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# High Deductible Health Plans and Health Savings Accounts: For Better or Worse?

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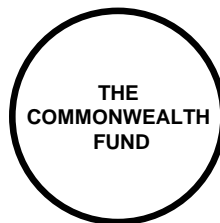
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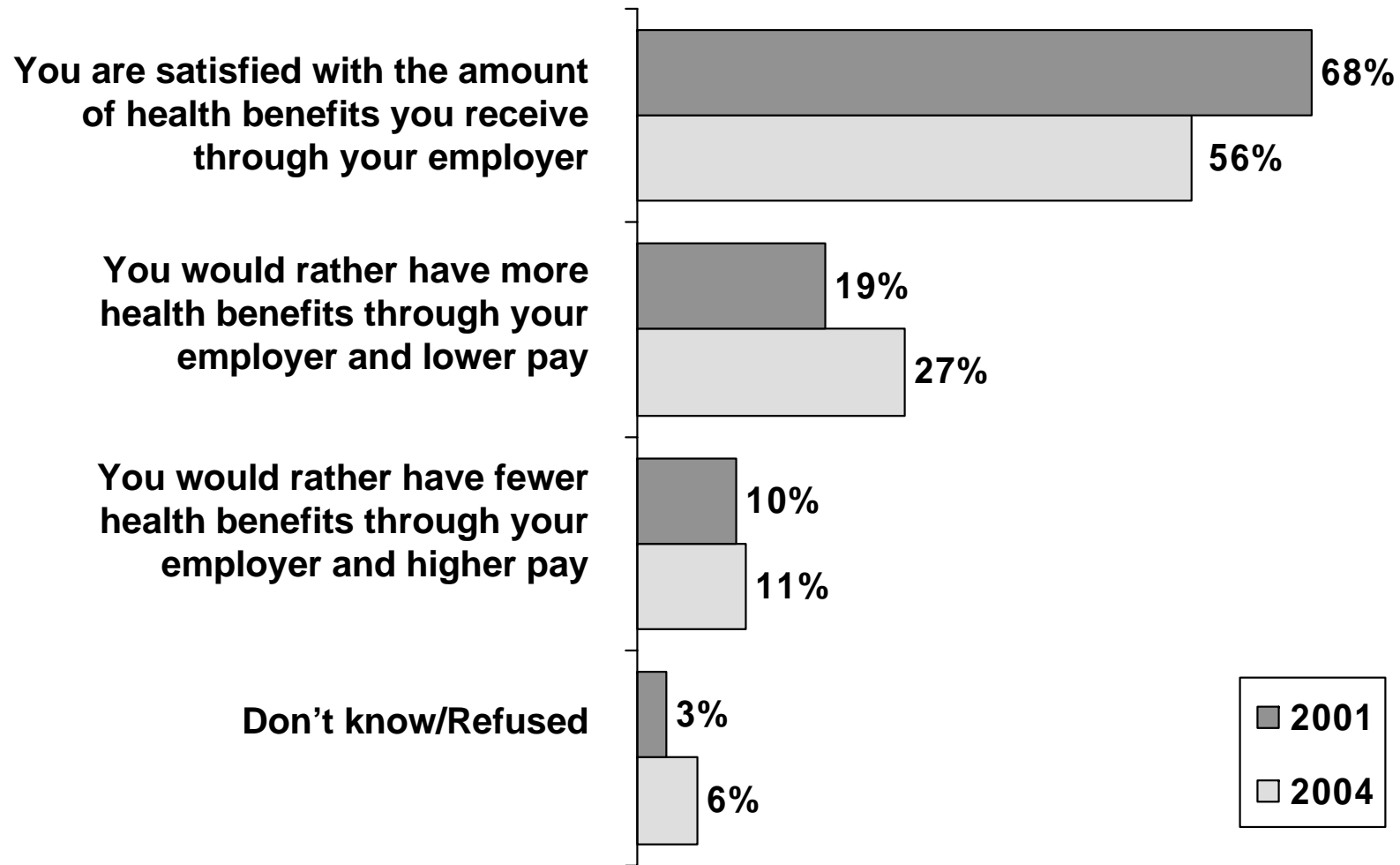
# High Deductible Health Plans (HDHP) and Health Savings Accounts (HSA)

- Current enrollment in HDHP/HSAs low
  - Estimated enrollment of 438,000 in September 2004
    - 91,500 through employers; most in individual market; 3% of large employers now offering
  - May grow; 27% of employers say somewhat or very likely to offer
  - About 1 in 10 employees enroll when given the option
- Early evidence
  - Relatively low take-up rates
  - Attractive primarily to higher income employees and those with lower health expenses
- Concerns
  - Cost-sharing leads to underuse of appropriate care
  - Financial burden on low-income and sick
  - Consumers rarely have the information to make choices based on quality and efficiency
  - Segmentation of risks



# Employees Are Twice as Likely to Be Willing to Trade Pay for More Health Benefits Than the Reverse

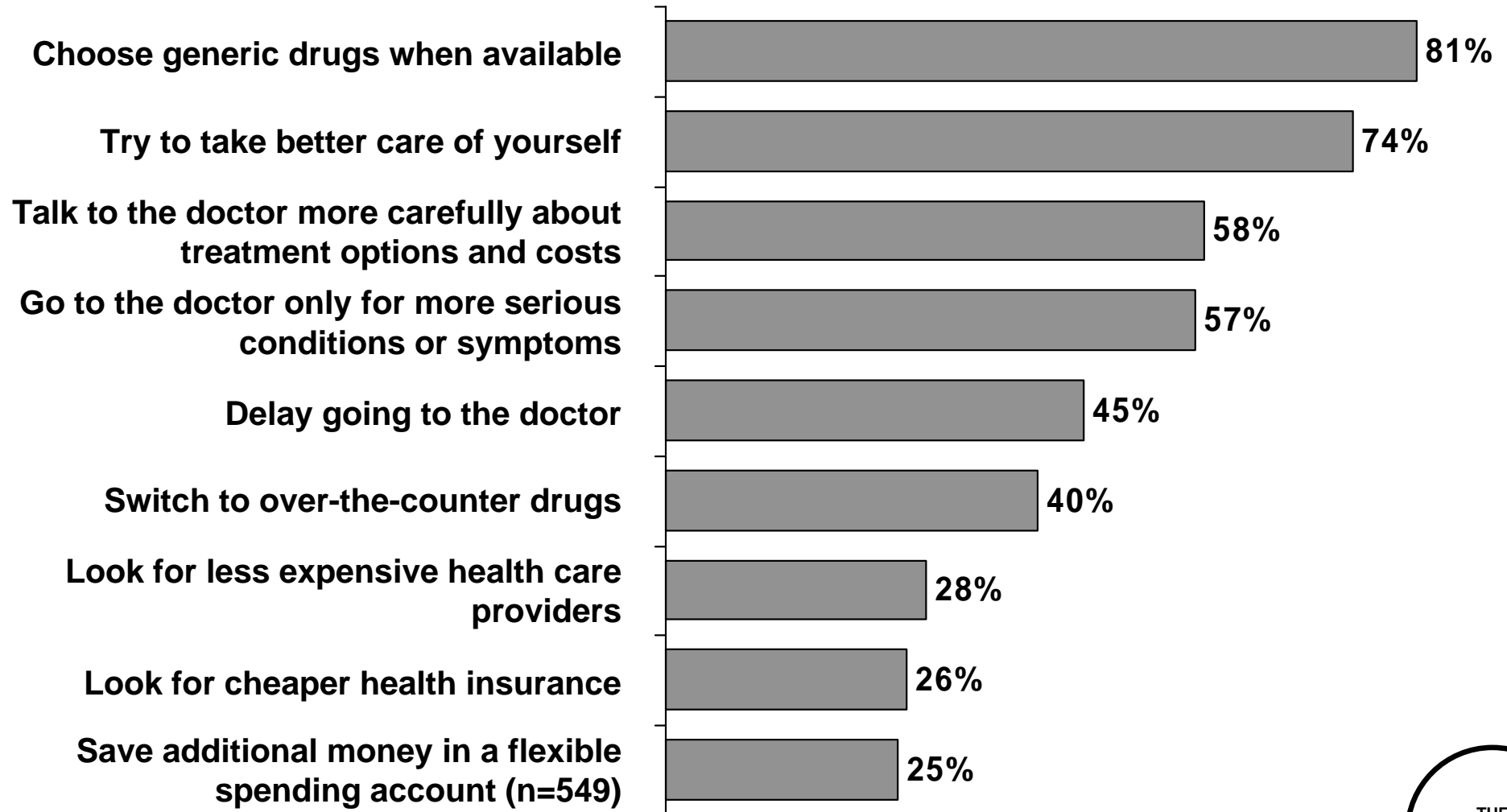
Which one of the following statements would you say is closest to the way you feel about your current health benefits? Among those with health insurance coverage and employed full or part time (2004 n=630)



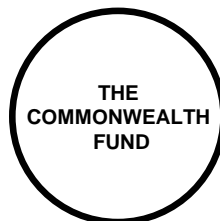
Source: 2004 EBRI Health Confidence Survey.

# Paying More Leads Patients to Change Their Behavior

Has increased spending on health care expenses in the past year caused you to...? Among those with health insurance coverage who had increases in health care costs in the last year (n=594) (percentage saying yes)



Source: 2004 EBRI Health Confidence Survey.



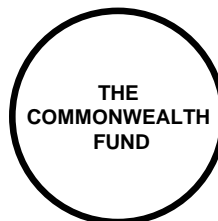
# Across the Board, HDHP Consumers Are More Non-Adherent

## Treatment adherence problems (due to cost)

	Other Privately Insured* %	HDHP** %
Had a specific medical problem but did not visit a doctor	<b>17</b>	<b>33</b>
Took a medication less often than I should have	<b>14</b>	<b>29</b>
Did not fill a prescription	<b>15</b>	<b>28</b>
Did not receive a medical treatment or follow up recommended by a doctor	<b>17</b>	<b>28</b>
Did not get a physical or annual check-up	<b>19</b>	<b>25</b>
Took a lower dose of a prescription than my doctor recommended	<b>15</b>	<b>19</b>

\* Currently insured in employer-sponsored or self-purchased plan (not high deductible)

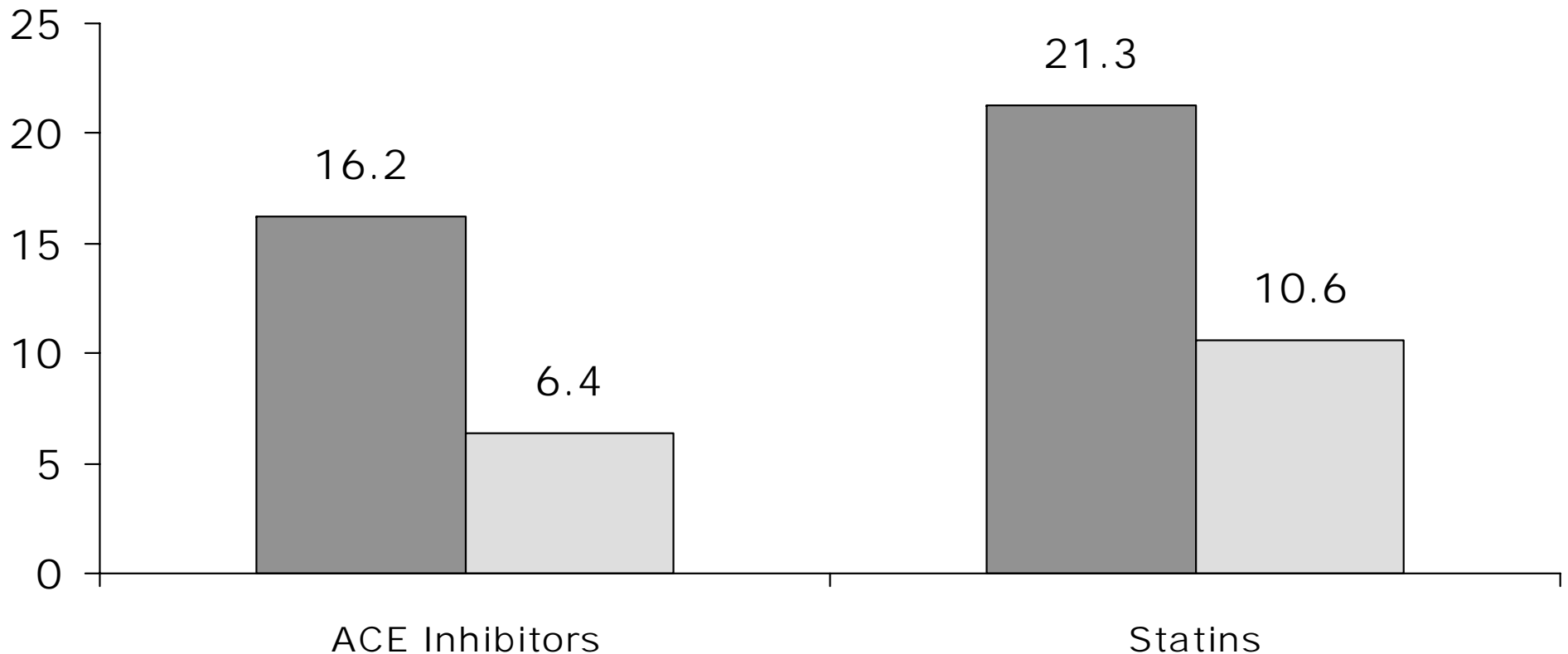
\*\* Currently enrolled in high deductible health plan



# Tiered Prescription Drug Cost-Sharing Leads Patients to Not Fill Prescriptions

Percent of enrollees discontinuing use of all drugs in class:

■ Copayments Increased    □ Copayments NOT Increased

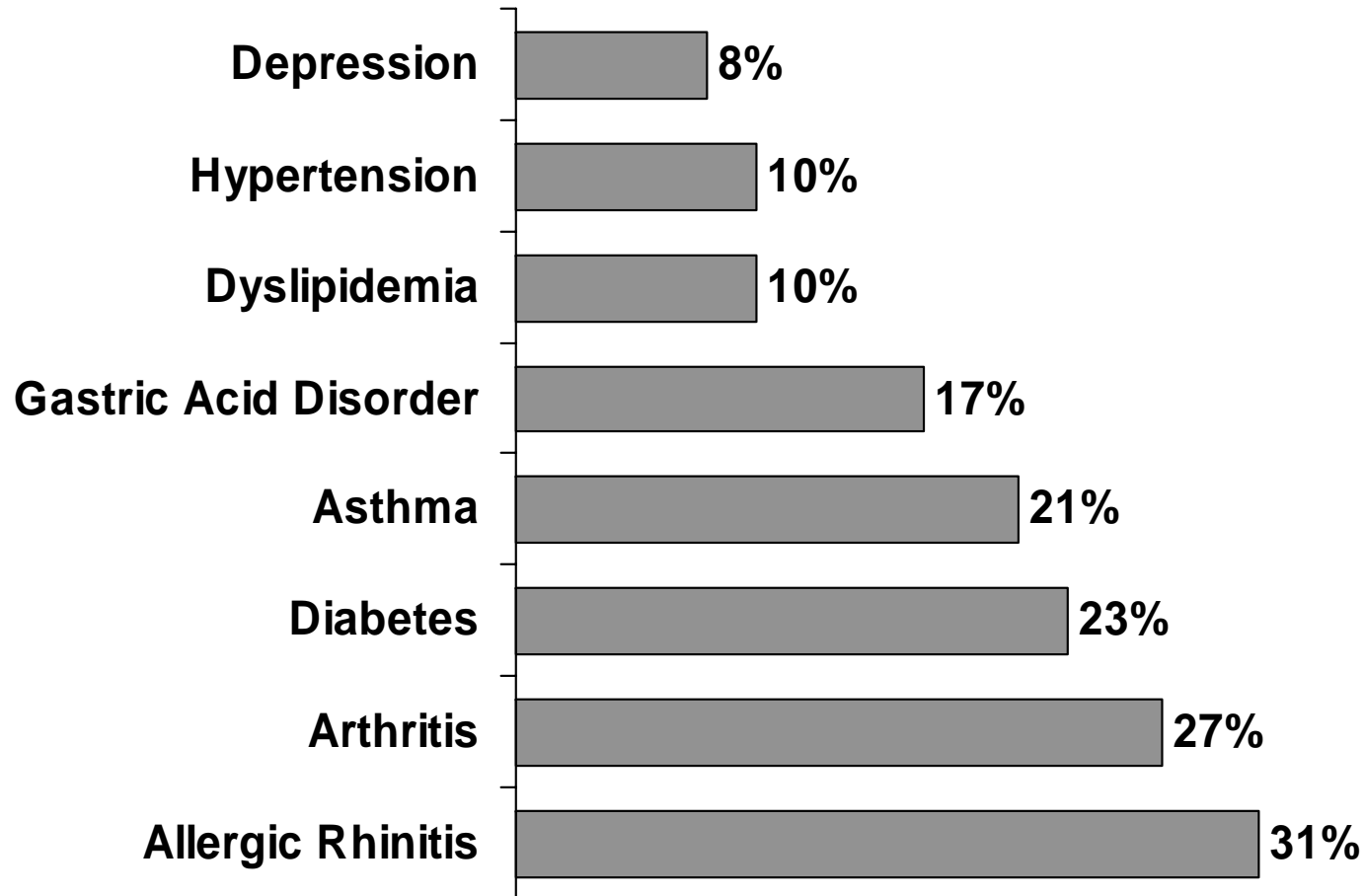


Source: H.A. Huskamp et al., "The Effect of Incentive-Based Formularies on Prescription-Drug Utilization and Spending," *New England Journal of Medicine* (December 4, 2003): 2224–32.



# How Increased Copays Reduce Chronically Ill Patients' Use of Drugs

## Percent Reduction in Days Supplied When Copayments Double

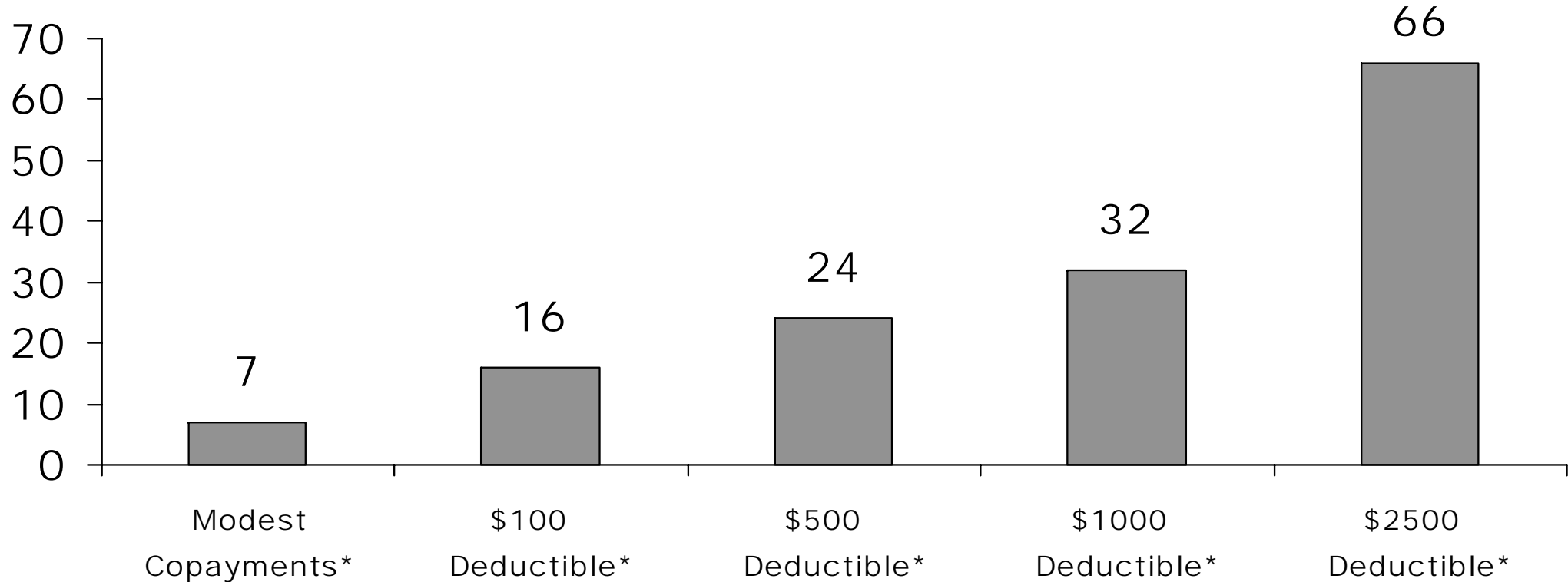


Source: "Pharmacy Benefits and the Use of Drugs by the Chronically Ill", Goldman et al. (RAND), *JAMA* 291(19): 2344-2350, May 19, 2004.



# \$1000 Deductibles Cause One-Third of Hospitalized Patients to Spend More than 10% of Income Out-of-Pocket

Percent



**\* Notes:**

Modest Co-payments Option has \$20 co-pay for physician visits, \$150 co-pay for ED visits, and \$250 co-pay per day inpatient hospitalization; \$100 Deductible Option has 10% in-network coinsurance and 20% out-of-network coinsurance; \$500 Deductible Option has 20% in-network coinsurance and 30% out-of-network coinsurance; \$1000 Deductible Option has 20% in-network coinsurance and 30% out-of-network coinsurance; \$2500 Deductible Option also 30% in-network coinsurance, 50% out-of-network coinsurance; Maximum out-of-pocket limits are set at \$1,500 more than deductible for all options.

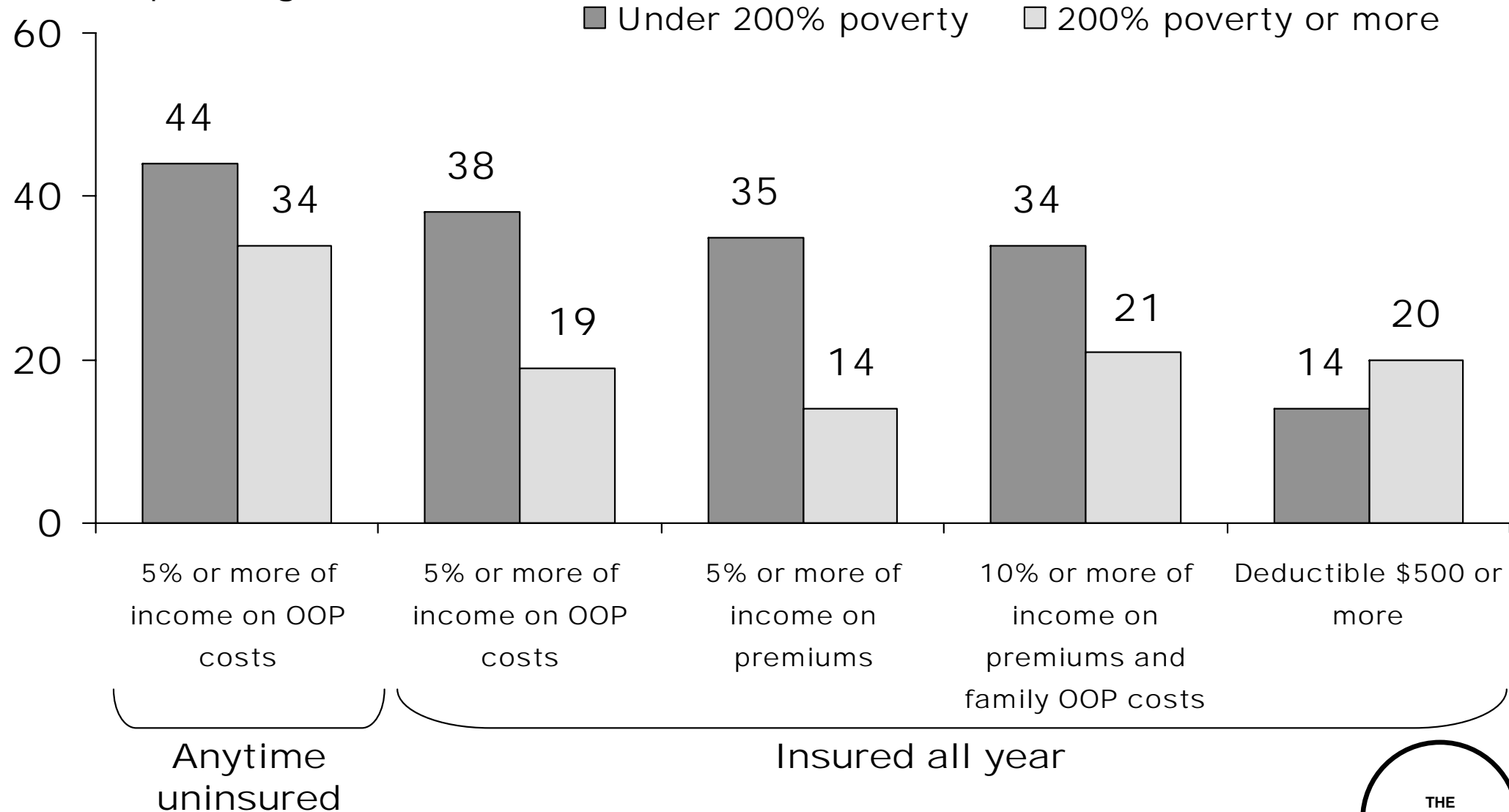
Source: S. Trude, *Patient Cost Sharing: How Much is Too Much?* Center for Studying Health System Change, December 2003.





# Premiums and Family Out-of-Pocket (OOP) Health Care Costs by Poverty Status

Percent of adults ages 19-64 spending:

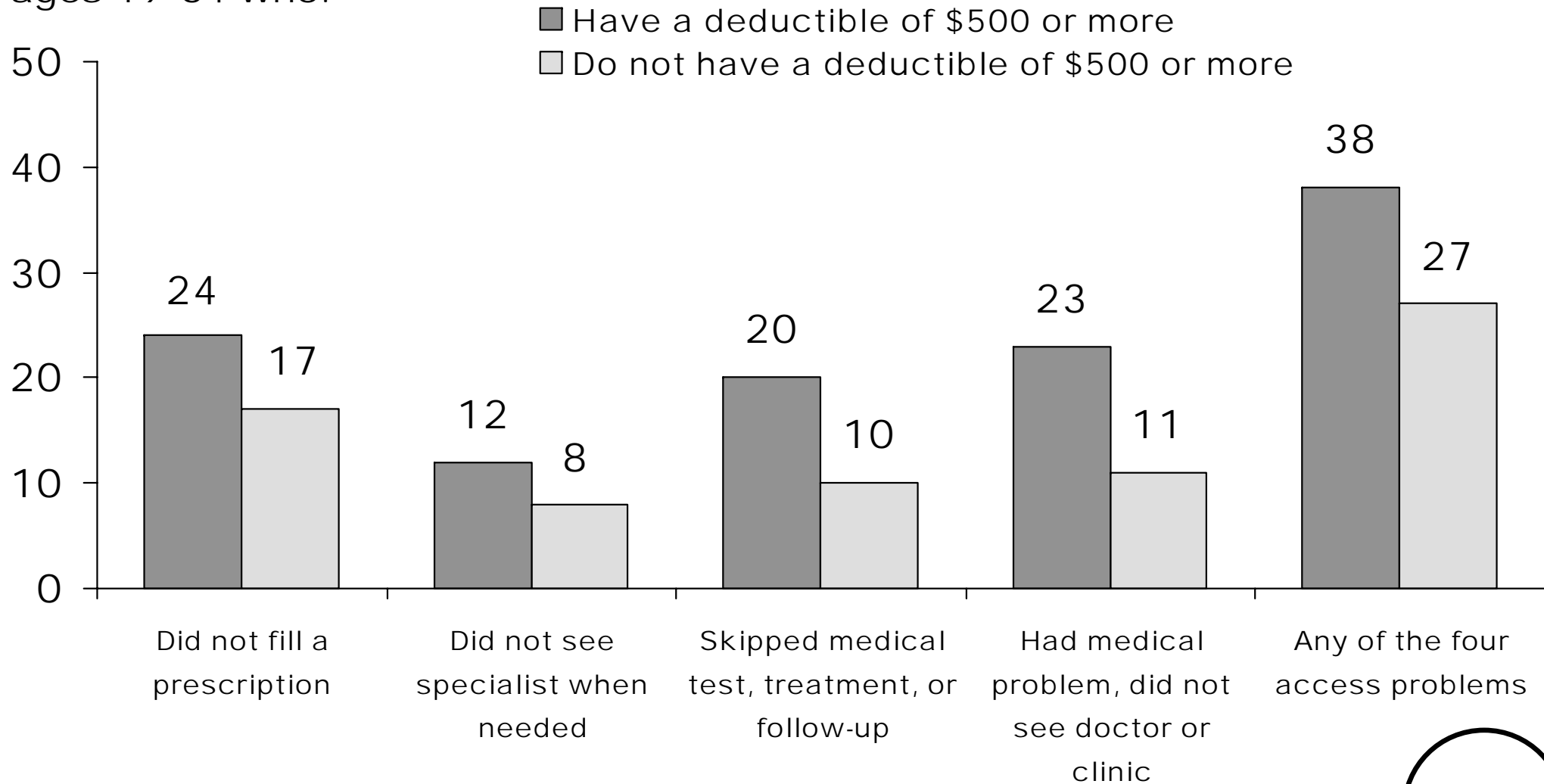


Source: The Commonwealth Fund Biennial Health Insurance Survey, 2003.



# Cost-Related Access Problems Among Insured Adults With a Deductible of \$500 or More

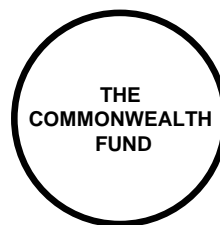
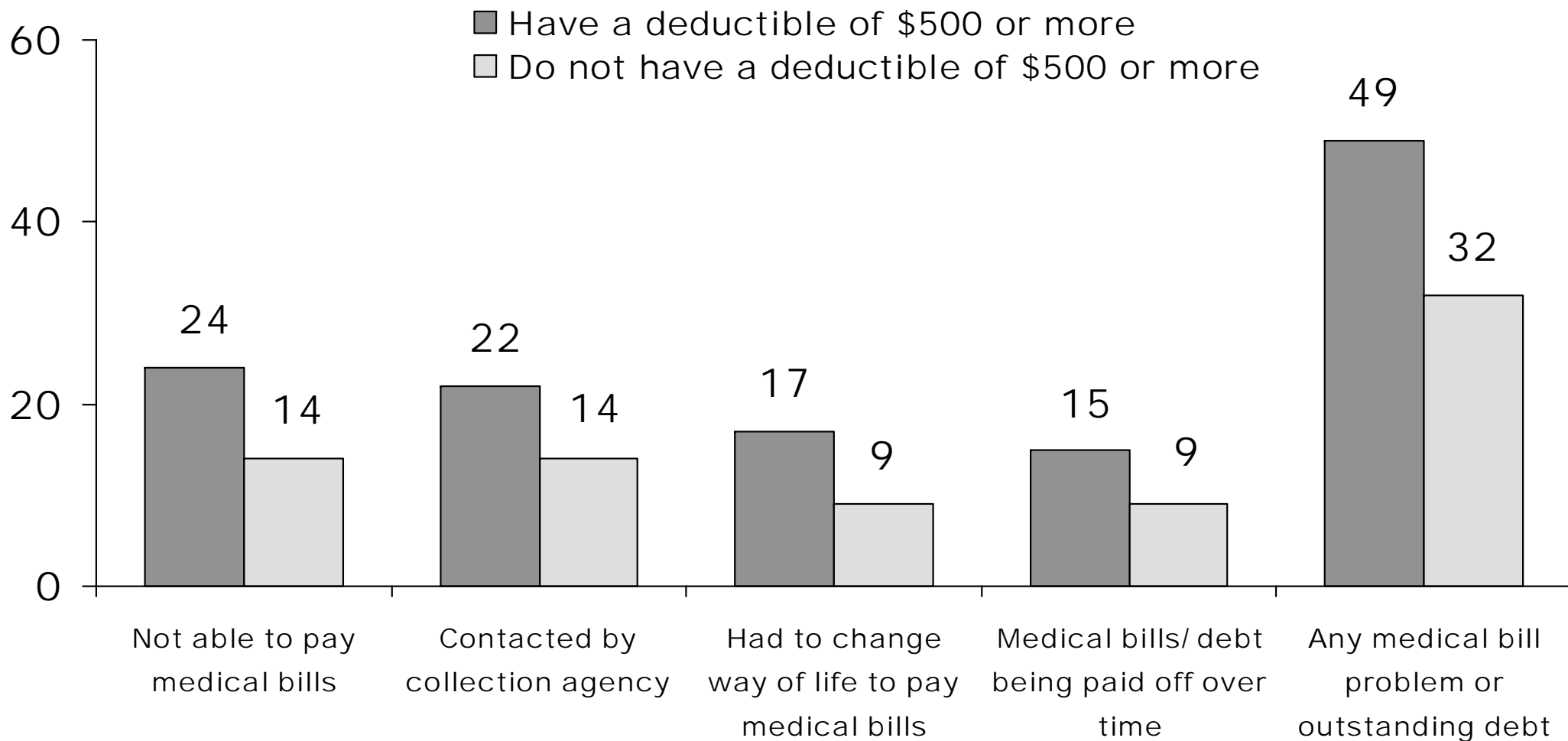
Percent of insured adults ages 19–64 who:



Source: The Commonwealth Fund Biennial Health Insurance Survey, 2003.

# Medical Bill Burdens Among Insured Adults With a Deductible of \$500 or More

Percent of insured adults ages 19-64 who:



Source: The Commonwealth Fund Biennial Health Insurance Survey, 2003.

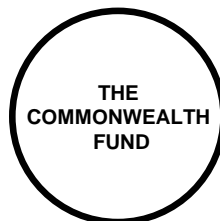
# FEHBP and HDHP/HSA

## Example from DC Metro Area, 2005 Annual Rates

GEHA	Total Premiums	Employee Premiums	Plan Contribution to HSA	In-network Deductible
HDHP - Self	\$4,570	\$1,162	\$720	\$1,100
Standard - Self	\$3,461	\$865	\$0	\$450

Note: \$300 of preventive services exempted from deductible.

Sources: *2005 FEHB Plans: High Deductible Health Plan/Health Savings Accounts, Premium Pass Thru Comparisons, DC Metro Area*; Office of Personnel Management, *Non-Postal Premium Rates for the Federal Employees Health Benefits Program, 2005*.



# FEHBP and HDHP/HSA

## Example from DC Metro Area, 2005 Annual Rates

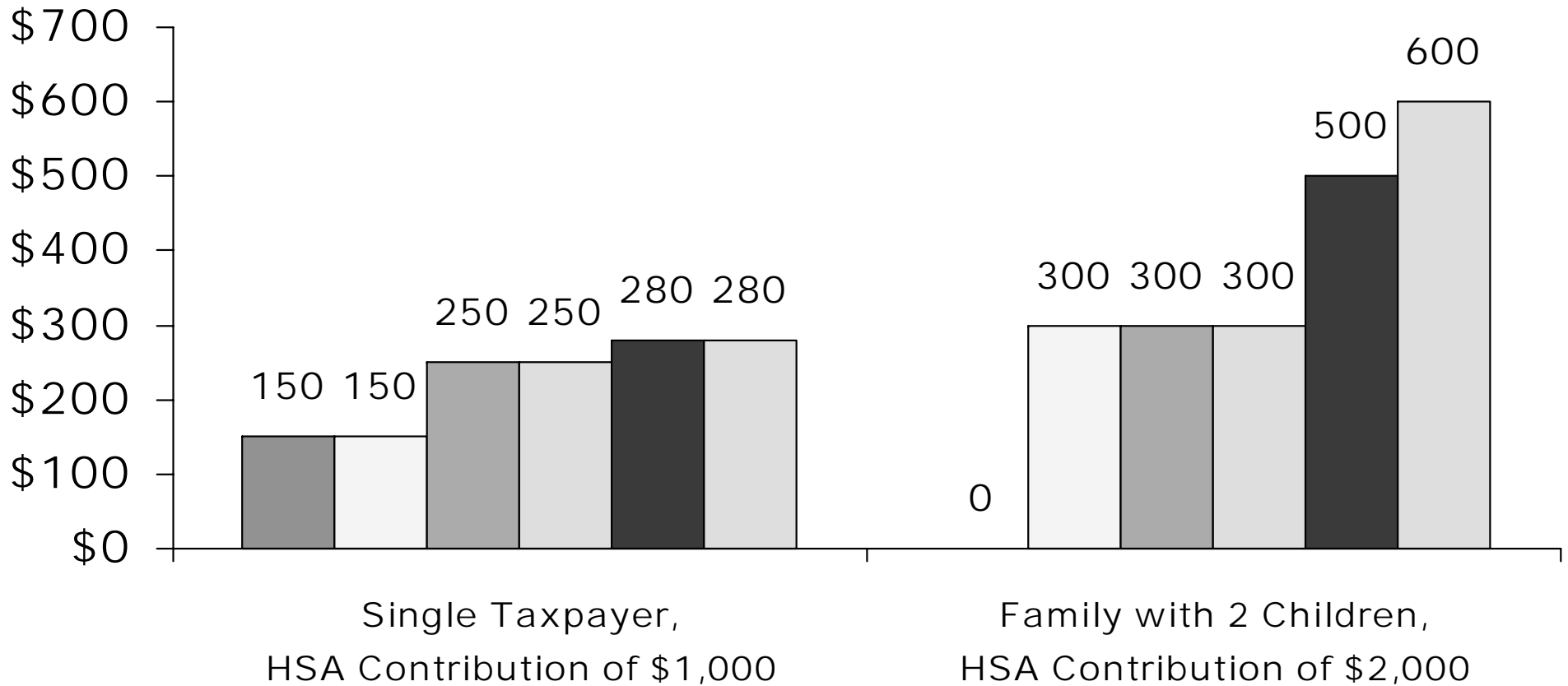
Total Medical Expenses of:	Deductible	Employee Maximum Contribution to HSA	Paid by HSA	Paid by Employee (15% co-insurance for in-network)	Total Premium, OOP, and Employee HSA Contribution	Balance of HSA
<u>\$500</u>						
GEHA HDHP-Self	\$500	\$380	\$500	\$0	\$1,162	\$600
GEHA Standard-Self	450	0	—	458	1,322	—
<u>\$1,500</u>						
GEHA HDHP-Self	1,100	380	1,100	60	1,602	0
GEHA Standard-Self	450	0	—	157	1,422	—
<u>\$5,000</u>						
GEHA HDHP-Self	1,100	380	1,100	585	2,127	0
GEHA Standard-Self	450	0	—	682	1,997	—

# Reduction in Federal Income Tax From HSA Contributions in 2005

Income:

■ \$20,000   □ \$40,000   ■ \$60,000   ■ \$80,000   ■ \$100,000   ■ \$120,000

HSA tax savings:

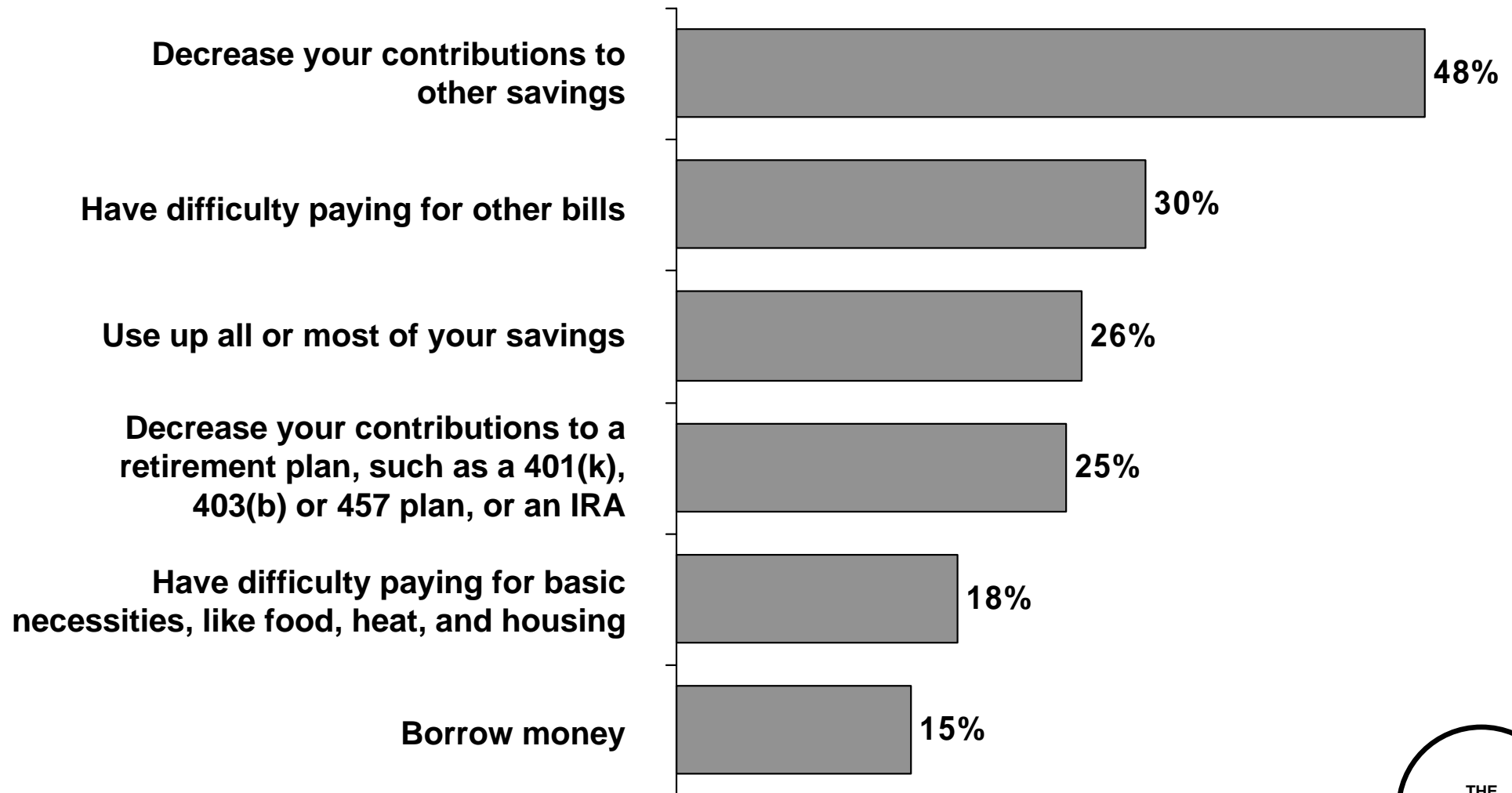


Source: U.S. Department of the Treasury, *Tax Savings from HSA Contributions Made in 2005*, <http://www.ustreas.gov/offices/public-affairs/hsa/pdf/hsa-examples.pdf>



# Increased Health Care Costs Have Reduced Savings

Has increased spending on health care expenses in the past year caused you to do any of the following? Among those with health insurance coverage who had increases in health care costs in the last year (n=594) (percentage saying yes)

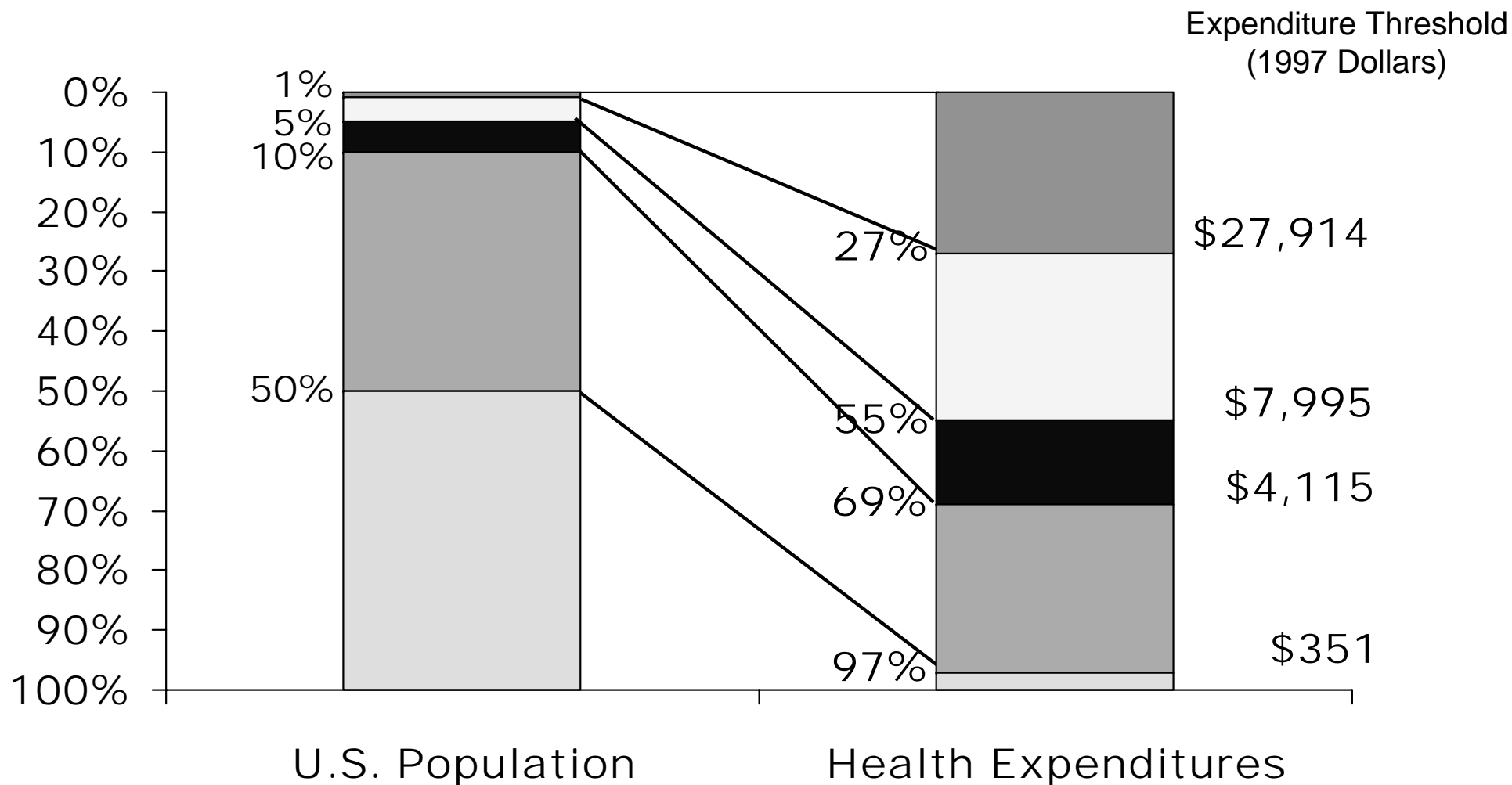


Source: 2004 EBRI Health Confidence Survey.

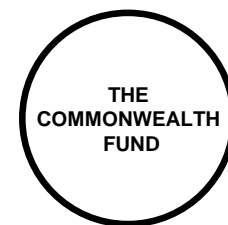


# Health Care Costs Concentrated in Sick Few

Distribution of Health Expenditures for the U.S. Population,  
By Magnitude of Expenditure, 1997



Source: A.C. Monheit, "Persistence in Health Expenditures in the Short Run: Prevalence and Consequences," *Medical Care* 41, supplement 7 (2003): III53–III64.





# Conclusion

- HDHP/HSAs have more downsides than positives
  - Reduce use of effective services
  - Increased financial burden on low-wage workers and sicker individuals
  - Leads to risk segmentation
  - Individuals have neither the information nor the clout to get better prices from providers
  - Greater tax break to higher income families
- Potential legislative “fixes”
  - Reduce deductible for lower-income families
  - Exempt effective services and medications for patients with chronic conditions
  - Cap income eligibility for tax savings similar to IRA provisions
  - Require provider discounts for uninsured low-income families
  - Prohibit discrimination in favor of high-wage employees by employers

# Acknowledgements



Research assistance – Alice Ho, Research Associate, Commonwealth Fund

Karen Davis, *Will Consumer-Directed Health Care Improve System Performance?* The Commonwealth Fund, August 2004.

Sara R. Collins, Michelle M. Doty, Karen Davis, Cathy Schoen, Alyssa L. Holmgren, and Alice Ho, *The Affordability Crisis in U.S. Health Care: Findings From The Commonwealth Fund Biennial Health Insurance Survey*, The Commonwealth Fund, March 2004.

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