

Long ago, there was a time when doctors were paid mainly in cash for their services. Not anymore—now, medical bills can be staggering, accounting for more bankruptcies than any other cause. Health insurance is a necessity, and yet, how much has health insurance itself—particularly the norm of employer-purchased health insurance—contributed to the very high costs it was meant to mitigate? After all, car owners protect themselves with comprehensive, full-coverage insurance plans, but no matter how comprehensive the insurance, they don't expect their insurer to pay for oil changes or day-to-day repairs. Same with homeowners' insurance—no plan is going to pay to unclog a pipe or fix a broken heater. So, why do we expect health insurance plans to pay for similar day-to-day expenses when it comes to our health? And what would the healthcare scenario look like if we insured ourselves in a similar way to how we insure our cars and our homes?



# It's on **You!**

The trend toward  
“consumer-driven”  
healthcare plans

By Claudia S. Copeland, PhD

## CONSUMER-DRIVEN HEALTHCARE PLANS

THE HEALTHCARE PAYMENT structure that has evolved in the United States is unusual. U.S. residents have traditionally received health insurance through their employers, with negotiations about cost and care taking place between healthcare facilities, insurance companies, and employers, but not patients (and often without input from doctors, nurses, and other direct healthcare providers, either). Since patients have been largely shut out from negotiations about cost, most have grown used to the idea that insurance pays for all healthcare, minus a copayment or reasonable deductible. Before the ACA, those who did not receive insurance through their employers often went uninsured, but this population, while large, was not large enough to drive a cash-pay medical market.

Now, driven by skyrocketing premiums, both employers and individual consumers are increasingly turning to high-deductible healthcare plans (HDHPs) in order to keep their monthly insurance premiums under control. With an HDHP, healthcare costs are paid by the patient, up to the deductible (often \$4,000 or more). In reality, many HDHP holders consider these plans to be insurance against “catastrophic” illnesses

that they hope to never contend with, with day-to-day healthcare needs dealt with on a cash-pay basis. For this reason, costs are given more scrutiny by HDHP patients, and there is some sign that markets are starting to respond. Retail clinics have sprung up, with services advertised menu-style (with prices), and less-expensive alternative medical practices, like herbal medicine, are on the rise. As more people are driven by high premiums to the high-deductible structure, they have started asking questions about not only how much procedures will cost, but also options for dealing with that high deductible they are facing. One answer to this second question is a cornerstone of the Trump administration’s healthcare plan: increasing the number of Health Savings Accounts, or HSAs.

### HSAs, HRAs, and stand-alone HDHPs

HSAs were introduced before the ACA, but the numbers of people using HSAs for health coverage increased dramatically during the Obama years. In 2015, over 200,000 Louisianans had HSAs. An HSA is a tax-protected account that can be used for virtually any type of healthcare spending except

non-prescribed, over-the-counter drugs. To open an HSA, the patient must have a high-deductible insurance plan to cover catastrophic medical expenses, should they occur. The patient can then set aside money, tax free, in an account to be used for out-of-pocket healthcare costs. If the money is not used that year, it can be rolled over and added to the next year’s contribution. It can even be stored in an interest-bearing account.

One of the biggest advantages of an HSA is freedom: individuals can choose where they want to go for their healthcare, and what kind of healthcare they want to receive—they do not need to sort out a complicated web of providers. (While HDHPs specify a network of providers to satisfy the deductible, many people insured by these plans consider their day-to-day healthcare as simply cash-pay. The high deductible is considered their share of what they would have to pay in the case of a catastrophic illness.) They also are not restricted to the standard medical practice covered in most traditional healthcare plans. HSAs can be used for a broad range of health-related procedures, from orthodontics and acupuncture to lead-based paint removal. (A partial list of covered benefits



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## HSA ELIGIBLE EXPENSES

Funds you withdraw from your HSA are tax-free when used to pay for qualified medical expenses as described in Section 213(d) of the Internal Revenue Service Tax Code. The expenses must be primarily to alleviate or prevent a physical or mental defect or illness, including dental and vision. The following list provides examples of eligible and ineligible medical expenses. This list is not all-inclusive. Remember, the IRS may modify its list of eligible expenses from time to time. As always, consult your tax advisor should you require specific tax advice.

Acupuncture	Fertility Enhancement	Optometrist
Alcoholism	Founder's Fee	Organ Donors
Ambulance	Guide Dog or Other Service Animal	Osteopath
Annual Physical Examination	Health Institute	Oxygen
Artificial Limb	Health Maintenance Organization	Physical Examination
Artificial Teeth	Hearing Aids	Pregnancy Test Kit
Autoette	Home Care	Prosthesis
Bandages	Home Improvements	Psychiatric Care
Birth Control Pills	Hospital Services	Psychoanalysis
Body Scan	Insurance Premiums	Psychologist
Braille Books and Magazines	Intellectually and Developmentally Disabled, (Special Home for)	Special Education
Breast Pumps and Supplies	Laboratory Fees	Sterilization
Breast Reconstruction Surgery	Lactation Expenses	Stop-Smoking Programs
Capital Expenses	Lead-Based Paint Removal	Surgery
Car	Learning Disability	Telephone
Chiropractor	Legal Fees	Television
Christian Science Practitioner	Lifetime Care—Advance Payments	Therapy
Contact Lenses	Lodging	Transplants
Crutches	Long-Term Care	Transportation
Dental Treatment	Meals	Trips
Diagnostic Devices	Medical Conferences	Tuition
Disabled Dependent Care Expenses	Medical Information Plan	Vasectomy
Drug Addiction	Medicines	Vision Correction Surgery
Drugs	Nursing Home	Weight-Loss Program
Eye Exam	Nursing Services	Wheelchair
Eyeglasses	Operations	Wig
Eye Surgery		X-ray

is shown above. A full list can be found at: <http://www.hsacenter.com/what-is-an-hsa/qualified-medical-expenses/>) Because any unused portion of an HSA rolls over into the next year, individuals can choose to save money over the years, putting them in a better position to afford more costly procedures as they grow older.

Are HSAs a solution for everyone? No. The common-sense view that low-income individuals don't make enough money to benefit much from a tax credit is backed up by Government Accountability Office (GAO) data on HSA usage. Over half of HSA participants have incomes in the top 18% for the population, according to the GAO, and the average adjusted gross income of tax filers

reporting HSA contributions was over twice as high as those for all tax filers under age 65. Meanwhile, the Urban Institute reports that roughly half of those with HSA-compatible policies do not open HSAs.

An alternative option that may be more helpful to lower income employees is a health reimbursement arrangement, or HRA. The employer counterpart to an HSA, the HRA is a tax-advantaged plan in which employers complement HDHPs by paying for their employees' pre-deductible out-of-pocket health expenses. The HRA option can be cheaper for employers than traditional health insurance, while mitigating out-of-pocket expenses for employees.

Finally, stand-alone HDHPs may still be a

favorable option for healthy, low-to-middle income individuals if one important criterion is met: the premiums must be very low. Currently, this is not the case. Premiums are lower for HDHPs than for traditional health-care plans, but they are not low, and in some states they can be extremely high. In Louisiana, the cost of an HDHP is about \$200-\$300 per month for a young person, and rises to over \$1,000/month for a 60-year-old, according to a December, 2016 call to the ACA support phone line. In Arizona, the monthly premium for the lowest-price HDHP for a 60-year-old is over \$2,300. One New Orleans single mother and general manager of a mid-size business decided to simply not enroll in the company's insurance

plan, an HDHP with a premium for women of childbearing age of \$400. (The premium for men was less than \$100.) “I just can’t afford it,” she explained. “If I were to pay it, I would have to take away my kids’ education, or healthy food, or our house in a safe neighborhood. I’m not going to pay \$400 per month for a plan that doesn’t even pay for any of the healthcare I need, when I’m not planning on having any more children. If I get really sick, I’ll go to Mexico.”

For low-income workers, the ACA has stepped in with subsidies that pay part or all of the premium. If the ACA is repealed, however, low-income enrollees would face premiums amounting to a truly unaffordable portion of their income. The 16 million people who gained insurance through the ACA would most likely go back to being uninsured, since the premium cost of high-deductible plans, while lower than that of traditional plans, is still prohibitively high. Key to the use of HDHPs by lower-income people are premiums low enough to allow them to save money each month (either tax-protected or not) towards out-of-pocket healthcare costs; if the premium takes up every last penny, there will be nothing left to pay the deductible. If the ACA is dismantled, ending income-based subsidies to help pay for premiums, many low-to-middle income healthy individuals will most probably revert to being uninsured.

### The elephant in the room: high healthcare costs

One prerequisite for lowering premiums (for traditional plans as well as HDHPs) is lowering healthcare costs in general. Whether HSA-based, HRA-based, or simply a stand-alone HDHP, this is one purported advantage of high-deductible plans. Healthcare costs have skyrocketed, often for reasons completely unrelated to the care itself. One well-known example is the EpiPen, an epinephrine injector carried as a standard piece of safety equipment by those with severe allergies. Back in 2009, a two-pack of EpiPens cost about \$100. Today, the EpiPen’s current manufacturer, Mylan, sells the same two-pack for over \$600. Mebendazole, a medication used to treat pinworm infections that has been used for decades, costs less than \$5 in Europe, about the same as it cost in the U.S. in 2010. The current manufacturer, Impax, however, rebranded the drug and raised its price. Now, the cost in the U.S. for enough Mebendazole to treat a pinworm infection (2 pills) is over \$800.

Unreasonable pricing is not confined to drugs, either. One New Orleans musician was profoundly relieved to be covered by her new ACA plan when she saw the bill for a 15-minute consultation with a nurse practitioner and a prescription for antibiotics: \$350. The same visit at the CVS Minute Clinic

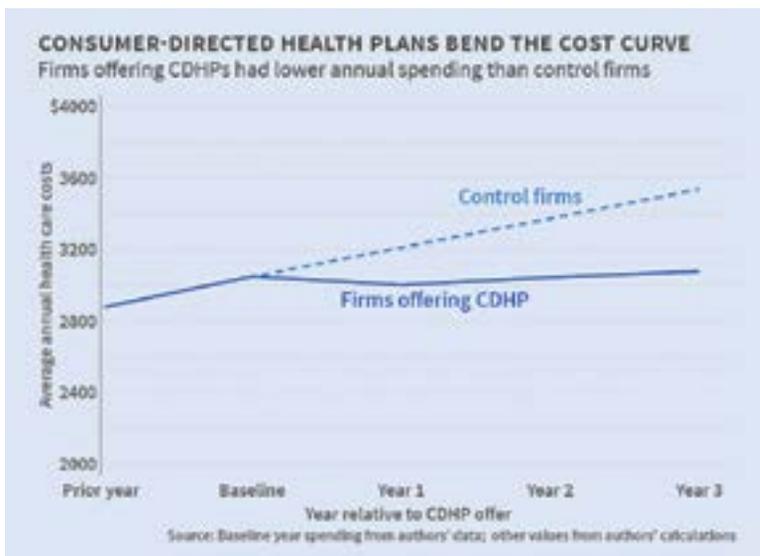
would have been only \$120, according to a quick phone call she made out of curiosity. With traditional healthcare plans, such bills have simply been paid by the insurance company, and the higher costs are passed on to consumers in the form of higher premiums. When patients have a high-deductible plan, though, the costs are transparent. Many policymakers believe that patients will be motivated to shop around, and, over time, prices will decrease accordingly.

This may or may not be true in the long term. Presently, however, it is quite difficult to “shop around” for any care outside the very basic primary care offered at urgent care clinics or retail clinics. For most care, it is very difficult to find out what the cost of a test or procedure will be up-front. Most doctors do not know, and their medical office staff do not know. A true, single price for a given procedure may not even exist—hospitals often have a complicated, individually negotiated set of different prices for different insurers. Further, in opposition to the idea that HSA holders will help bring down costs through direct consumer choice, a 2010 GAO study found that HSA holders did not tend to research costs before receiving care. This may be related to the more affluent economic position of HSA holders and may not hold true for other HDHP enrollees, however. Overall, a report by the National Bureau of Economic Research (Haviland et al., 2015) found that healthcare costs—defined as spending by patients, employers, and insurers—flattened with high-deductible plans (also known as consumer-driven healthcare plans), compared with steadily rising costs in traditional plans.

The GAO also contends that HSAs could exacerbate the problem of inequality in healthcare coverage by removing full-coverage dollars contributed by healthy, higher-income people. HDHPs are economically favorable for healthy people but economically unfavorable for less healthy people, and this could lead to a divide in care provision, disrupting the insurance model, which requires input from healthy people



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National Bureau of Economic Research, summary of Haviland et al. by Linda Gorman.

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in order to cover the costs of less-healthy people. On the other hand, it is conceivable that responsibility for day-to-day healthcare costs might motivate people to make lifestyle choices favoring better health.

Finally, a major concern with the pay-as-you-go system is that patients will forego the care they need early in a medical condition, resulting in much more severe disease by the time they finally do see a doctor. Starting treatment for a major medical condition later means both higher costs and poorer outcomes, and the difference can be extreme. This is the most important difference between health insurance and auto or home insurance: whereas neglecting house or car maintenance is a poor choice financially, neglecting preventive healthcare can be deadly. For example, the 5-year survival rate for colon cancer treated in the early stages is about 90%; by late stage three, the survival rate drops to 53%, and by stage four, it drops to just 11%. Clearly, colon cancer screening can save lives. However, many people may choose to forego screening if they have to pay for it out of pocket. If the ACA requirement for all plans to provide preventive care like cancer screening is repealed, HDHP enrollees may very well

end up beginning treatment for conditions like cancer at later stages, with poorer survival rates and other health outcomes. The possibility of price acting as a deterrent for preventative care is a very serious, and potentially dangerous, side-effect of HDHPs.

#### **What about the poor? Hybrid public options.**

Louisiana ranks 7th for the lowest median household income among the 50 states, according to the Kaiser Family Foundation. This means that any thought about healthcare plans for Louisianans must include provisions for low-income residents. A number of analyses have shown that Medicaid for people at 138% FPL or less is the only viable way to avoid hospital emergency departments bearing the cost of healthcare for this group. However, for people who are somewhat higher in income but still not able to afford premiums for traditional insurance (for example, people between 138% and 200% FPL), perhaps a public-private option might be a viable solution. One such option could be a high-deductible Medicaid-based plan for low-to-middle-income people, with low-cost premiums combined

with Medicaid coverage after a high deductible has been met. Another may be a public-private option analogous in structure to an HRA. Regardless of structure, fundamentally, it is critical to remember that any type of high-deductible plan can only work if premiums are low enough to allow enrollees to save enough money towards out-of-pocket costs.

Like it or not, high deductible plans are rapidly becoming the norm: the rise in premium costs over the past couple of years has been minimal, but the rise in deductibles has been extreme, according to the Kaiser Family Foundation. With the cost of premiums for traditional health plans steadily increasing, it is desperation, not choice, that has driven most employers and individuals to the high-deductible option, and this trend shows no sign of reversing. However, perhaps there might just be a silver lining: if premiums can be lowered to truly affordable levels, the increased freedom and price transparency of HDHPs might just lead enrollees to become the vanguard in diversifying healthcare options and lowering costs. And that could be a good thing for everyone. ■