

Consumer-directed health plans could help cut health costs, study finds

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If consumer-directed health plans grow to account for half of all employer-sponsored insurance in the United States, health costs could drop by \$57 billion annually -- about 4 percent of all health care spending among the nonelderly, according to a new RAND Corporation study.

Consumer-directed health plans, which include high deductibles and personal health accounts, are a market-based approach that many employers have adopted to address [health care spending](#). Such plans now account for about 13 percent of all employer-sponsored health coverage.

Aggressive expansion of such plans is not without risks, however. Increasing adoption of high-deductible plans also could reduce use of recommended preventive and other high value [health care services](#), according to findings published in the May edition of the journal *Health Affairs*.

"Continued pressures to cut costs, combined with incentives in the federal [Affordable Care](#) Act, make the 50 percent enrollment level plausible over the coming decade," said study leader Amelia M. Haviland, a statistician at Carnegie Mellon University and RAND, a nonprofit research organization. "But given the limited information available to consumers regarding costs and quality, we need to carefully examine whether additional up-front patient costs will diminish the quality of health care."

The findings come from the most comprehensive study done to date on the impact and influence of consumer-directed and high-deductible health plans, which have grown rapidly over the past decade. Consumer-directed health plans have annual deductibles of at least \$1,000 per person and are coupled with either a tax-exempt health reimbursement arrangement or a health savings account to help enrollees pay for out-of-pocket expenses.

Researchers from RAND, Towers Watson and the University of Southern California examined the claims experience of 59 large employers across the United States from 2003 to 2007 to determine how consumer-directed health plans and other high-deductible plans influenced health care spending. The study was funded by the California HealthCare Foundation and the Robert Wood Johnson Foundation.

Researchers estimate that if consumer-directed health plans encompassed 25 percent of the policies selected by people with employer-based insurance, cost savings in the nonelderly population would be in the range of 1 to 2 percent of health care spending. At 75 percent penetration, savings would range from 5 to 9 percent.

"Consumer-directed health plans can clearly have a significant impact on costs, at least in the short term," Haviland said. "What we don't yet know is whether the cutbacks in care they trigger could result in poorer health or health emergencies down the road."

The study found that among families enrolled in consumer-directed health plans, about two-thirds of the savings were the result of fewer encounters with health care providers. The remaining third was caused by lower spending per encounter, suggesting patients were making different choices about tests and treatments. Families in consumer-directed plans used fewer brand-name drugs, had fewer visits to specialists and had fewer elective hospital admissions than families in

traditional plans.

"People in consumer-directed plans initiate health care less often and when they do, they receive fewer or less costly health services than individuals in other health plans," said co-author Neeraj Sood, an associate professor at the Schaeffer Center for Health Economics and Policy at USC and a RAND economist. "What we don't yet know is whether the health care that was eliminated was unnecessary."

The study found modest first-year reductions in use of highly recommended care such as cancer screenings and routine testing to monitor patients with diabetes. This was despite the fact some preventive care was offered at no cost.

"There needs to be better education of enrollees about plan features and how to navigate medical decision-making," Haviland said. "The goal is to get patients to think critically about their care, not reduce high-value care that can help keep them healthy."

The study authors also express concern that increased use of consumer-directed plans may increase premiums for those who remain in traditional health insurance plans, since healthier individuals tend to drop traditional coverage in favor of less-costly, high-deductible plans.

"This could pose a challenge for the [health plans](#) offered through the new insurance exchanges created by health care reform," said Roland McDevitt, a study co-author and director of [health care](#) research at Towers Watson, a global consultancy. "However, the adverse selection we found for traditional plans was not severe, and there are mechanisms in the Affordable Care Act that should address this risk."

Provided by RAND Corporation

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