

Study finds consumers may have more control over health costs than previously thought

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The historic RAND Health Insurance Experiment found that patients had little or no control over their health care spending once they began to receive a physician's care, but a new study shows that this has changed for those enrolled in consumer-directed health plans.

Patients with [health coverage](#) that includes a high deductible and either a health savings account or a health reimbursement arrangement reduced their costs even after they initiated care.

Overall, the study found about two thirds of the reduction in total [health care costs](#) was from patients initiating care less often and the remaining third was from a reduction in costs after care is initiated. The findings were published online by the journal *Forum for Health Economics and Policy*.

"Unlike earlier time periods, it seems that today's consumers can have greater influence on the level and mix of medical services provided once they begin to receive medical care," said Amelia Haviland, the study's lead author and a senior [statistician](#) at the RAND Corporation, a nonprofit research organization. "We found that at least part of the savings in cost per episode reflects choices for less-costly treatments and products, not just a reduction in the number of services."

Researchers from RAND, Towers Watson and the University of

Southern California examined the claims experience of many large employers in the United States to determine how consumer-directed [health plans](#) and other high-deductible plans can reduce health care costs. The study was funded by the California HealthCare Foundation and the Robert Wood Johnson Foundation.

According to Haviland, at least three factors influenced the cost of care once the patient had initiated care: lower use of name-brand medications, less in-patient care and lower use of specialists. Researchers speculate that patients may talk to their doctors about their higher deductibles and ask them to help keep costs low.

"It is not surprising that deductibles of \$1,000 or more reduced health care consumption, but we found that savings occurred even when employers helped employees offset these out-of-pocket costs by making contributions to their accounts," said Roland McDevitt, a study co-author and director of health research at Towers Watson, a human resource and employee benefits consultancy. "This was true for both health savings accounts and health reimbursement arrangements."

Health reimbursement arrangements and health savings accounts create different incentives for employees. Health reimbursement arrangements allow employers to pay for qualified medical expenses, including those that fall under the deductible. These payments or reimbursements are excluded from the taxable income of the employee. Unused portions may roll over at the end of the year, but any account balance is owned by the employer and employees generally forfeit the account balance if they leave the employer before retirement.

Health savings accounts create a stronger incentive for employees to manage their health care costs, because the employee owns the account. This type of account was shown to have the largest impact on cost reductions. It can earn interest and it follows employees when they

change jobs.

Health savings account contributions are only allowed for those enrolled in high-deductible health plans as defined by law, but account balances may be used for qualified medical expenses at any time. The minimum health savings account deductibles for 2011 are \$1,200 for single coverage and \$2,400 for family coverage.

The study found that both the level of the deductible and the level of the employer account contributions influence the extent of savings. Higher [deductibles](#) of \$1,000 or more together with employer account contributions of less than half the deductible produced the greatest cost reductions.

"It is clear that high-deductible health plans with personal medical accounts produce overall health care cost savings and not simply a cost shift," said co-author Neeraj Sood, associate professor at the Schaeffer Center for [Health](#) Economics and Policy at USC and a RAND economist. "This is mostly due to patients initiating less care, but a full third of the reduction is due to shifts in the mix of care they are receiving."

The authors cautioned that there was some reduction in the rate of cancer screenings and childhood immunizations during the first year of enrollment in a high-deductible plan. They found this first-year effect was relatively small, but expressed concern about the early trend. They say more research is needed to determine the extent to which these cost reductions come at a price of forgoing necessary medical care.

Provided by RAND Corporation

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