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+ Earlybird updated Tuesday, May 25, 2010

MONDAY, MAY 24, 2010

A Future For Consumer-Directed Health Plans?

By Marilyn Werber Serafini
NationalJournal.com

How will the new health care reform law affect the current slow movement toward consumer-directed health plans? Will the economics of the post-reform world encourage employers to offer them? Does it make sense to provide them as an option in state health exchanges? Or are they a thing of the past that will disappear altogether as coordinated care models emerge?

Last year, the prevalence of these plans grew, as 15 percent of employers with 10 to 499 employees offered them, compared to 9 percent a year earlier, according to a survey conducted by the employer consultant Mercer. Among larger employers with over 500 workers, Mercer found that the prevalence of consumer-directed health plans remained constant at 20 percent.

What does the future hold for consumer-directed health plans?

4 Responses

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MAY 24, 2010 9:51 AM

Cadillac Tax Will Make HSAs Redundant

By Paul B. Ginsburg
President, Center for Studying Health System Change

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The purpose of HSAs is to encourage consumers to choose insurance plans with more cost sharing at the point of service, for example, through a high deductible. But the Cadillac tax will also push consumers in this direction by changing their employers' behavior. Indeed, the Cadillac tax will do a better job at this since it focuses on getting premiums down rather than on a specific benefit structure that was written into legislation in 2003. When the Cadillac tax takes effect, employers can lower the premium either by increasing deductibles or by a range of other steps, for example, benefit designs that encourage use of lower cost providers, narrow network products or more extensive management of utilization. With the Cadillac tax accomplishing the broad objectives of HSAs, the Congress will then ask itself why a nation with a rapidly growing national debt is extending tax subsidies to services used before a deductible is met--or services not even covered by insurance--in

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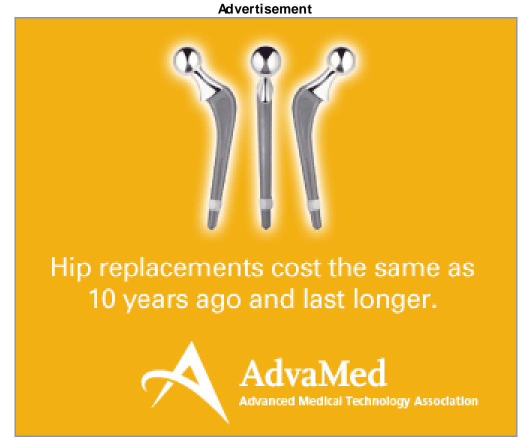

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order to achieve an objective that will be achieved by the Cadillac tax.

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MAY 24, 2010 9:31 AM

ObamaCare's Price Controls Threaten HSAs

By Michael F. Cannon
Director of Health Policy Studies, Cato Institute

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John Goodman is correct that ObamaCare's individual mandate -- and Kathleen Sebelius' power to make the mandate more burdensome at whim -- threaten the continued existence of health savings accounts (HSAs). But ObamaCare's price controls are no less a threat.

The new law requires insurers to charge enrollees of the same age the same average premium, regardless of health status. That's a price control, and it will cause premiums for healthy people to rise dramatically and thus lead to massive adverse selection. Healthy people will gravitate to less-comprehensive insurance -- in particular, HSA-compatible high-deductible plans -- where the implicit tax is smaller.

As premiums for comprehensive plans spiral upward (ultimately causing comprehensive plans to disappear) and as ObamaCare proves more costly than projected, supporters will be desperate for new revenue. They will call for the elimination of both HSAs and high-deductible health plans on the grounds that those products -- not the price controls, mind you -- are causing the market to unravel.

HSAs allow young and healthy consumers to avoid the raw deal that ObamaCare offers them. And that's precisely why ObamaCare's supporters will try to kill HSAs. We will end up repealing one or the other.

Collapse

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MAY 24, 2010 8:43 AM

Employers May Move By 2018 To Avoid Tax

By Paul Fronstin
Director, Health Research and Education Program, Employee Benefit Research Institute

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In 2001, a handful of employers started offering health reimbursement arrangements (HRAs)—a then-new type of health plan known as a consumer-driven health plan (CDHP). Ultimately, HRAs paved the way for health savings accounts (HSAs). Initially, projections for growth in HRAs and HSA-eligible plans were strong. Predictions for strong growth in CDHPs continued. In 2005, the U.S. Treasury Department predicted that 25–30 million people would be covered by an HSA-eligible plan and would have an account by 2010 (See www.treas.gov/offices/public-affairs/hsa/pdf/fact-sheet-dramatic-growth.pdf, last accessed May 2010). Similarly, Forrester Research predicted that CDHP enrollment could account for 19 percent of the market in 2009 and 24 percent by 2010, or about 42 million people (See *Inside Consumer-Directed Care* (Nov. 4, 2005). And Blue Cross Blue Shield reported that 84 percent in 2005 and 90 percent in 2006 of employers planned to offer an HRA in the next two years and 39 percent in 2005 and 36 percent in 2006 planned to offer an HSA-eligible plan in the next two years, despite the fact that only about 15 percent were offering either type of account.

Despite the fact that these growth predictions have not come true, CDHPs play a vital role in employment-based health benefits today. EBRI research suggests that 15–19 million people were enrolled in these plans in 2009, representing 9–11 percent of the privately insured market. AHIP recently

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showed that enrollment in HSA-eligible plans grew 25 percent between 2009 and 2010, hence, the total CDHP market may be as large as 19-25 million today. Offer rates among smaller employers have been growing, and while they are stagnant for large employers, among the largest of the large, nearly 50 percent offer a CDHP option, and enrollment is expected to grow in that segment as long as the CDHP option continues to be offered.

The future of CDHPs in a post-health reform world is anyone's guess at this point. Employers are currently addressing the short-run implications of health reform, such as lifetime limits, coverage for adult dependents, the early retiree reinsurance program, and subsidies for small employers. But it can easily be argued that CDHPs will continue to play an important role in the future. A recent Towers Watson release (http://www.towerswatson.com/press/1895) expects that more than 60 percent of employment-based plans will be subject to the excise tax for high-cost health plans in 2018. While it may seem too early for employers to be thinking about 2018, they may move to CDHPs sooner than 2018 in order to avoid the excise tax.

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MAY 24, 2010 7:22 AM

Huge Opportunities

By John C. Goodman

President and CEO, National Center for Policy Analysis, and Kellye Wright Fellow

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Every study has shown that Health Savings Accounts (HSAs) and Health Reimbursement Arrangements (HRAs) are effective ways of controlling health care costs. Since nothing else seems to work and since cost control was the Obama Administration's main criteria for accepting the bill Congress offered up, you would think the Administration would explore ways to expand the adoption of consumer driven health care (CDHC) plans. There are huge opportunities, for example, in applying the concept to chronic illness. Currently, nearly one-in-ten workers has a CDHC plan. Because these workers are in a position to choose between health care and other uses of money, they are holding down costs and probably doing so in a way that increases access and raises the quality of care at the same time.

The new health care law does not excessively limit the use of HSAs, but it does place new limits on how people can spend their HSA dollars and increases penalties for non-government approved purchases. In addition, it opens the door to death by regulation. Each year the Secretary of Health and Human Services will decide what benefits must be included in all plans and which ones count as primary care (requiring no patient cost-sharing). With the stroke of a pen, the Secretary could make the mandated health insurance plan inconsistent with the requirements of the HSA law, thus effectively outlawing any new contributions to HSAs.

Another important factor is whether employer contributions to HSAs are counted as part of their contribution to the employee health plan. For instance, if employers are not allowed to count HSAs contributions as an offset against cost-sharing limits, they will have no incentive to offer HSAs to their workers.

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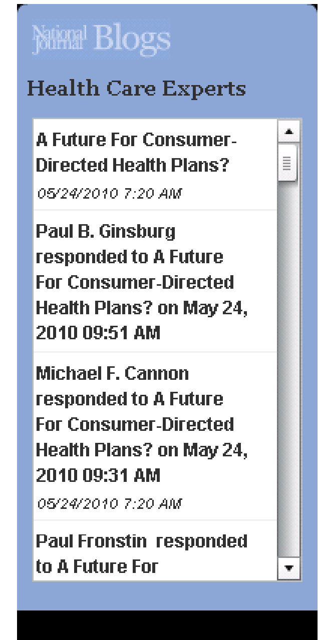

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