

“Consumer-Directed” Health Plans: Implications for Health Care Quality and Cost

EMPLOYERS ARE LOOKING FOR NEW WAYS to contain health care costs. The solutions that are emerging aim to increase consumers’ financial responsibility and involvement in their health care choices.

Increases in consumer cost-sharing, especially deductibles, are part of this new strategy. Often, the higher deductible is combined with a tax-free personal health care spending account, such as a Health Reimbursement Account (HRA) or Health Savings Account (HSA). Tiered-benefit designs, which require higher patient cost-sharing when costly options are selected, are also emerging.

In addition to creating financial incentives to encourage patients to make more cost-conscious choices, employers are providing employees with tools help them do so. These tools include comparative information about the costs of services and/or providers; comparative quality information about hospitals and physicians; and information on managing specific diseases. Employers hope that financial incentives, coupled with health care decisionmaking tools, will contain costs by inducing employees to eliminate unnecessary care and to seek lower-cost, higher-quality providers.

This report is an overview of trends in the adoption of these approaches and what is known

about their effectiveness. Some of the key findings are highlighted below.

High-Deductible Plans

Although only 10 percent of businesses offer a plan with at least a \$1000 deductible, that number is increasing rapidly.

Spending by those in a high-deductible plan, without a spending account, would likely be 4 to 15 percent lower than in today’s typical plan. Effects on the growth in health care costs over time are unknown.

The lower spending may prevent access to appropriate and necessary care with consequent health effects, especially for the poor who are sick. However, information tools may offset this if they help consumers make better choices.

Health Care Accounts

At least 75 percent of insurers offer health plans that are compatible with health care accounts, and one estimate foresees 5 million enrollees by the end of 2005.

Early enrollments suggest that, at least initially, HSAs have been most popular in the non-group market, and that large group business accounts for only about 3 percent of enrollment. This may change as employers make choices for their next enrollment period.

Since HSA dollars can be carried over from year to year, consumers will have an incentive to preserve the accounts and use less medical care if they realize that spending reduces the funds they will have later and if they view the accounts as saving for retirement. However, consumers might target the accounts for current health care spending if balances grow large and they view spending from the account as costless or fear losing it.

Early evidence on health care use and health outcomes with health care accounts is mixed.

Tiered-Benefit Designs

- A number of large insurers offer tiered-hospital and tiered-medical-group networks, but employer interest in tiered products is still quite limited.
- Early tiered-benefit designs placed providers into a limited number of tiers, primarily based on cost differences, however, recent surveys reveal that most insurers use both cost and quality to set provider tiers.
- Past studies that compared PPOs to HMOs found small effects on health costs and utilization. Other work that compared PPOs to FFS plans found cost savings of approximately 12 to 14 percent. This research may shed some light on the possible effects of tiered provider networks. Early reports from insurers suggest that the new tiered products have reduced costs.
- Tiered benefits that incorporate both cost and quality may help consumers make better choices, but some fear tiered-benefit designs may make higher-quality, high-cost providers who are placed in nonpreferred tiers inaccessible to the poor.

Information Tools

- The provision of consumer decision-support varies significantly across plans, but remains quite limited in scope and usability.
- The Internet is an important source of information, but the accuracy and completeness of information is uncertain.
- Barriers to consumer use of tools in making choices include: lack of standardized performance measures; lack of comprehensive information; and inconsistency of information.
- Some research suggests that information tools have potential to contain costs and promote better outcomes, but studies have been limited. Research that evaluates the role of information tools on patient decision making, and assesses how to make information accessible to those who are not using it, is still needed.

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