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consumer-directed health plans
a new force in health insurance?

Consumer-directed health plans—high-deductible health insurance plans combined with tax-advantaged savings accounts that can be used to cover unreimbursed healthcare expenditures—have generated both a lot of attention and a lot of controversy.

For some, these plans represent the most significant promise for moderating healthcare spending to have emerged over the past several decades. For others, they represent a major threat to risk-pooling and to the social solidarity that underlies health insurance. Although it is still early, some information is beginning to emerge that sheds light on the likely effects of CDHPs.

HRAs versus HSAs

Most of the evidence to date has been on health reimbursement accounts. These accounts, initially authorized in 2000, combine high-deductible plans with an employer-funded savings account. Because HRAs are owned by the employer rather than the employee and remain with the employer if the employee leaves the company, these accounts have been thought to be less influential than health savings accounts in promoting cost-conscious behavior.

HSAs, authorized by the Medicare Modernization Act, pair high-deductible plans with tax-advantaged savings accounts, are owned by the employees, and thus, are fully portable. Because HSAs so clearly represent the employees' own money, most industry analysts have assumed that their effects will be much more pronounced—although this remains supposition until more evidence is available.

Numbers Sold

Although the precise numbers are not known, recent information suggests roughly 4 million CDHPs have been sold to date, of which about 1 million are HSAs and the remainder are HRAs. Expectations are that this number will increase dramatically in 2006. Many employers had already decided on their insurance offerings for 2005 by the time the IRS had published its rules for HSAs, so the number of offerings was artificially limited.

Most employers are claiming that they will offer some type of CDHP by 2006. Whether that will be the case, whether the CDHPs will be offered with other options or as a sole option fully replacing more traditional insurance, and what type of response they will receive remain open questions, but the answers should become clear within a matter of months. Unlike the medical savings accounts, where few major insurers ever entered the market, most of the large insurers have already entered or are entering the CDHP market. Thus, while some uncertainty remains, there is every indication that these products will be offered to a large proportion of the working population within the next year.

Experience to Date

Findings cited in a recent report from the Congressional Research Service and those reported by some individual companies have generally been encouraging, in terms of both the projected spending reductions and the changes in healthcare utilization that are anticipated to contribute to those spending reductions. Most of the reports have been based on experience with HRAs because HSAs are so new. The reports suggest spending increases are noticeably lower for CDHP enrollees than for traditional indemnity enrollees and slightly lower for CDHP enrollees than for HMO enrollees. It is uncertain, however, whether these results are sustainable over time and whether HSAs can produce similar or perhaps even better results.

The early evidence suggests decreased utilization associated with HRAs and HSAs produces no harmful effects and, in some cases, encourages enrollees to take a greater interest in preventive and chronic care use. These findings are consistent with those of the RAND Health Insurance Experiment, a major study conducted by RAND in the 1970s. The RAND HIE reported that most people who cut back on their healthcare utilization experience minimal effects on their health status, and that only those who are both poor and sick experience harmful effects as a result of reducing their utilization of health services, particularly related to the care of nonsymptomatic chronic care illnesses such as hypertension. Because people who are both poor and sick are unlikely to be among those who are offered HRAs or HSAs by employers, the lack of reports of harmful reductions in utilization associated with these CDHPs is not surprising.

Consumer satisfaction is another story. The early results indicate consumers are not satisfied with CDHPs, in part due to the increased cost. Interestingly, this cause for dissatisfaction does not appear to be related to an individual's health status. Sicker people who might be expected to use more health care and therefore feel more exposure from high-deductible plans did not report greater dissatisfaction.

The biggest reason for dissatisfaction cited by consumers has been the lack of adequate information for employees and their dependents to make informed healthcare decisions. If CDHPs are going to be an important part of the future landscape of health care, it will be important for consumers to have ready access to appropriate and adequate information on healthcare providers and pricing and quality of healthcare services.

Effects on Future Spending

For a variety of reasons, the effects of CDHPs on future healthcare spending could be small, particularly for hospitals. The growth of these plans looks promising, but it is unclear whether they will become a significant part of the market. Most people with these plans who access hospital services will exhaust whatever deductible they have. That, along with the fact that most healthcare spending is concentrated among relatively few individuals, supports the prediction that CDHPs may not substantially affect healthcare spending.

The RAND study, however, found that people with high-deductible plans had a 23 percent lower likelihood of being hospitalized. Thus, if CDHPs become prevalent, the number of hospitalizations could decline substantially. These plans, combined with more traditional managed care strategies, could, in fact, have a major impact on hospital spending and therefore on overall healthcare spending. Only time will tell. ●

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