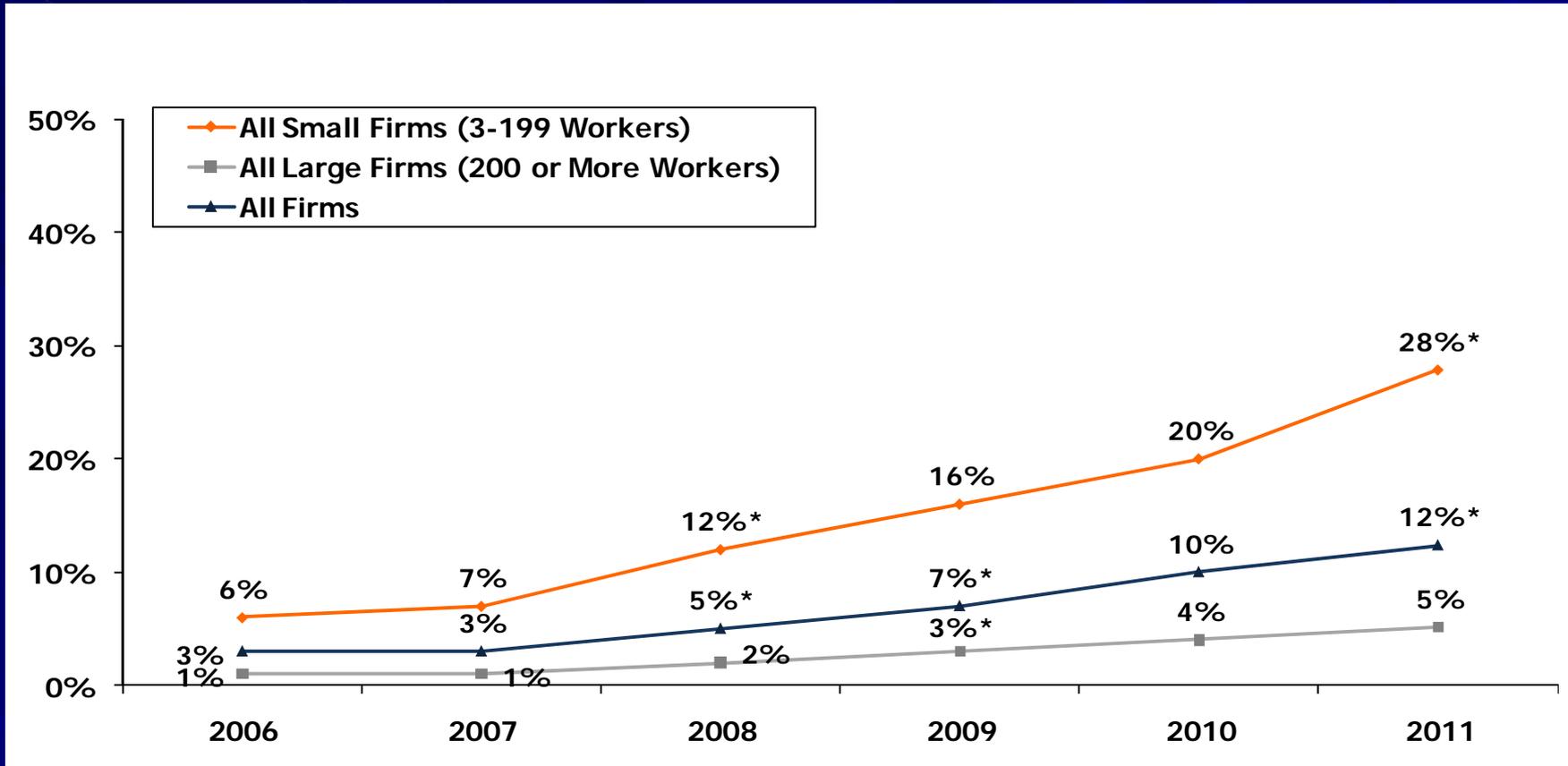


* Estimate is statistically different from estimate for previous year shown ($p < .05$).

‡ The 2011 estimate includes 1.8% of all firms offering health benefits that offer both an HDHP/HRA and an HSA-qualified HDHP. The comparable percentages for previous years are: 2005 [0.3%], 2006 [0.4%], 2007 [0.2%], 2008 [0.3%], 2009 [$< 0.1\%$], and 2010 [0.3%].

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2005-2011.

Percentage of Covered Workers Enrolled in a Plan with a General Annual Deductible of \$2,000 or More for Single Coverage, By Firm Size, 2006-2011



* Estimate is statistically different from estimate for the previous year shown ($p < .05$).

Note: These estimates include workers enrolled in HDHP/SO and other plan types. Because we do not collect information on the attributes of conventional plans, to be conservative, we assumed that workers in conventional plans do not have a deductible of \$2,000 or more. Because of the low enrollment in conventional plans, the impact of this assumption is minimal.

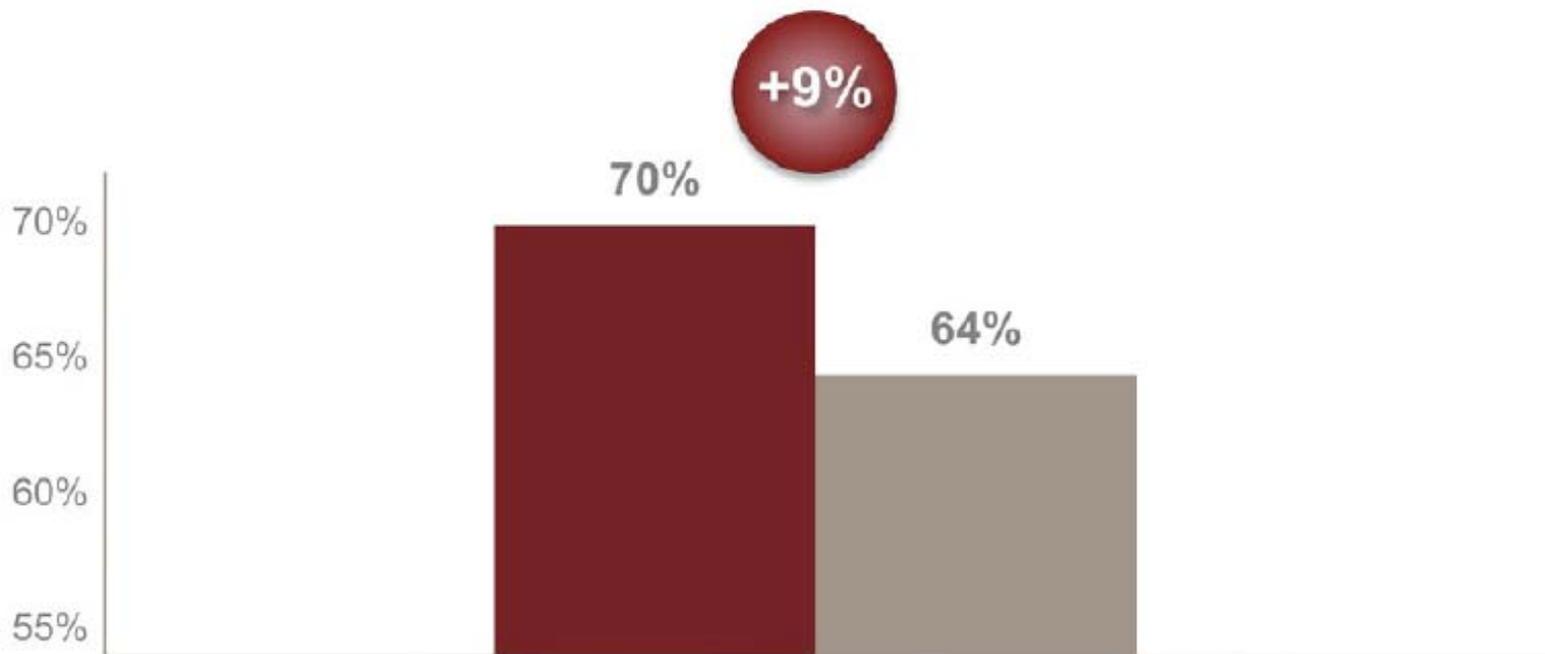
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2006-2011.

Dispelling CDHC Misconceptions: Cigna data

Misconception	Truth
“Shifts costs to employees”	Members pay an average of \$35 less per year out of pocket vs. traditional plans
“CDHC doesn’t save \$\$”	Cumulative savings were 26% by the fifth year
“People will avoid care”	8-10% higher use of preventive care 96% same or better care compliance 21% more likely to use disease management programs 14% better compliance with EB recommended care
“People don’t understand or like the plans”	83% satisfied with service (vs. 82% traditional plans)

Percent of Prescriptions filled with Generic Drugs, 2009

CIGNA Choice Fund vs. Traditional Plans



When compared to customers in traditional plans, customers in CIGNA Choice Fund with CIGNA Pharmacy Management reduced their pharmacy costs

■ CIGNA Choice Fund ■ Traditional Plan

Aetna's study of 2 million members with its CDHC plan

- **Employers that replaced traditional plans with Aetna's HealthFund saved \$21.5 million per 10,000 members over a 5 year period**
- **Members spent 12% more on preventive services compared to those in traditional PPO plans**
- **They visited ERs 5% less and used prescription drugs for chronic conditions at the same rate as those in standard plans**

New Incentives

McKinsey & Co. says CDHC plans increase consumer awareness of cost and value. In this 2005 study, consumers were:

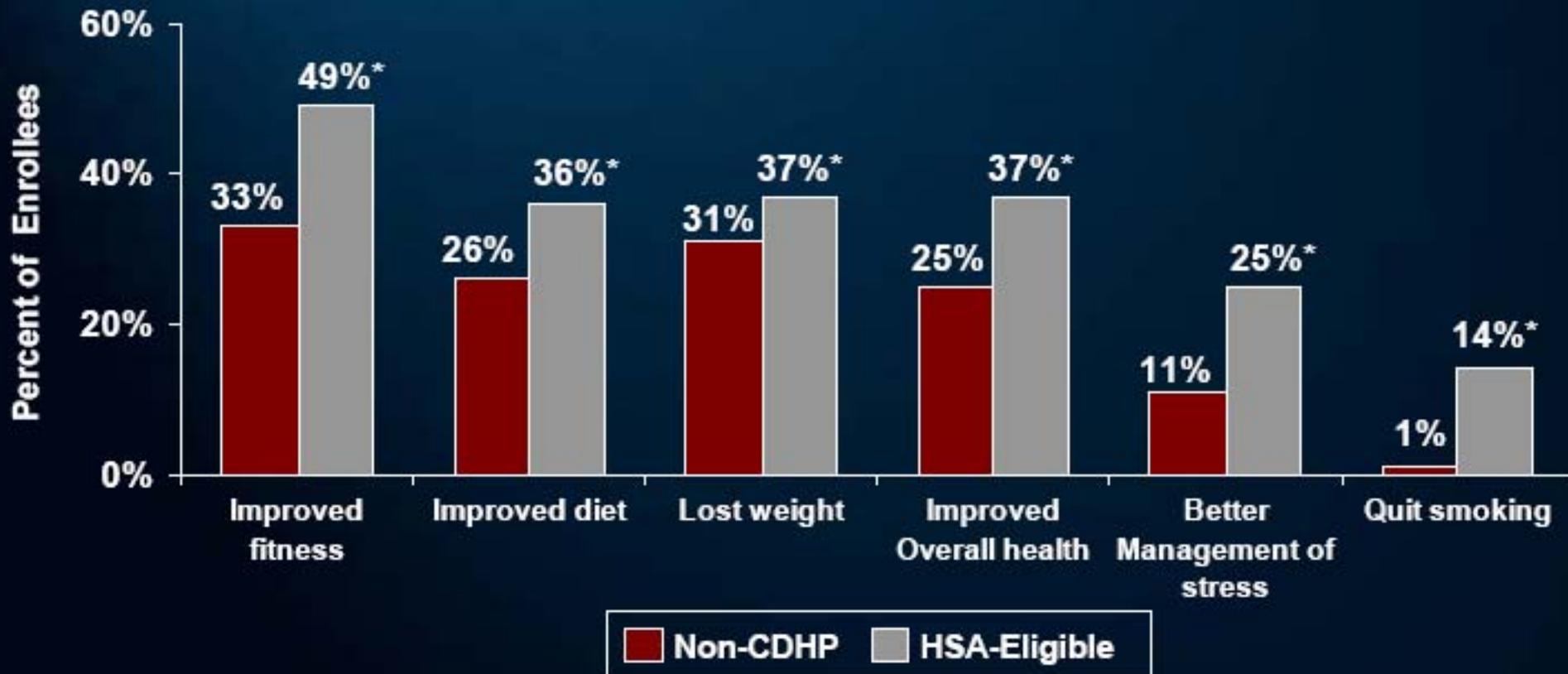
- 20% more likely to comply with treatments for chronic conditions
- 25% more likely to engage in healthy behaviors
- 30% more likely to get annual physicals
- 50% more likely to seek less expensive care

“If I catch an issue early, I’ll save money in the long run.”

Consumer Engagement: Health Management Results

CDHP enrollees who participate in health management programs are more likely to see results

Reported Results Due to Participation in Available Health/Wellness Activities by Plan Type



Consumer Engagement: Information

CDHP enrollees are more likely than non-CDHP members to research health information

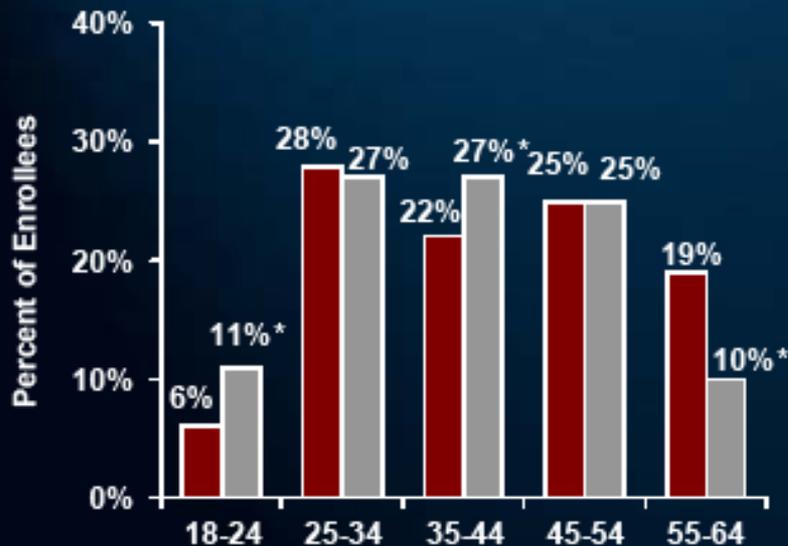
Utilization of Health Information in 2007 by Type of Coverage



Consumer Characteristics: Age & Health Status

CDHP enrollees represent all age and self-reported health status segments

**Age Distribution
by Type of Coverage**



**Self-Reported Health Status
by Type of Coverage**



■ Non-CDHP ■ HSA-Eligible

*Significantly different from Non-CDHP result at a 95% confidence level
Source: 2007 BCBSA CDHP Member Experience Survey

What we know for sure

- **CHOICE:** Americans value innovation, diversity and choice to accommodate 300 million people
- **FOCUS ON THE PATIENT:** They want doctors and patients, not government, to make health care decisions
- **VALUE IN HEALTH SPENDING:** To realize the promise of personalized medicine and achieve overall cost saving, we must break down payment silos

HSA improvements enacted in 2006

- **Higher contribution limits**
- **Rollover from other savings accounts allowed, including IRAs, FSAs and HRAs**
- **Employers can contribute more to HSAs for lower-paid employees**

What does the future hold?

- **AHIP says there are now 11.4 million people with HSA insurance**

- **More employers are offering this option as they seek ways to engage workers in managing their health and health costs**



Common themes

Focus on:

- **Personal responsibility by recipients**
- **Better coordination of care**
- **Incentives for patient participation**
- **Data collection and outcomes reports**
- **Wellness and prevention services**
- **Greater focus on disease management**

Caution Ahead

- No instant success
- Political criticism, resistance
- *Some employees “do not appreciate the long-term potential these savings accounts hold and remain mired in the old 'use it or lose it' mentality of flexible spending accounts.”*

Towers Perrin



Keys to Success



- Get expert advice
- Create an active and effective employee education program
- Provide tools to facilitate point-of-contact interaction
- Fund the HSA upfront
- Provide price and quality information

The future?



- The global move toward consumerism is real, driven by greater patient demand for more control over decisions.
- Health overhaul is law and will fundamentally change the U.S. health sector. But I believe it will be amended significantly before 2014.

Starting a fresh conversation

- ❖ Engaging patients as partners in managing health costs and getting the best value for health care dollars

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Booz Allen Hamilton

- HSAs will begin a new movement toward building personal financial security
- Expect consumers to demand “package pricing” for high-cost services
- “CDHPs and HSAs will begin to restructure both the healthcare world and the financial services world in profound ways.”