



DISCUSSION DOCUMENT

# Healthcare Consumerism

## Trends in Consumer Cost-Sharing

# Summary

- ▶ Consumerism in healthcare is often limited to account-based plans (HSA and HRA), where consumers are considered to have more “skin in the game”
- ▶ However, this narrow focus misses a significant, and growing number of privately insured in conventional plans who face high deductibles and considerable responsibility for health costs
- ▶ With rising healthcare costs, an increasing number of employers have shifted health care costs to employees or dropped coverage – as a result, up to 20% of the privately insured face high deductibles and out-of-pocket costs
- ▶ This number is expected to rise as employers and policy-makers grapple with health costs and outcomes, viewing increased consumer responsibility and engagement in health care as an integral part of the solution to today’s healthcare challenges
- ▶ For example, some states are mandating coverage for the uninsured, while others are piloting “consumer centric Medicaid” to tackle cost and promote better health outcomes
- ▶ If employers and states find increased consumer cost responsibility effective in containing costs and maintaining/improving health outcomes, Booz Allen Hamilton predicts that enrollment in high-deductible health plans (HDHPs) may grow rapidly with an **estimated 60% of insured in some form of a high-deductible/high-cost sharing plan by 2020**
- ▶ Consumer-driven health plans (CDHPs) (HSA/HRA plans) will be a smaller subset of that – we estimate that **20-25% of the privately insured market could potentially be enrolled in CDHP plans by 2020**

# We draw on expert interviews and data to broaden the definition of consumerism to include all plans with significant cost-sharing

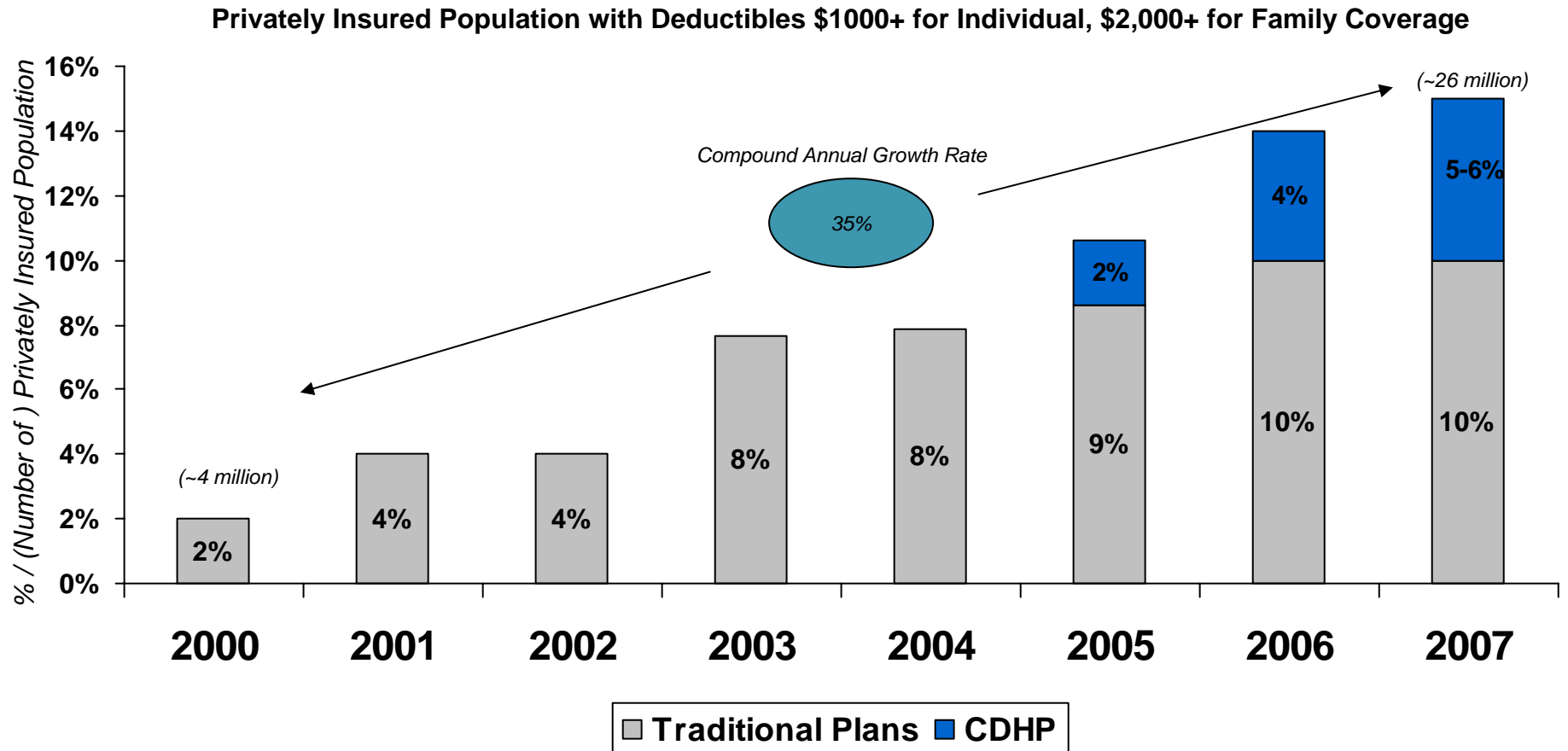
## Main Interview/ Data Sources

- ▶ Trade associations
  - AHIP
  - *Inside Consumer Directed Care*
  - *Consumer Driven Market Report*
- ▶ Policy groups
  - Kaiser Family Foundation
  - EBRI
  - Center for Studying Health System Change
- ▶ Government agencies
  - GAO
  - Agency for Health Research and Quality
- ▶ Research/ HR consulting firms
  - Forrester
  - Mercer

## Defining/ Measuring Consumerism

- ▶ There is pretty much agreement that consumerism in healthcare extends beyond HSA and HRA based plans
- ▶ Growing number of privately insured have more cost responsibility and face:
  - High deductibles
  - Greater risk-sharing and high out-of-pocket maximums
  - High out of pocket costs as a proportion of income
- ▶ The trend towards healthcare consumerism, broadly defined, is more significant and widespread, than CDH numbers suggest

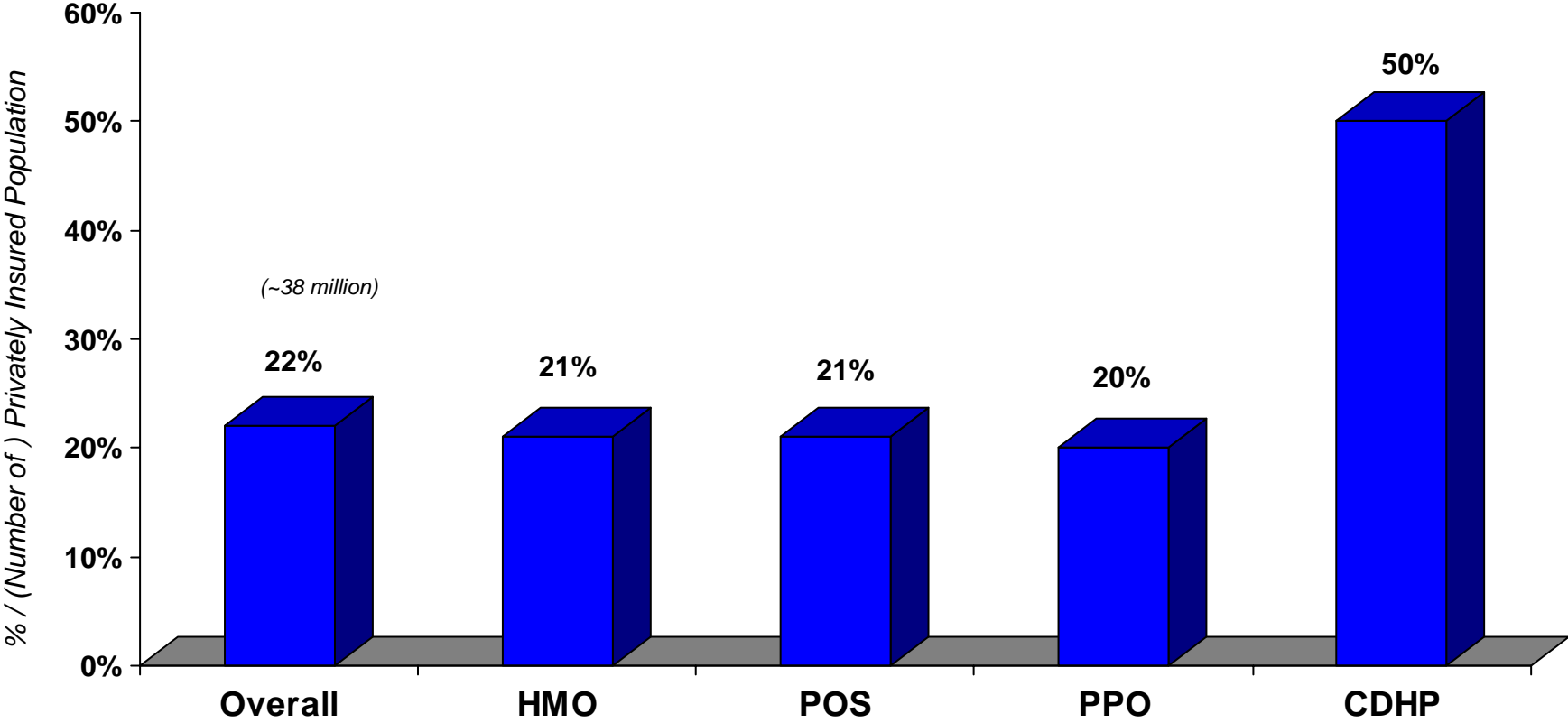
# Significant increase in privately insured with high deductibles – over 15% have deductibles in excess of \$1000 in 2007



Notes: Privately insured lives with deductibles \$1000+ for individuals, \$2000+ for families; % of privately insured market, under age 65; deductibles for in-network services; Based on group market data  
 Sources: Kaiser Family Foundation, 2007 Employer Survey, EBRI, Conversation with Bianca DeJulio, KKF

# 22% of privately insured have out of pocket maximum of \$3000+ for single coverage and \$6000+ for family coverage in 2007

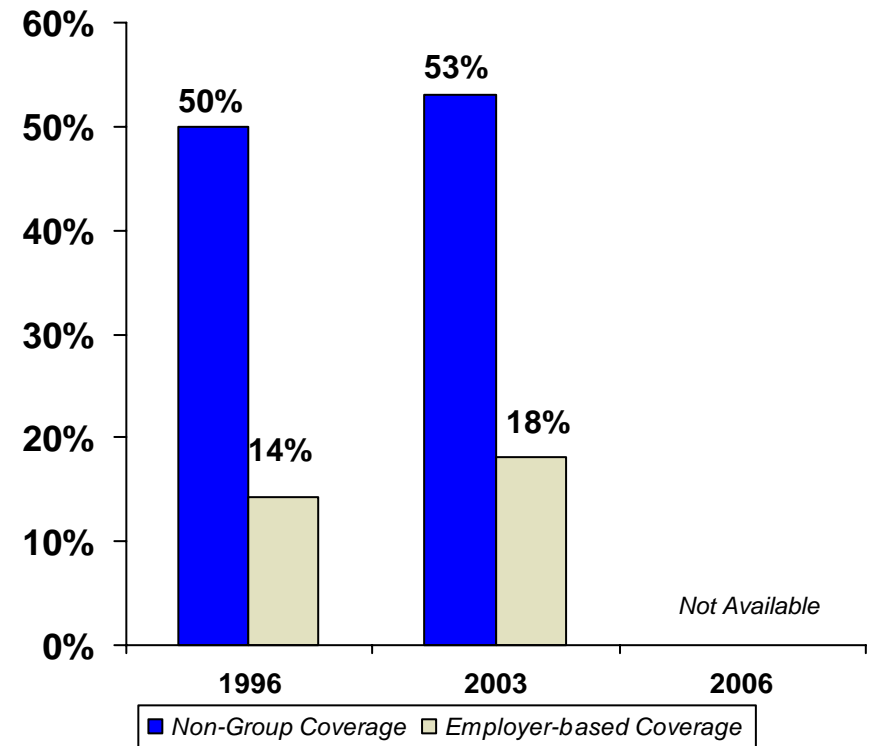
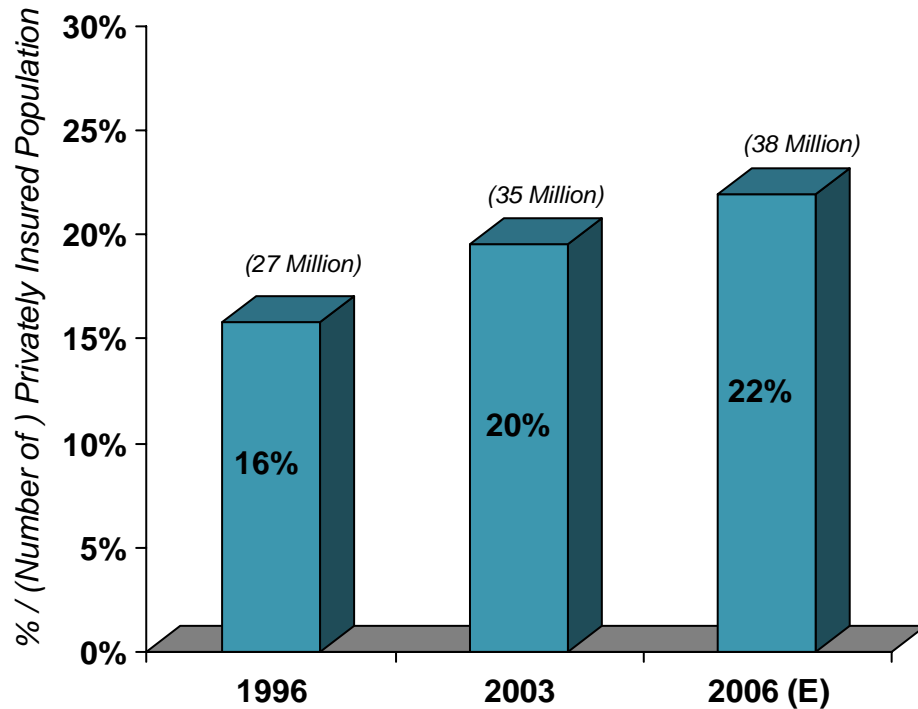
% Privately Insured with Out-of-Pocket Maximum of \$3000+ for Single Coverage, \$6000+ for Family Coverage



Note: For in-network/ standard network for insured with out of pocket maximums, 2007 data  
Sources: Kaiser Family Foundation, 2007 Employer Survey, EBRI, Conversation with Bianca DeJulio, KKF

# More than 20% of the privately insured spent 10%+ of income on healthcare (out-of-pocket, including premium) in 2006

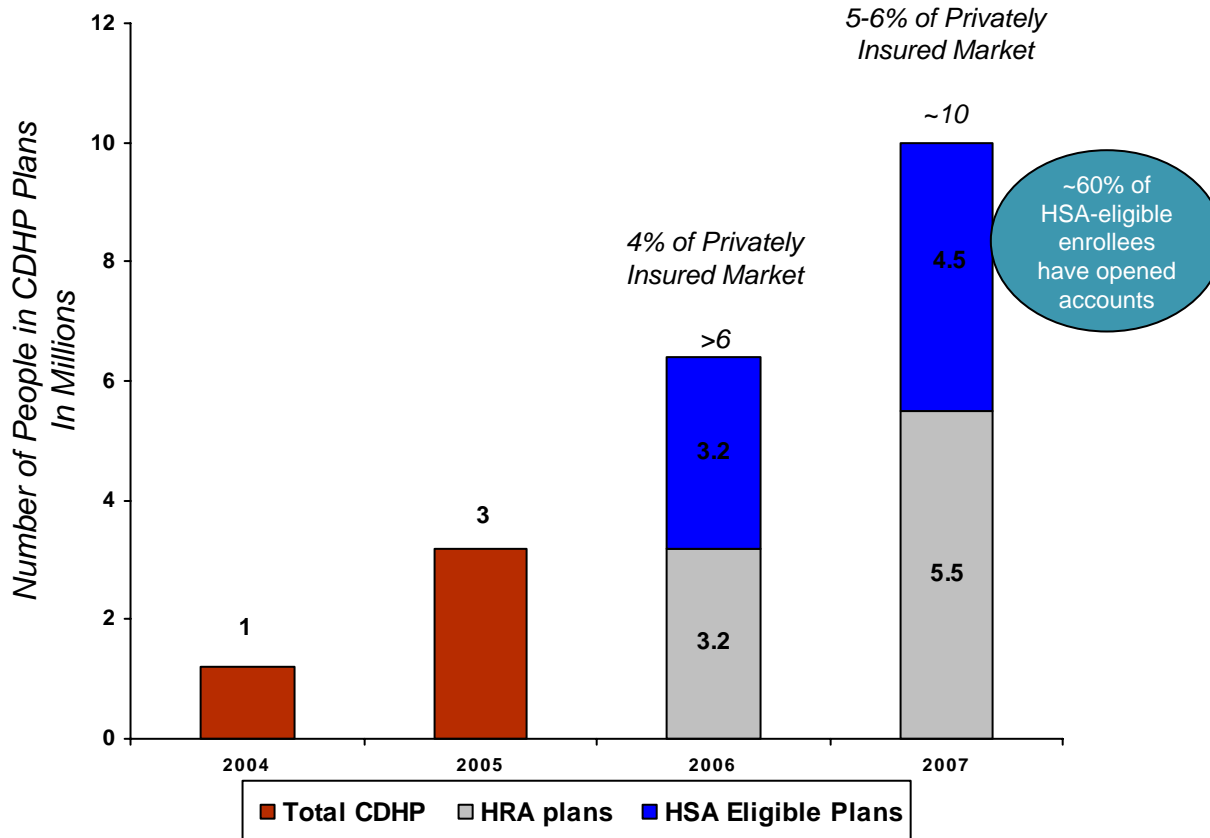
**% Privately Insured with Health Care Burden (Health+Premium Expenditures) of Over 10% of After-Tax Income Overall and By Coverage Type**



Note: Tax adjusted income/ disposable income based on MEPS survey, combines individual and group market, 2006 data is an estimate based on conversation with CWF  
 Sources: Banthin and Bernard, "Changes in Financial Burdens for Healthcare", JAMA< December 2006, EBRI/ Commonwealth Fund, Consumerism in Health Care Survey 2006, conversation with Michelle Doty, CWF; Kaiser Family Foundation, Snapshot on Healthcare Expenditures

# CDHP enrollment growing rapidly, albeit still a small % of privately insured population—up to ~10 million enrolled in CDHPs in 2007

Privately Insured Enrolled in CDHP



## Key Insights

- ▶ Estimates for 2007 CDHP enrollment vary widely – range from 8-13 million covered lives in 2007; ~10 million is a fair estimate
- ▶ Number of HSA-based plans has increased from 3.2m in 2006 to 4.5 million – approximately 60% of enrollees have opened HSA accounts
- ▶ HRA numbers more unreliable and estimates vary widely
- ▶ While most experts agree that HSA plans are likely to grow faster than HRA plans, some argue HRA growth may be underestimated as these plans may be more cost-effective than PPOs for large employers
- ▶ Small employers more likely to offer HSA eligible plans (rather than HRAs) as with HSAs they are not required to contribute - 17% of new policies in small-group market were HSA/HDHP
- ▶ HSA-based plans may penetrate some segments of uninsured, especially the relatively wealthier, and older age group who can make catch-up contributions – 27% of CDHP/HSA enrollees in 2007 were previously uninsured

Note: CDHP includes people in HDHP with savings account and those eligible to open accounts but have not done so

Sources: AHIP, 2007, 2006; Kaiser Family Foundation Employer Survey 2007; Mercer Employer Survey, 2006; Inside Consumer Directed Healthcare, March 2007 issue, expert interviews

# Enrollment in high deductible/ high cost-sharing plans expected to increase across all segments in the future

Segment <sup>(1)</sup>	Segment Size <sup>(2)</sup>	CDHP- HSA eligible 2007 <sup>(3)</sup>	CDHP w/HRA 2007 <sup>(4)</sup>	High deductible/ high cost plans	Future Outlook for HDHP/High Cost Sharing Plans (and CDHP, in particular)
Uninsured	45m				<ul style="list-style-type: none"> <li>▶ Efforts to reduce uninsured likely to spur HDHP adoption</li> <li>▶ Universal insurance mandates (e.g., CA, MA, PA, ME) could increase demand for low premium HDHP</li> <li>▶ Govt. efforts to promote insurance pools may allow some to purchase lower cost HDHP products</li> <li>▶ For high income, HSA tax savings make CDHPs attractive</li> </ul>
Individual	14m	1.1m	N/A	Data Not Available	▶ Potential for strong growth – competitive pricing of HDHP/CDHP products key to increasing enrollment in individual segment
Small	42m	1.2m	Data Not Available		<ul style="list-style-type: none"> <li>▶ Slow uptake in past, but strong surge in 2007 CDHP enrollment</li> <li>▶ Growth in HDHP/CDHP expected to continue, as states encourage employers to offer insurance</li> </ul>
Mid-size	22m				<ul style="list-style-type: none"> <li>▶ Small-mid-sized firms likely to offer full replacement HDHP/ HSA products</li> <li>▶ Competitive pricing of CDH products as compared to other PPO/HMO offerings and administrative ease will influence small-employer demand</li> </ul>
Large	20m	2.2m			<ul style="list-style-type: none"> <li>▶ Jumbo employers (20,000+ employees) have been at the forefront of CDHP – but adoption may be slowing (however, increased cost sharing expected to continue)</li> </ul>
National	72m				<ul style="list-style-type: none"> <li>▶ Future increase in CDHP enrollment driven by employers who already offer CDH moving to full-replacement</li> <li>▶ Growth likely to be driven by emphasis on quality of CDHPs (as opposed to cost benefits)</li> <li>▶ Large firms that have not offered CDHPs will take a wait and see approach to see data on health care and cost outcomes</li> </ul>
Total	215m	4.5m			5.5 m

(1) Small accounts - less than 50 employees, mid-sized accounts – 50-249 employees, large local accounts – 250-999 employees, national accounts – 1000+ employees

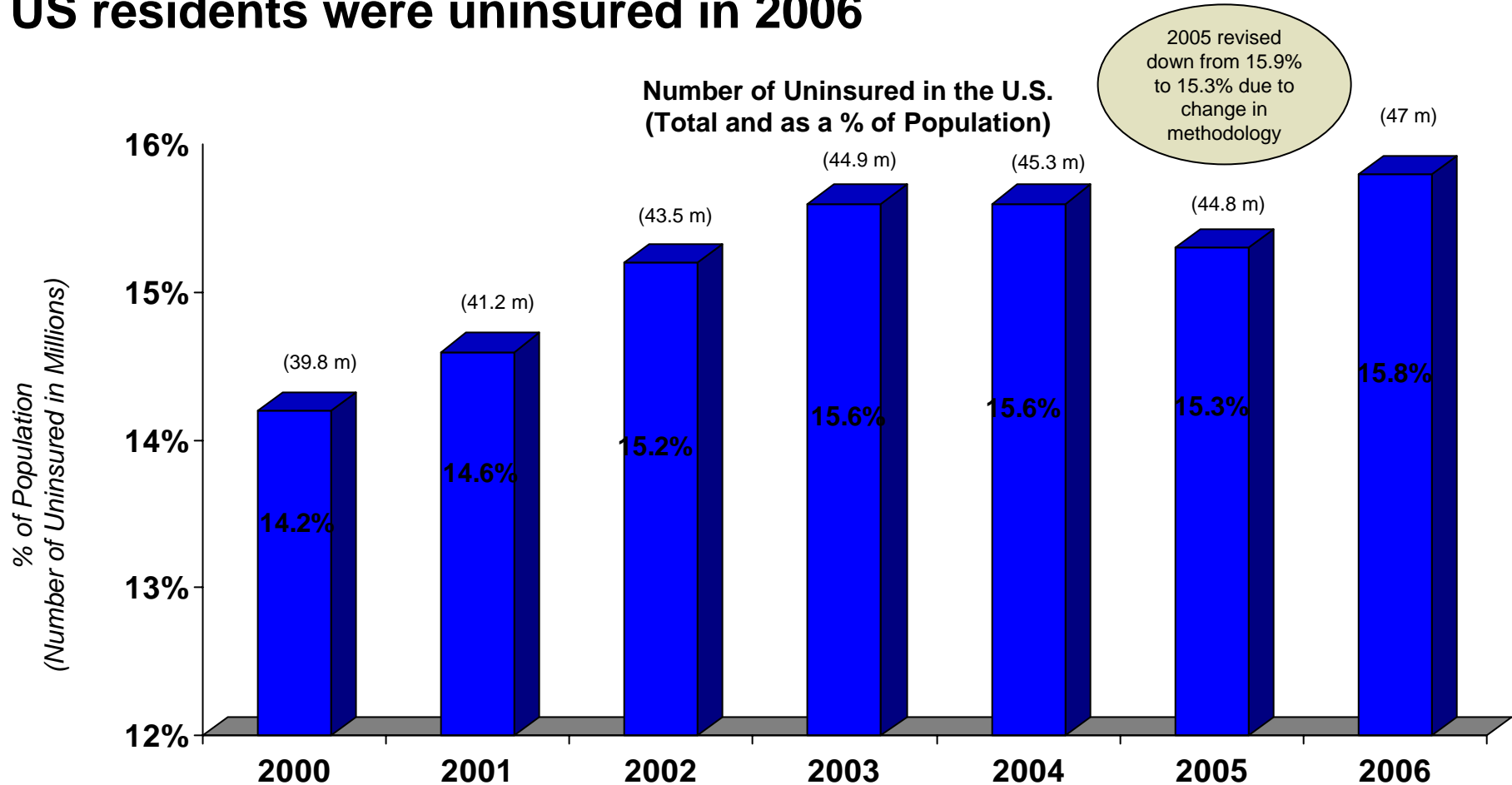
(2) Based on Census data and Kaiser Family Foundation data on uninsured and privately insured non-elderly population in 2005, published in Fall 2006

(3) Based on AHIP 2007 data, data not available for each segment separately – groups only classified as large and small

(4) Based on Association of PPOs survey of 100 health plans in Feb 2007

Source: US Census, AHIP, Inside Consumer Directed Care, Mercer Employer Surveys, Kaiser Family Foundation, EBRI, Forrester Research, Association of PPOs survey, Expert interviews

# The number of uninsured has been rising since 2000 – 47 million US residents were uninsured in 2006



Note: 2005 levels adjusted downwards by Census bureau from 15.9% to 15.3%

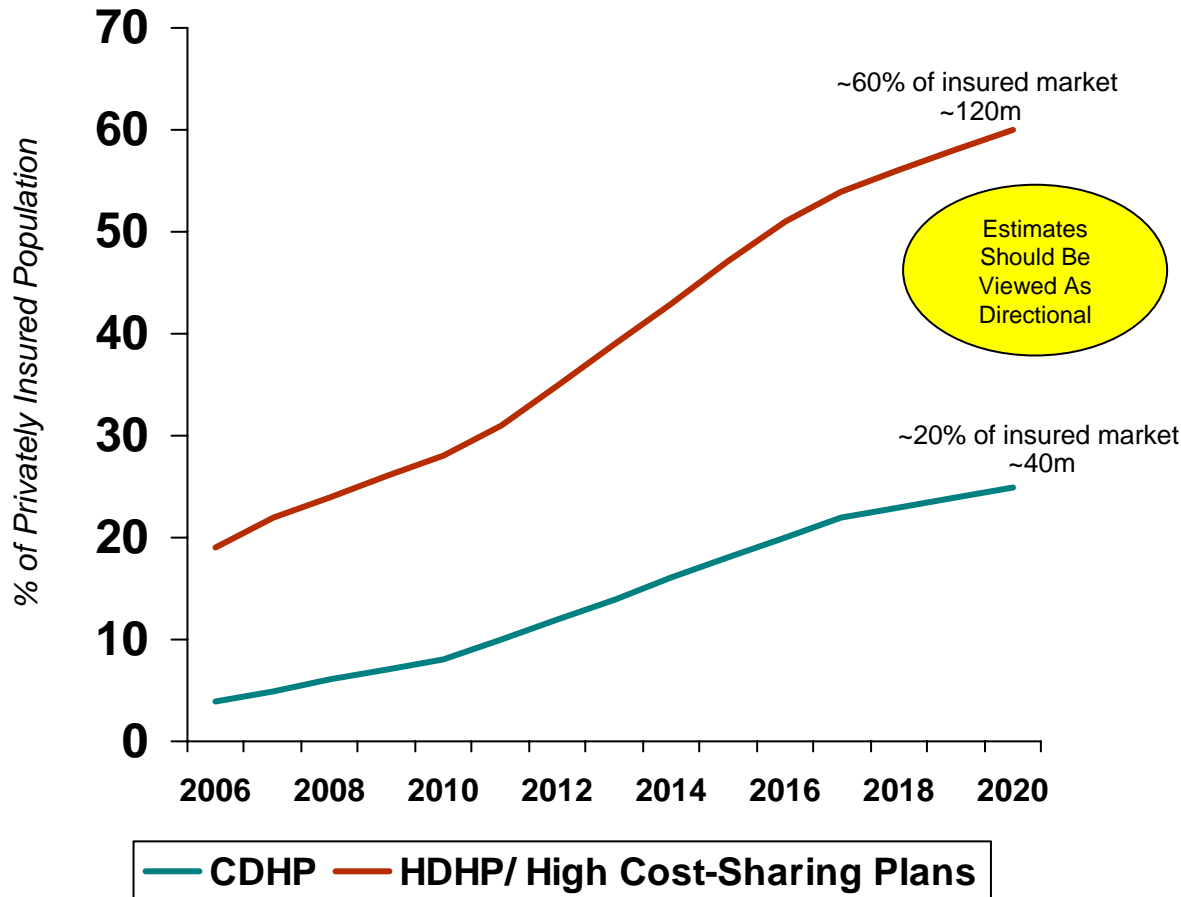
Sources: US Census Bureau, *Income, Poverty and Health Insurance Coverage in the United States: 2005*, Conversation with Cheryl Hill Lee, Sr. Researcher, US Dept of Commerce, April 2007, Census Bureau press release, August 2007

# Policies to provide coverage to the uninsured could increase enrollment in high deductible/ high cost-sharing plans

Initiatives	Potential Impact on HDHP/High-cost sharing plans
<p>▶ <b>State high-risk pools (32) states</b></p> <ul style="list-style-type: none"> <li>– Provides health insurance for individuals and small employers who might otherwise be unable to obtain coverage in the market</li> <li>– Many of these policies are community rated</li> <li>– Premiums may be ~150-200% higher than average policy under typical group coverage</li> <li>– Some states negotiating with insurers to ensure preventative and disease management services included in plan package</li> </ul>	<p>▶ <b>Medium to high impact on HDHP/high-cost sharing plans:</b></p> <ul style="list-style-type: none"> <li>– Many states pushing this as an option for self-employed and others excluded from individual/group market</li> <li>– Costly premiums may lead to people choosing high deductibles and co-pays to reduce premiums</li> <li>– Positive experiences and health outcomes from programs such as ColoradoCover (offers HDHP with health accounts and care management services) may lead to greater adoption of similar plans</li> </ul>
<p>▶ <b>Mandatory Health insurance (MA, PA, ME, CA-proposed)</b></p> <ul style="list-style-type: none"> <li>– All state residents required to have health insurance</li> <li>– Employers required to pay-or-play – i.e., either provide health coverage or pay into a fund</li> <li>– Coverage requirements debated – some states may allow requirements to be met with HDHP with catastrophic coverage while others require more comprehensive coverage</li> </ul>	<p>▶ <b>Medium impact on HDHP/high-cost sharing plans:</b></p> <ul style="list-style-type: none"> <li>– Coverage requirements are being debated and in some states, HDHP may meet individual coverage mandates, while others may require comprehensive coverage</li> <li>– Small employers who decide to provide coverage under pay-or-play rules may choose lower cost HDHP</li> </ul>
<p>▶ <b>Medicaid consumer-centric care (FL, SC, WV)</b></p> <ul style="list-style-type: none"> <li>– FL moving to a defined contribution model with beneficiaries able to choose plan type along with an 'Enhanced Benefits Account', in which the state will deposit funds to reward healthy behaviors</li> <li>– SC will give beneficiaries a Personal Health Account (PHA) funded with a risk-adjusted, actuarially determined amount for purchase of an insurance plan from among options approved by the state</li> <li>– WV is establishing Healthy Rewards Accounts for beneficiaries that provide incentives to make healthy decisions (credits for health behavior may be used to pay higher plan co-payments, as well as fees for weight loss and other programs)</li> </ul>	<p>▶ <b>Low to medium impact on HDHP/ high-cost sharing plans:</b></p> <ul style="list-style-type: none"> <li>– While many of these initiatives are modeled on HSA-based plans, some states feel that high deductible plans may not be appropriate for the Medicaid population</li> <li>– However, state budget constraints may nonetheless lead to greater cost-sharing and higher deductibles, co-payments etc.</li> </ul>

# By 2020, over half of the insured population could be in high deductible/ high cost-sharing plans

Projections for Healthcare Consumerism – HDHP/High Cost Sharing Plans and CDHP as a Subset



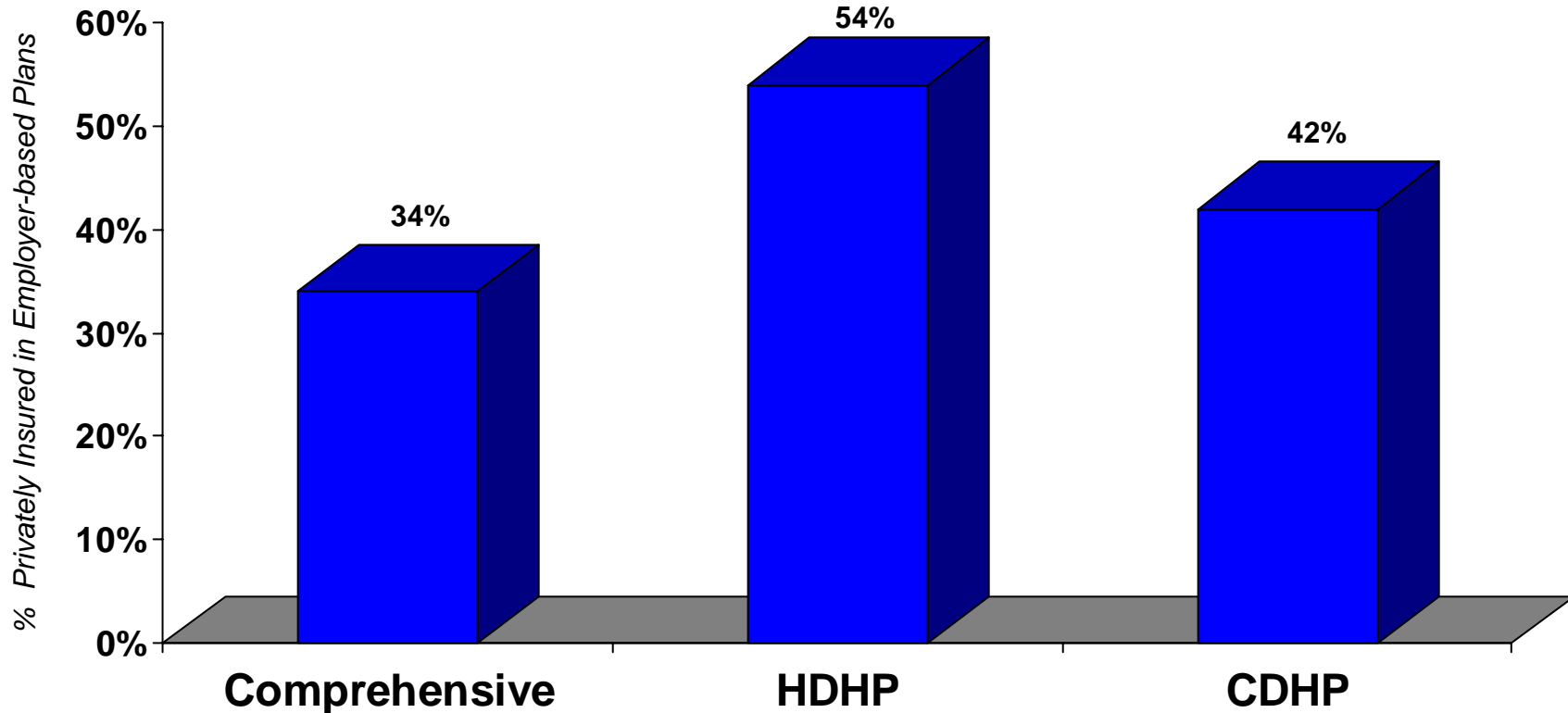
## Discussion Points

- ▶ HDHP/High cost sharing plans estimated to reach ~60% (120m) of insured market by 2020. Key factors impacting adoption:
  - Rise in health care costs – most firms cite cost increase as main factor for greater cost-sharing with employees
  - Efforts towards universal coverage – may push the adoption of HDHP and other high cost sharing plans
- ▶ The subset of CDH plans expected to cap at ~20-25% of insured market by 2020 (approximately 40m in CDHP). Key factors impacting adoption:
  - Government policies regarding HSA tax benefits – under Republican government, expect to see greater push for CDH products
  - Quality of service from health plans and information transparency – by most accounts, a major deterrent and unclear if it will be resolved
  - Pricing of products – In some cases, CDHP products may be priced too high and employers/consumers need to see significant discounts on premiums to take risks associated with CDHP
  - Savings mechanisms – easy portability between financial institutions, lower fees and greater investment options may make HSAs more attractive

Note: projections based on expert interviews and secondary research; should be viewed as directional only; for privately insured under 65 population  
 Sources: Expert interviews, US Census, OECD Review of Health systems, JAMA and Health Affairs articles

# Approximately half of HDHP/CDHP enrollees had no choice of health plan

% of Privately Insured With Employer Based Coverage Who Did not Have Choice of Plans, 2006



*Note: Limited data available - directional estimates only*

*Comprehensive = health plan with no deductible or <\$1,000 (individual), <\$2,000 (family).*

*HDHP = high-deductible health plan with deductible \$1,000+ (individual), \$2,000+ (family), no account.*

*CDHP = consumer-driven health plan with deductible \$1,000+ (individual), \$2,000+ (family), with account.*

*Sources: EBRI/Commonwealth Fund Consumerism in Health Care Survey, 2006*

## Recent data indicate up to ~10 million covered lives in CDHP in 2007

- ▶ Kaiser Family Foundation estimates that 3.8 million workers were covered in CDHPs (HDHP with savings option – HSA or HRA) in 2007
- ▶ This estimate is for workers, and does not include spouses and children covered by the policy – typically 1.7 to 2.2 covered lives per worker health account...
- ▶ This translates into an estimated 6.5 million to 8.4 million covered lives in CDHP in the group market (i.e. employer covered insurance)
- ▶ In addition, approximately 1.1 million to 1.5 million people enrolled in CDHP in the individual market and very small group market, i.e. firms with less than 3 employees in 2007
- ▶ Overall estimate: up to ~10 million covered lives in CDHP