

HEALTH INSURANCE

Reconsidering CDHPs

The new wave in health coverage might not be appropriate for all small-business clients.

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Consumer-driven health plans are supposed to solve America's long-standing health-care crisis. With a CDHP, an employer provides a high-deductible health insurance plan and the employee sets up a pretax savings account that he uses to pay for medical expenses. By putting employees in charge of their own health spending accounts (HSAs), the theory goes, they will choose services wisely and not overspend on needless hospital visits. CDHPs will, therefore, cost less, thanks to bare-bones policies and employee frugality.

However, a recent study published in *Health Services Research* in August raises questions about this premise. The study followed the health-care costs incurred by 3,632 employees who had a choice between a CDHP, a health maintenance organization and a preferred provider organization. In the end, the CDHP cost the employer more than the HMO but slightly less than the PPO. Here's a look at what this research might mean for your clients.

The healthy and the wealthy

Of the 531 employees in the study who joined the CDHP, more than a third were higher-paid employees. Also, most had fewer illnesses and lower health-care costs than their co-workers the year before they joined the new plan. This trend could stem from the fact that better health generally goes hand in hand with higher incomes. With so many higher-paid participants, the CDHP group in the study would naturally have better health and would use less medical care.

Your clients who offer a CDHP would likely find the same enrollment pattern—their more highly paid and healthier people will be the most attracted to join. You

will need to think ahead about how this will affect the other health plans you offer, particularly if the CDHP is underwritten by one vendor and the other health plan options by another.

Different strokes for different folks

Advisors must also keep in mind that CDHPs often require employers and employees to rethink the way they provide and receive health care. The plans give the

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employee much more control, a prospect not all employers and employees will embrace. Some of your clients may be more paternalistic and feel uncomfortable giving this responsibility to their employees. At the same time, some employees prefer having an office visit co-payment, rather than watching their medical spending every time they see the doctor. Be sure to discuss both employer and employee attitudes toward the benefit plan to ensure your clients and their workers are receptive to a CDHP.

Beyond the first year

With two major advantages—a healthier group and lower prior-year costs—the CDHP should have kept costs lower for those that participated in the study. And

it did, in the first year. In that year, both the employer and the employee saved money compared with the PPO.

Unfortunately, this did not last long. In the second year, the CDHP group cost the employer 6.5 percent per capita more than the PPO and 21 percent more than the HMO. During this time, the CDHP enrollees used more hospital services than enrollees in the HMO or PPO plan. When a CDHP patient went to the hospital, he also spent more than his co-workers in the other plans, spending an average of \$3,468 on hospital care—77 percent more than the HMO patients' average costs.

One explanation is that the CDHP participants may have "saved up" their health spending account during the first year, starting year two with a higher balance. Cash in hand, they were ready for that surgery they had been putting off. In effect, year two of the CDHP gave them more coverage than ever.

While all three groups had costs rise over the three-year period, the CDHP group's costs climbed the fastest. The CDHP group started from lower expenses—recall they had lower costs before the CDHP came—and then raced well ahead of the other groups. Over the three-year period, the CDHP total costs landed squarely between the PPO and HMO costs. Since the CDHP did not stake new territory for cost control, perhaps we haven't quite mapped the solution to the health-care crisis. **AI**

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