



Consumers to Take a Larger Role in Managing Care and Costs

by George W. Gonser Jr., MBA, CDHC

Faced with the continued escalation of health costs, employers and health insurers want you to pay more of the health care tab, or at least be at risk of paying more. While on the face of it that doesn't sound like a good development, it actually could be maybe.

Job-based health-insurance coverage (for those who have it) has expanded so much in the past 15 to 20 years that people have become somewhat blind to the real and persistently rising costs of care. If all you pay is a \$15 co-pay, for example, there's little incentive not to go see a doctor. Going to the doctor generates more costs, such as additional tests and prescription costs.

The result is that we've become a nation of gluttonous, medical consumers. As long as we are only paying a small co-pay there hasn't been a need to care. In other words, you and I are part of the problem of those rapidly escalating health costs we hear and read so much about.

In 2001, Americans paid 14.4% of the nation's \$1.4 trillion health care tab out of their own pockets, down from 20% in 1990, 24% in 1980, 34% in 1970 and 50% in 1960, according to government data. Half or a third is certainly too high, but 14% may be too low. These numbers got employers, insurers and some entrepreneurial companies thinking: What if we give consumers a bit more "stake in the process" and activate them to become discriminating, price-conscious medical consumers?

The idea of consumers having a stake in the process is known as "consumer-directed care." Consumer directed care works like this: The company selects a high deductible plan with for example sake a \$2,000 annual deductible. The company immediately saves money on the cost of the health insurance plan since a deductible is involved. The company (or employee or both) puts the \$2,000 in an account the employee can use to pay allowable routine medical expenses. These funds are only available when services are rendered.

If their expenses go above \$2,000, the employee have to absorb the costs until they reach their out of pocket maximum. Once the out of pocket maximum is reached, the medical plan will pay 100% of the remaining medical expenses if required.

Many people on these consumer directed plans like the ability to make choices and decisions on whether not to go to a doctor, the type of care they seek and the location of the services rendered.

About one in 10 large companies offer such plans, usually alongside HMOs and preferred provider organizations (PPOs). A recent survey found that 43% of large employers plan to offer a consumer driven plan in the near future. Small firms are showing interest, too. And many insurance carriers are rolling out such plans.

In December, 2003, the federal government announced that Health Savings Accounts (HSAs) were being introduced into the marketplace. HSAs allow for the money used for funding the deductibles to be set aside, pre-tax in an interest bearing account. The nice component of the HSAs allows the monies unused at the end of the plan year to be carried over to the next year. The introduction of the HSAs has furthered the implementations of consumer directed care. Tufts Health Plan launched a plan in 2004 called Liberty which integrates the HSA model with a reward program for "healthy choices."

Is consumer directed care the magic bullet that will rein in health costs? No, although there is some evidence that these plans may be working. For example, some initial studies have shown that physician office visits were down 18% and their overall use of care was down 11%. But there are potential dangers lurking in the design of these new plans that could limit their long-term viability and even harm some consumers:

- It places a burden on consumers to become better at budgeting health care needs. We have been so used to co-pays, we don't know what actual costs are. In the consumer directed model, you will have to know the actual costs of your medical care or it will cost you!
- It may place a larger burden on the less healthy. Initial studies have depicted just the opposite, but I am still not convinced. People who have predictable, ongoing and costly medical needs will be much more likely than healthy people to eat through their medical account and have to spend their own money. Healthy people will realize the financial benefit of consumer-driven plans and choose them in droves, while the not-so-healthy may stick with HMOs and PPOs. That

would potentially send premiums in the latter plans skyrocketing over time. Companies in the consumer directed plans have looked to chronic medication and care riders to lessen the burden and cost on the sick in these plans.

- Did you know that about 20% of patients - the really sick ones and people with chronic illnesses - incur 80% of health costs. These costs pile up after the initial few thousand dollars of care. The new plans essentially leave the existing managed care structure in place to cope with this problem. So they aren't much of an alternative where it really counts cost-wise.
- Rationing may occur. People may forgo needed medical care just to save money. People faced with financial constraints, may make a great financial decision, but bad, potentially fatal medical decision.

To make this work, increased education is a must. Carriers and providers will be asked to provide more information to help educate the public. It is unknown to the level of reporting and information that these entities will want to provide and potentially the criticism they will be subjecting themselves to.

Consumer-directed health plans are the new "industry craze." They will appeal to many and provide a critical test of whether shifting costs back to consumers will ease the health-cost explosion. These plans have been slow to take hold thus far, but make no mistake about it, they are coming fast! As with the move to managed care in the 1990s, what's at stake could affect the way millions of American families choose their doctors and other providers - and particularly how they pay for care.

George W. Gonser, Jr. MBA is CEO of MDS Insurance Services, Inc.

[Back to Articles](#)