

# Consumer Driven Health Insurance: New State Solutions in 2006?

Simmi Singh

NCSL Spring Forum (April 7, 2006)

Washington, D.C.



## Baseline Premise

- ▶ Consumerism is about so much more than consumer-directed healthcare (CDH) products
- ▶ CDH is most often defined as High-deductible health plans (HDHPs) coupled with healthcare savings accounts (HSAs)
  - Effective at reducing moral hazard – yes!
  - Behavior change at the expense of long-term health status – quite possibly yes!



# Baseline Premise

- ▶ CDH is not a “magic bullet”, nor is it a transient phenomenon that we can afford to ignore
- ▶ Discretionary cost reduction is one piece of the puzzle, but reality is more complex
  - 80% of healthcare spending is non-discretionary and behavior modification is not a significant cost driver
  - 1% of Americans use 30% of all healthcare resources
  - A large percentage of these people are not capable of making educated calls about their own care
- ▶ Superior 3<sup>rd</sup> and 4<sup>th</sup> generation products that smooth out some of the shortcomings of the 1<sup>st</sup> generation are in the “pipe” – we must get engaged and drive this transformation



“Predicting rain doesn’t count; building arks does”

*The Noah Principle*



*Source: Consumer Driven Health Care: Blackwell, et al*

# Consumerism: Key Drivers



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## Consumerism – Key Drivers

- ▶ 61 million Americans are uninsured or critically under-insured - *The Commonwealth Fund, June 2005*
- ▶ There is already more healthcare in a General Motors car than there is steel
- ▶ As many as 25% of all commercially insured people will enroll in CDH plans by 2009 - *McKinsey Quarterly Survey, January 2005*



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## Consumerism – Key Drivers

- ▶ Growing acceptance of online and telephonic transactions in place of personal transactions
- ▶ Technological advances, real and desired
- ▶ Effective behavior modification has to be driven by, and come from, the consumer



## Consumerism – Key Drivers

- ▶ Employer market for traditional healthcare coverage is stable and/or shrinking
- ▶ The “voluntary uninsured” are a HUGE target market for new generation health products
- ▶ Federal government initiatives aimed at making HSAs even more attractive will boost enrollment
- ▶ Superior 3<sup>rd</sup> and 4<sup>th</sup> generation products that smooth out the shortcomings of the 1<sup>st</sup> generation are in the “pipe”



## Consumerism – Key Drivers

- ▶ Numerous studies have demonstrated favorable medical cost ratios in HDHP plans vis-à-vis traditional managed care coverage
- ▶ There are also studies that support the opposite notion - that healthier enrollees opt out of traditional coverage into CDH products, causing deterioration of the traditional risk pool



## Challenges Persist ...

**Tens of millions of American adults cannot read at or above the 4<sup>th</sup> grade level (and health information is usually presented at a 6<sup>th</sup> to 12<sup>th</sup> grade level). It is therefore safe to say that the conditions for a free market based on empowered consumer decision making are not met – and won't be for many, many years”.**

*Kim Slocum, Director of Global Business Strategy, Astra-Zeneca*



# Challenges Persist ...

**“It is hard to be cost-conscious  
when you are unconscious”**

*Ian Morrison, Noted Author and Futurist*



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Let's look at some of the  
evidence ... do you agree or  
disagree?



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## Cigna Study (Feb, 2006) - CDH Members use more services and spend less

- ▶ Tracked 42,200 continuously enrolled members from 44 employer groups who switched from traditional PPO/HMO plan in 2005
- ▶ Tracked Jan-June 2005 utilization and spending vs. same period in 2004
- ▶ Second analysis tracked claims experience among CDH enrollees to 140,200 people enrolled in traditional managed care plans during Jan-June 2005.
- ▶ What they found - both moderate and heavy users have lower costs once they switch from a traditional managed care plan into an account based CDH plan



Source: AIS, 2006

## Cigna Study (Feb, 2006) - CDH Members use more services and spend less

- ▶ Inpatient facility costs among CDH enrollees declined by an average of 5% and outpatient facility costs declined by 12% as compared to the same population in the previous year
- ▶ Study also showed that the number of admissions in fact rose slightly, indicating that enrollees found a more cost-effective way to receive the same care
- ▶ Study looked at behaviors across different utilization categories and found the most pronounced savings among medium and heavy utilizers



Source: AIS, 2006

## Cigna Study (Feb, 2006) - CDH Members use more services and spend less

- ▶ Chronically ill patients increased their usage of medicines to control diabetes (up 18%), cholesterol (up 23%) and asthma (up 8%), medications to prevent heart attacks (up 18%)
- ▶ Usage of prescription drugs in conditions where over the counter remedies were available (migraines, etc.) went down



Source: AIS, 2006

## HSAs – Boon or Bane?

- ▶ Healthcare Saving Accounts – the MMA footnote that stole the headlines
  - Portable
  - Triple tax-free
  - Crown jewel of the “moral hazard reduction” theorists
- ▶ Physicians and providers who can understand how to capitalize on the behavior changes resulting from this model could lead the way to a superior, cost-effective system



# Federal Policy Continues to Promote HSAs



# The Healthcare Model: Market Good or Societal Right?



## The Raging Debate over "Moral Hazard"

### ► Defining Moral Hazard

- "The premise of "moral hazard" is that having insurance changes the behavior of the insured. If you have generous health insurance, moral hazard says that you're going to go to the doctor and the hospital more often, sometimes unnecessarily, just because it's free" *Malcolm Gladwell, The New Yorker, August 2005*
- "The possibility of consumers or providers exploiting a benefit systems unduly to the detriment or disadvantage of other consumers, providers or the financing community as a whole, without having to bear the financial consequences or their behavior in part of in full" *International Labor Organization, 1999*



## "An Educated Consumer could be the Healthcare System's Worst Nightmare"

*Humphrey Taylor, Chairman, The Harris Poll Organization*



# Consumerism: Mega-trend or Passing Fad? You be the judge!



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## CDH Price Trend is Favorable

- ▶ HRA and HSA-based CDH plans - costs grew at an average of 2.8% from 2004 to 2005, compared to an 8% increase in HMO premiums and a 7.2% increase in PPO premiums



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Source: Deloitte Center for Health Solutions, January 2006

## There is a High Level of Interest

- ▶ "75% of national account RFPs for 2006 coverage from employers demonstrated interest in our consumer-directed health plan capabilities" *Larry Glasscock, CEO, WellPoint*
- ▶ "80%-plus of the RFPs that we are seeing today have some dimension of consumerism" *David Cordani, President, Cigna Healthcare*



Source: Atlantic Information Services  
2006

## Enrollment is Rising

- ▶ From 3.2 million in June 2005 to at least 4.9 million in Jan 2006 - other estimates place number at closer to 6 million enrollees



Source: Atlantic Information Services  
2006

## Explosion of New Products in the Pipeline

- ▶ Mammoth deductibles, coupled with “Cadillac” catastrophic coverage
  - \$25,000 deductibles
- ▶ Policies targeted at expanding the “voluntary uninsured”
  - Limited value policies
    - ▶ HSA compatible high-deductible health plans or traditional coverage with low out-of-pocket costs – cap out at \$25,000 per year per person



## New Generation Products; i.e., Tonik

- ▶ Not your traditional health plan!
- ▶ CDH Plan aimed at young adults under 30
- ▶ First launched by Blue Cross of California
  - Thrill Seeker, AKA 5000
  - Part-time Daredevil, AKA 3000
  - Calculated Risk Taker, AKA 1500
- ▶ Best selling option (# 3 above) costs about \$132 a month in premiums, on average



# Consumerism: Implications for Healthcare Policy



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## Is CDH Adoption Going to Hit a Wall or Barrel Right Through It?

- ▶ Consumerism in healthcare is much larger than the “CDH” movement
- ▶ The economics of CDH in the near-term are too compelling to ignore and will drive a significant shift of market share
- ▶ As with all things in healthcare, this trend will move much faster in certain markets than in others – the changes that are wrought in our system will be lasting and permanent



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# Healthcare and Financial Services are Converging ...

Transformation  
Of the  
Industry  
“Revenue  
Cycle”

Movement toward  
integrated  
Card-based models

Seismic shift of  
risk and responsibility  
and accountability



## Consumerism: Operational Imperatives

- ▶ Move from a “wholesale” to a “retail” revenue model poses a tremendous challenge
  - Communications
  - Business Processes
  - Enabling Technologies
  - Market and Financial Position
- ▶ Some Areas presenting an immediate dilemma
  - Pricing
  - Metrics and measures (price and quality)
  - Distinguishing good performers from bad ones
  - Redesigning and supporting the new “money flows”



## Real Questions Linger

- ▶ Are the savings from behavior modification enough to yield real change? Are HSA enabled plans the right vehicle to achieve those savings?
- ▶ What are enrollees with no more “wallet” to “share” going to do?
- ▶ What are the long-term implications of behavior modification on chronic disease development and management?
- ▶ Do limited benefit plans appeal to the nation’s “moral compass”?
- ▶ Is the move to “actuarially-based” insurance - where the “wallets of the well” no longer subsidize the costs of “caring for the sick” acceptable to us as a society?



## Additional Implications

- ▶ Increasing regulation can stymie private sector investment – the right balance must be struck
- ▶ States have a crucial role to play in protecting access – however, they must do so hand-in-hand with the private sector
- ▶ Focus reform on access, design, education and cost, not just on transparency and price
- ▶ Regulating price transparency in the absence of financial reform could create more problems than it solves
- ▶ Idea that universal access should go hand in hand with universal participation holds promise



“For every complex problem, there is a simple solution that is wrong”



*George Bernard Shaw*



Thank you!

Questions and Comments?



[Simmi.Singh@sbcglobal.net](mailto:Simmi.Singh@sbcglobal.net)

