


HealthLeaders^{Media} FACT FILE

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Consumer-Directed Health Plans

Consumer-directed health plans aim to reduce healthcare expenditures by creating a financial savings vehicle for enrollees' increased out-of-pocket healthcare expenses to create incentive to spend wisely. But some early findings have raised questions about the plans' effectiveness in this regard. One study found that although increased out-of-pocket expenses were expected to lower utilization of unneeded services, CDHP enrollees

reported making more visits and undergoing more procedures than non-CDHP enrollees. One explanation is that CDHP enrollees have a higher "health conscience" that prompts them to use excess services even in the face of higher out-of-pocket costs. Whatever the reason, CDHPs may need to alter their incentives and offer new forms of information to enrollees to achieve the lower expenses they seek. 

WHAT DOES IT ALL MEAN?

Here is a glossary of consumer-directed products:

Flexible spending accounts (FSAs)

- An employer bookkeeping account for medical expenses generally funded by employee pretax contributions
- Often offered as a separate component of a cafeteria plan (a plan that provides employees with a choice between taxable cash and nontaxable benefits for unreimbursed medical or dependent care expenses)

Health reimbursement arrangements (HRAs)

- Medical plan funded entirely by the employer that reimburses the employee for qualified medical expenses. Cannot be offered through a cafeteria plan

High-deductible health plan (HDHP)

- A health insurance plan with a deductible requirement of typically at least \$1,000 for health plan coverage
- The HDHP must meet certain legislative and regulatory requirements in order for plan participants to become eligible to contribute to MSAs and HSAs

Health savings accounts (HSAs)

- A portable, personal account for the payment of qualified medical expenses
- Individuals must be covered by a high-deductible health plan to contribute to an HSA
- Account's earnings are not taxed
- Not available to individuals covered by Medicare, persons who can be claimed as a tax dependent, and those covered by a health plan that is not a HDHP
- Can be funded by an employer, employee or other individual

SOURCE: PricewaterhouseCoopers, *Take Care of Yourself: Employers Embrace Consumerism to Control Healthcare Costs*

Upcoming Topic:

- » Present on Admission Indicators

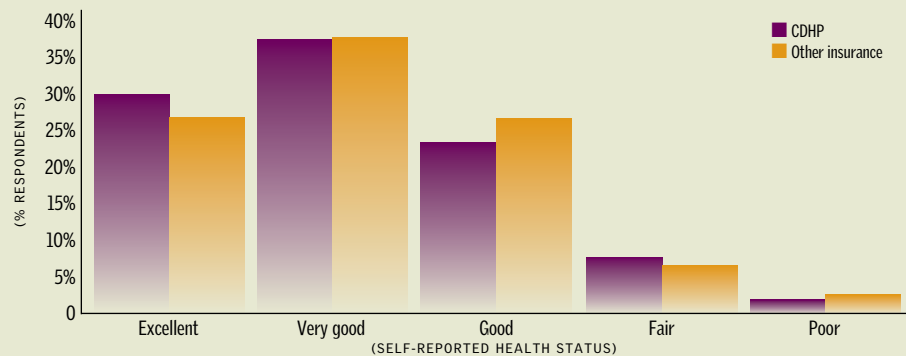
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THEY'RE HEALTHIER ...

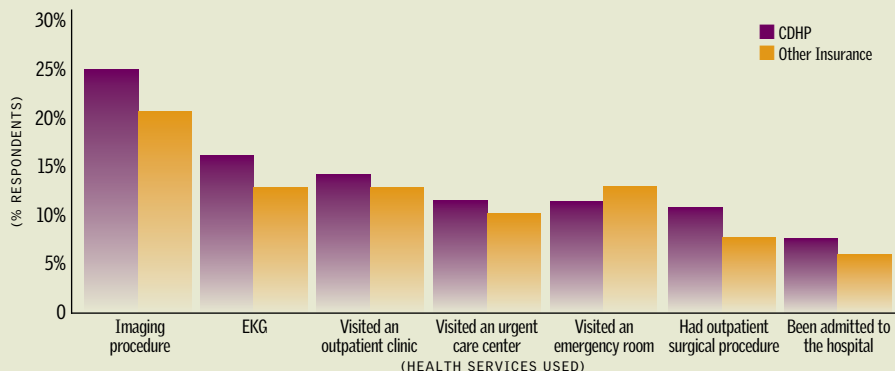
The term *consumer-directed health plan* (CDHP) is commonly used to mean a high-deductible insurance plan with a financial savings vehicle for out-of-pocket healthcare expenses to create incentive to spend wisely. CDHPs are typically offered with an information service that helps the enrollee make better healthcare choices. CDHP enrollees tend to report slightly better health status than their counterparts at enrollment and also tend toward higher income and education levels.



SOURCE: Thomson Reuters PULSE Survey 2007

... BUT THEY USE MORE SERVICES?

CDHP enrollees report using more visits and procedures, except for the emergency department, than their non-CDHP counterparts. This outcome is curious because the increased out-of-pocket expenses were expected to lower utilization of unneeded services and because the CDHP enrollees report better health status at enrollment. The findings raise the question of whether CDHP plans will reduce healthcare expenditures as promised.



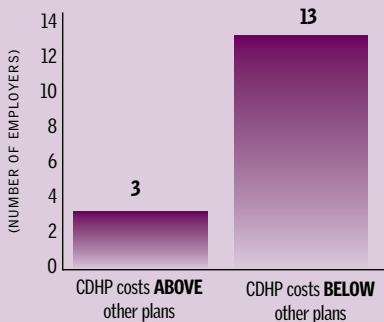
SOURCE: Thomson Reuters

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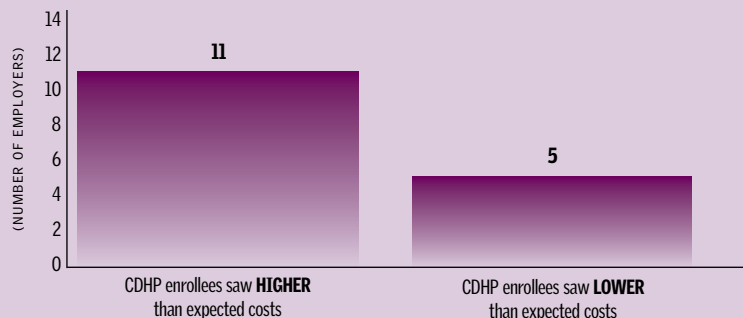
THE COST TO EMPLOYERS

Do CDHPs lower the cost of healthcare benefits? Often, but not always. A study of actual expenditures found that 13 of the 16 employers' CDHPs had per employee per year expenses that were lower than the non-CDHP employee expenditures.



THE COST TO EMPLOYEES

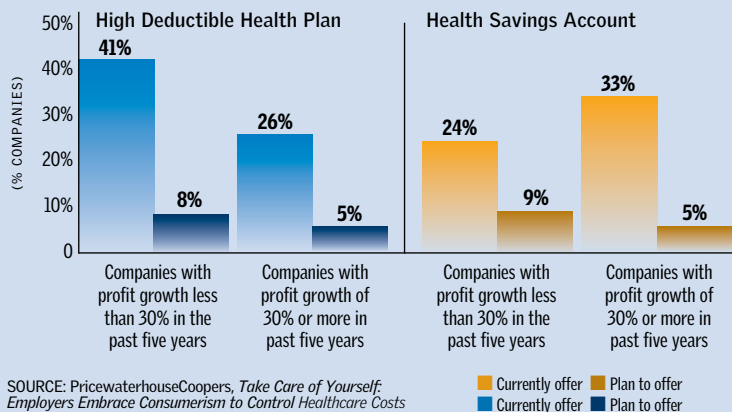
The same study found that even though the CDHP enrollee was healthier at enrollment and had a predicted lower cost of care, 11 of 16 employers found the CDHP enrollee's healthcare cost exceeded the expected cost by 12%. Overall, CDHP plans exceeded expected cost by 8%. This study of early adopters suggests that CDHP plans will have to consider new enrollment approaches, different design or incentives, or other forms of enrollee information if achieving lower healthcare expenses is the primary goal of these plans.



SOURCE: Thomson Reuters (Note: Cost represents total cost, including employee out-of-pocket expenses. Employers may see a reduction in expense.)

MARGINS MATTER

The availability of high-deductible health plans is much greater among companies that have suffered slowed profit growth.



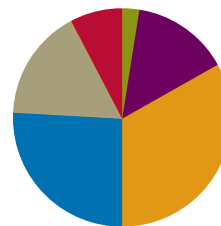
SOURCE: PricewaterhouseCoopers, *Take Care of Yourself: Employers Embrace Consumerism to Control Healthcare Costs*

TAKE CARE, OR PAY UP

When asked whether employees exhibiting unhealthy behavior should pay a larger share of their health costs, 48% of company executives at least somewhat agreed.

To what extent do you agree with the following statement: "Our company should require employees who exhibit unhealthy behavior (smoking, poor nutrition and lack of exercise contributing to obesity, etc.) to pay a larger share of their health benefits."

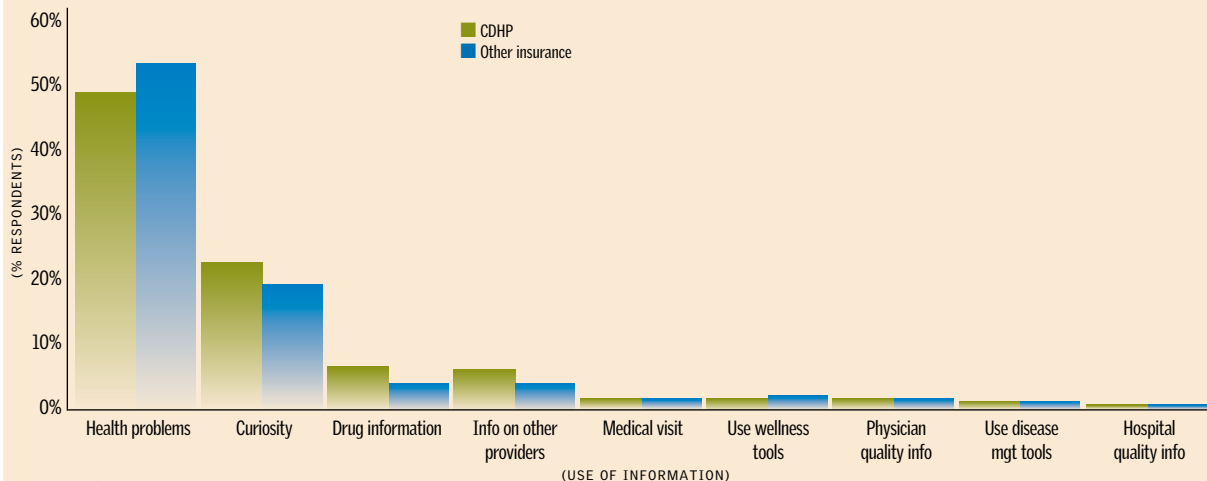
- 14% Strongly agree
- 34% Somewhat agree
- 26% Somewhat disagree
- 16% Strongly disagree
- 8% Not certain
- 2% Not reported



SOURCE: PricewaterhouseCoopers, *Take Care of Yourself: Employers Embrace Consumerism to Control Healthcare Costs*

HOW DO THEY USE INFORMATION?

For adults with either CDHP or other insurance, the overwhelming reason to use information is to understand their medical illness or curiosity. Quality information to select providers and wellness tools rank very low for adults in both plan types—which indicates an unmet need for useful information about healthcare services and providers.



SOURCE: Thomson Reuters PULSE Survey 2007

