

Consumer Driven Health Plans: Policy Interactions and Implications for States

Scott Leitz, Director
Office of Health Policy
Minnesota Department of Health

July 29th, 2005

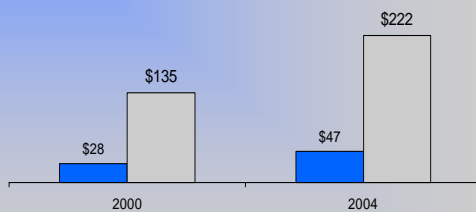


Current State context

- ★ Public and employers concern over the increasing cost of health care
- ★ Limited “new money” to enact or enhance existing publicly-sponsored insurance programs
- ★ Limited appetite for large-scale governmental involvement in managing or controlling health costs
- ★ Marketplace trend over past several years toward more individual financial liability with regard to health coverage



Average Monthly Worker Contribution for Health Coverage



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



Consumer Driven Health Plans

- ★ Many state policymakers and others intuitively like the idea of incentives for consumers to be more cost-conscious and wise in their of health care services
- ★ Other policymakers are concerned about the effect that CDHP may have on segmenting risk pools, overall market stability, and question how much cost savings can be achieved from the plans



Why should states care about as CDHPs?

- ★ State as Regulator
- ★ State as Purchaser:
 - Employer/benefit provider
 - Medicaid/low income populations
- ★ State as Marketplace and Policy Oversight Entity



State as Regulator

- ★ Insurance regulation, for fully-insured products, is traditionally a state responsibility
- ★ State insurance laws are structured to:
 - ensure market stability
 - Ensure consumer protection
 - provide a common set of rules



State as Regulator, continued

- ★ There are a number of reasons why States, in their regulatory function, should care about CDHPs:
 - Risk segmentation and market stability
 - Budgetary implications (HSAs)
 - Federal compliance (HSAs)



State as Regulator: CDHPs, market stability and risk segmentation

- ★ CDHPs will and do provide an additional insurance coverage option for employers and individuals
- ★ Some suggest that CDHPs may tend to attract those who anticipate lower use of health care services
- ★ If lower cost, healthier individuals move to CDHPs, those remaining in comprehensive benefit packages could see premiums increase
- ★ Raises potential premium spiral concerns, as well as affordability concerns for those remaining in comprehensive benefits



State as Regulator: HSAs and budgetary impact

- ★ Compliance with HSA deductibility at the state level will reduce tax income for states
- ★ Because state income tax rates tend to be relatively small or zero, impact will likely be modest
- ★ However, ongoing budget concerns at state level make this an issue for policymakers to consider



State as Regulator: CDHPs/HSAs and Federal Compliance

- ★ State insurance laws on allowable deductibles and copayments may conflict with HSA requirements
- ★ Many states already have instituted some flexibility on deductible levels due to recent marketplace changes, but additional changes may be necessary



State as Purchaser

- ★ Employer:
 - State Employee Population
- ★ Medicaid:
 - Low Income Populations



State as Employer

- ★ In most states, the state employee group is among the largest group purchasers
- ★ State employee workforces tends to be:
 - Older than average
 - More heavily unionized than average
 - Generally, comprehensive benefits as part of compensation packages bargained



State as Employer

- ★ States, in their role as employer, will care about CDHPs due to:
 - Concerns about risk segmentation
 - Contribution policies
 - Union-bargained environment

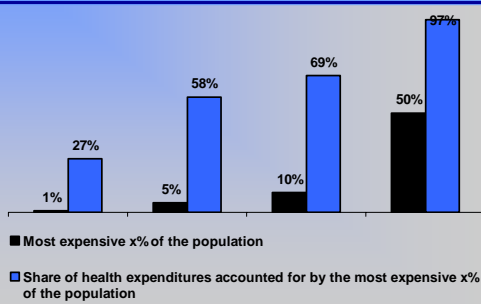


State as Employer: Risk Segmentation

- ★ State employee groups, like any large pool, have skewed expenditure distributions
 - Large share of health care costs in a given year due to a relatively small portion of the pool population
 - 15% non-users in a given year, and a large percentage of low users
- ★ Offering of CDHPs may be alongside other, more comprehensive offerings
- ★ Potential to segment risk, with healthier employees choosing CDHP
 - Potentially drives up cost for those remaining in more comprehensive benefit offerings

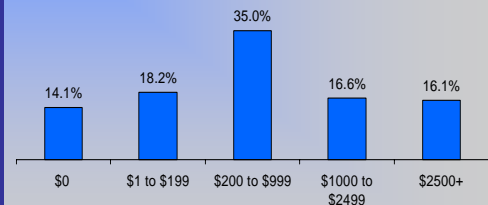


Concentration of Health Care Spending: A Small Share of the Population Accounts for Most Health Care Spending



Source: Berk and Monheit, Health Affairs, March/April 2001.

Distribution of Health Spending Among People with Private Health Insurance



Source: Agency for Healthcare Research and Quality, Medical Expenditure Panel Survey.

State as Employer: Employer Contribution Policies

- ★ State employee groups oftentimes self-insure health benefits
- ★ CDHPs and HSAs may be more attractive to those who use the system less frequently
 - If HSAs, contributions made on behalf of persons who don't current use health care resources
 - Will savings from appropriate behavior modification outweigh additional cost for the contribution to non- or low-users?



State as Employer: Collectively Bargained Environment

- ★ State employee groups tend to be more heavily unionized, compared to average workforce
- ★ Many of the selection issues may be of concern to unions, particularly when representing an older than average population group



State as Purchaser: Medicaid

- ★ High deductible policies and low income populations
 - Potential Medicaid interactions?
- ★ Premium Assistance Program interactions
 - Benchmark benefit sets
 - Wrap-around implications



State as Marketplace and Policy Oversight Entity

- ★ A number of areas for States to monitor:
 - Is cost and quality information sufficient for consumers, as envisioned under ideal CDHP scenarios, to be able to discern relative differences
 - If not, whose responsibility is it to provide this information? What is the role of States?
 - How will the increased cost sharing under CDHPs impact on affordability, especially for lower-income workers?
 - Risk segmentation issues



State as Marketplace and Policy Oversight Entity

- ★ A number of areas for States to monitor (continued):
 - As consumers are expected to pay more directly out of pocket for care, will there be any impact on uncompensated care?
 - How do CDHP interact with high risk pools?
 - Will patients be more likely to use less or delay needed care due to cost sharing? If so, what is overall effect?



Conclusions

- ★ CDHPs are a market innovation that have both strong advocates and detractors
- ★ True impact of CDHPs will not be known for some time, but early results show the plans may be attracting a younger and healthier group, with lower baseline usage of health services
- ★ States should monitor enrollment in CDHPs, and understand the potential policy implications, both positive and negative, of the plans

