Consumer-driven Health Care

The Issue

Consumer-driven health care has become an often-heard term with the creation and widespread adoption of personal health accounts. These include Health Reimbursement Arrangements (HRAs), Health Savings Accounts (HSAs), and any other product or program that decreases the influence of third-party payers on cost and utilization.

As the popularity of consumer-driven health care has grown, however, so have issues that affect the ability of individuals to make value decisions about their health care. Issues like price transparency and an emphasis on measuring quality have emerged as central issues in the health care debate, driven largely by the growth of these new methods of paying for health care services.

Health Savings Accounts

FSAs and HRAs preceded HSAs, which were created by Congress in 2003 and first became available on the market in 2004. Since then, HSA use has grown rapidly as these instruments offer greater patient control and even more flexible features than similar accounts.

The term HSA refers to a savings account that is combined with a high deductible health plan (HDHP) and is used to pay for health care with pre-tax dollars. An HDHP requires participants to meet their deductibles by paying medical bills out-of-pocket (presumably with funds in the HSA), rather than with co-payments and co-insurance. Premiums are often lower than under traditional health insurance plans that feature high premiums and low, or no, deductibles or cost-sharing. Funds remaining at year-end are rolled over to the next year, continuing to build.

In September 2004, there were 438,000 people enrolled in an HSA-qualified HDHP; in January 2012 there were more than 13.5 million. The overall growth in HSAs increased 18% last year, after seeing growth every year as high as 40%. Total HSA deposits exceeded $10 billion in 2010. Recent studies show that about 40% of those purchasing an HSA-qualified HDHP in the individual market were previously uninsured, perhaps attracted by the low price and tax benefits.

HSAs are frequently criticized as being only for the healthy and wealthy, but experience disputes this. Indeed, individuals with chronic conditions can benefit from the flexibility that an HSA provides, not to mention a fixed out-of-pocket expenditure and a family deductible, rather than the per-person deductible often found in other traditional health insurance plans. In addition, the opportunity to save for health care with pre-tax dollars is at least as appealing as the premium savings that an individual (or an employer) realizes from purchasing a high deductible plan.

Critics claim that individuals with HSAs will forego needed care in order to save money. Studies have indeed shown this occurs only in minor circumstances. Reason suggests that personal responsibility for health care makes screenings and treatment regimens look better than the cost of neglected medical complaints. Overall, HSAs provide individuals with greater control over both health care decisions and the way in which health care services are paid.

Health Reimbursement Arrangement

Another consumer-driven alternative to traditional health insurance is the Health Reimbursement Arrangement (HRA) as a means for small organizations to offer health care coverage to their employees. HRAs allow employers to reimburse employees for qualified medical expenses using pre-taxed dollars. Employers also have the option of allowing unused funds to accrue from year to year as an incentive to encourage employees to be price conscious when choosing medical providers and other medical services. A unique feature of HRAs is that the Internal Revenue Code permits funds from an HRA to be used to reimburse employees for health insurance premiums.

These arrangements make health insurance more affordable for employees by lowering the cost of premiums through the use of pre-tax dollars and allowing employees to purchase cheaper, individual policies whose prices have not been inflated by many of the costly regulations imposed on small group health plans, such as the guaranteed issue mandate. These arrangements give employees the option of buying individual policies or using the funds in the HRA to pay for approved medical expenses.

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Agency clarification of the Texas Insurance Code qualifies reimbursements for premium payments as de facto small group policies subject to all of the rules and regulations created by the Health Insurance Portability and Accountability Act (HIPAA). By classifying these reimbursements as small group insurance policies, the Texas Insurance Code forces coworkers to share in the cost of insuring fellow employees enrolled in the same plan by enforcing costly mandates such as guaranteed issue to individual plans purchased with funds from an HRA. Additionally, this interpretation strips employers of one of their most economical options for providing health care coverage. It could force many small employers to drop health coverage all together.

Medicare Part D

Medicare Part D was created using a number of market-based cost containing mechanisms that do not exist in other entitlement programs. Because of this Part D has been more successful at cost containment than other programs. The average Part D premium in 2012 is projected to be $30.00, a modest decrease from the 2011 average of $30.76. In a time when the goal is cost containment, Part D has achieved cost reduction.

The two policies in Part D that achieve this are premium support and the "donut hole." These two policies keep clients invested in the cost of their policy as well as their actual care, which in this case is prescription drugs. These have resulted in the cost of the program to be 30% below original estimated costs through 2011, and projected to be 40% below original estimated costs in the first 10 years. The savings have not been confined to Part D. Part D has also had the effect of reducing the retail prices for prescription drugs by 19%. For clients with limited previous drug coverage, enrolling in Part D was associated with a reduction of $1,200 a year in non-drug medical spending according to the *Journal of the American Medical Association*.

One should note that under ObamaCare the "donut hole" is eliminated. This is likely to adversely affect the future cost reduction in Part D. Part D is only one part of an entitlement program that has significant unfunded liabilities. However, the impact of consumer driven health care in Medicare Part D offers a window into the effects it could have on the greater health care marketplace.

The Facts

- In September 2004, 438,000 people had an HSA-qualified HDHP; in January 2012, more than 13.5 million. In 2010, combined account balances in HSAs topped $10 billion.
- In 2011, 844,832 Texans were enrolled in an HSA/HDHP, the second highest number in the nation.

Recommendations

- Offer state employees an option to enroll in an HSA/HDHP.
- Clarify existing state law to make sure the purchase of individual health insurance, through an HSA, is not subject to small group requirements.

Resources

Reducing the Cost of Health Care: A Case Study on Health Savings Accounts by Spencer Harris, Texas Public Policy Foundation (Dec. 2010).

Consumer-Driven Price Transparency: Making Health Care Prices Transparent Through the Free Market by Mary Katherine Stout, Texas Public Policy Foundation (June 2006).

Individual or Group Coverage: Regulating Health Reimbursement Arrangements in Texas by Kalese Hammonds and Mary Katherine Stout, Texas Public Policy Foundation (Feb. 2008).

HSAs for State Employees by Mary Katherine Stout, Texas Public Policy Foundation (Aug./Sept. 2006).

Health Savings Accounts: Affordable, Portable, and Accessible Health Insurance by Mary Katherine Stout, Texas Public Policy Foundation (Mar. 2005).

Healthy Competition: What's Holding Back Health Care and How to Free It by Michael Cannon and Michael Tanner, CATO Institute (2007).

Health Savings Accounts: Answering the Critics, Parts I-III by John Goodman and Devon Herrick, NCPA, Brief Analysis Nos. 544, 545, and 546 (Mar. 2006).

"George W. Bush, Health Reformer: Flat Medicare Drug Premiums Show That Choice and Competition Work" by Avik Roy, Forbes (5 Aug. 2011). America's Health Insurance Plans, PowerPoint Presentation.