



Wisconsin Family Impact Seminars

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Improving Health Care Quality While Curbing Costs: How Effective Are Consumer Health Savings Accounts and Pay for Performance?

Briefing Report, February 2005

EXECUTIVE SUMMARY

During the last four years, health insurance costs for Wisconsin workers increased four times faster than their average wages. In a recent Harris poll, Wisconsin citizens reported that the issue needing the most attention from state government is controlling the costs of health care and prescription drugs. This report overviews the drivers behind rising health care costs and focuses on two policy options: Consumer Health Savings Accounts and Pay for Performance.

Scott Leitz, Health Economist for the State of Minnesota, shares evidence that states, employers, and consumers have all felt the crunch of rising health care costs. State spending on health care has grown faster than the increase in revenue. In fiscal year 2001, states spent an average of 30% of their total budgets on health care, compared to 16% in Wisconsin. However, Wisconsin allocated its health expenditures similar to other states, with almost two-thirds (66%) going to Medicaid and 10% to employee health benefits.

Many factors are driving health care costs including technological advances, the decline in the prevalence of managed care, inappropriate use of health care services, and consumer incentives and lifestyle behaviors. For example, advances in technology are thought to account for a majority of increases in health care spending over the long term. Overuse of health care services has also driven up costs. In a recent study, Medicare

beneficiaries in high-spending regions received 60% more care than in lower-spending regions, but they did not have better health outcomes. Lifestyle behaviors have also contributed to health care cost growth. For example, tobacco smoking accounts for 7% to 14% of annual medical spending and obesity-related expenditures account for an estimated 9%. Importantly, 5% of consumers account for 55% of all health care expenditures. Any successful strategy to control costs will have to take into account these high-cost consumers.

States play three critical roles in the health policy arena, each that shape the strategies states can use to address rising health care costs. States are (1) *purchasers* of health care services for low-income populations through Medicaid and other programs, (2) *employers* that provide health benefits to employees, and (3) *policymakers and marketplace regulators* that affect the rules of pricing and competition. Leitz uses this framework to discuss Consumer Health Savings Accounts (HSAs), one type of tax-favored account that is paired with a high-deductible health plan that aims to promote wise spending by consumers. State policymakers will ultimately have to determine if HSAs will realize any cost savings. Will consumers have the information they need to make decisions about efficient, high-quality care, and how much will the tax-exempt accounts reduce state revenues? State policymakers will also need to consider if the high deductibles will (a) cause low-income workers to spill

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over into public insurance programs, and/or (b) result in the delay of needed preventive services. Moreover, as consumers pay more out-of-pocket costs, will the extent of uncompensated care increase?

Leitz concludes that long-term solutions will require more than shifting costs to other services or payers. Real solutions will address the underlying reasons for increased costs and take steps to contain them. Opportunities exist in the current system to place a greater emphasis on high-quality health care, cost-efficient services, and evidence-based medicine.

In the next chapter, **Paul Fronstin**, Director of the Health Research and Education Program at the Employee Benefit Research Institute in Washington DC, discusses Consumer Health Savings Accounts (HSAs). HSAs are the newest type of tax-favored savings accounts created by Congress in 2003. In a recent poll, 61% of employers would like to offer HSAs in the near future. However, because of the delay in Treasury Department and IRS guidance, most employers are not expected to begin offering HSAs until 2006.

An HSA is a tax-exempt trust that an individual can use to pay for health care expenses. An employer's contributions are excluded from a worker's taxable income, and an employee's contributions are deducted from adjusted gross income. Only employees with a high-deductible health plan (a minimum of \$1,000 for self-coverage and \$2,000 for family coverage) are eligible to set up an HSA. The maximum amount of money contributed annually cannot exceed the plan's deductible, which in 2004 was a maximum of \$2,600 for self-only coverage and \$5,150 for family coverage. Thus, the amount of money that an individual can accumulate in an HSA for retirement health care costs is typically limited.

About 25% of the population accounts for about 80% of total health care expenditures.

It is too soon to know how HSAs will affect the use and cost of health care, but preliminary evidence is emerging. Advocates for HSAs believe that they will reduce overall health care spending, because consumers will understand the need for becoming more responsible and discriminating users of health care services. However, it is well known that about 25% of the population accounts for about 80% of total health care spending. It is unlikely that this 25% of the population can make decisions to substantially reduce their health care costs, because they are sicker and need more services. Unless HSAs include incentives designed to affect the spending of chronically high users of health care, it is not likely

that they will significantly reduce the cost of providing health benefits.

Health Savings Accounts may be more attractive to individuals than families, especially if some family members are less healthy than others.

Early evidence suggests that HSAs may be more attractive to healthy employees, which could lead to adverse selection. That is, if healthy people choose HSAs, the overall costs of their health plan would decline. At the same time, if unhealthy employees are more likely to remain in traditional plans, the overall costs of these plans could increase. However, adverse selection could be offset by wealthy HSA enrollees who tend to be older and less healthy.

HSAs may be more attractive to individuals than families, especially if some family members are significantly less healthy than others. No one in the family can have a separate deductible lower than the minimum family deductible of \$2,000. This means that for a married couple with no children, the unhealthier family member would, in effect, have a \$2,000 deductible to work off. In this case, the sicker family member would be better off enrolling in single coverage so that the deductible is only \$1,000.

Patients are receiving only 50% to 60% of recommended, evidence-based care.

In the next chapter, **François de Brantes**, Program Leader for Health Care Initiatives at General Electric (GE), describes the conundrum purchasers are currently facing: health care costs are rapidly increasing, while quality appears to be stagnating. In a recent study, patients were receiving only 50% to 60% of recommended, evidence-based care. In response, GE turned to the same business model that it uses to design any new product. The result was Bridges to Excellence, a health care system that builds on transparency and pay for performance to reward physicians who provide high-quality care.

In collaboration with several other large purchasers and health plans, Bridges to Excellence evaluates and rewards physicians who meet evidence-based performance standards. As an example, blood sugar testing is essential to effectively treat diabetes, yet only 29% of adults with diabetes reported having their blood sugar tested in the previous year. Also,

beta blockers can reduce the risk of death following a heart attack by 13% in the short run and 23% over the long-term, yet only 45% of patients who should have received beta blockers did.

In Bridges to Excellence, physicians receive bonuses for providing quality diabetes and cardiovascular care, and for adopting better information technology systems to manage their practices. Under all three initiatives, participating doctors could receive income gains of up to 10% in bonuses from employers. Patients also receive incentives to keep them focused on achieving better outcomes.

Diabetic patients going to physicians recognized for quality care cost 10% to 15% less than patients treated by physicians not so recognized.

Pay for performance initiatives like Bridges to Excellence have had positive impacts on productivity, as well as the quality and cost of health care. As an example of their impact on the quality of care, patients whose blood pressure was properly controlled increased from 50% among participating physicians in 1997 to 64% in 2002. As an example of the cost of care, patients with diabetes going to physicians recognized by the National Committee for Quality Assurance cost 10% to 15% less than diabetic patients treated by physicians that are not so recognized. Half of these savings are kept by purchasers, and the other half are set aside as incentives for physicians who meet quality standards.

In the last chapter, **Tom Korpady** of the Wisconsin Department of Employee Trust Funds explains that the State of Wisconsin has taken a different approach in its Employee Group Health Benefit Program by combining consumer involvement with pay for performance. A major advantage of this new approach is that it accurately compares the efficiency of the plans using not just price, but also utilization and intensity of health care services. Certain providers may have low prices, but may actually end up costing more through over prescribing services or prescribing more expensive services.

Specifically, the Group Insurance Board redesigned the program by: (a) developing a three-tier employee contribution system in response to calls for greater employee participation in the cost of their health care, (b) incorporating a reward system to provide an incentive for health plans to deliver exceptionally high-quality care, and (c) consolidating prescription drug coverage in the state's health plans to leverage the state's huge purchasing power.

The cumulative results from each of these initiatives have been very encouraging. When most employers are facing double-digit increases in health care costs, Wisconsin has held premium increases to only 5% for current employees and actually decreased premiums by over 6% for retired state workers. At the same time, benefit levels have been maintained, and high-quality health care has been encouraged and rewarded.

This briefing report was edited by Karen Bogenschneider, Heidi Normandin, Danielle Greenberg, and Rebecca Shlafer. This summary was designed by Meg Wall-Wild.

A complimentary copy of the full report is available to state legislators by calling Mari Hansen at (608) 262-0369. Copies can be purchased from Cooperative Extension Publishing Operations, 432 N. Lake Street, Madison, WI 53706, Toll-free (877) 947-7827 (877-WIS-PUBS); <http://www1.uwex.edu/ces/pubs>.

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What Other Resources Are Available to State Policymakers?

A Researcher Hotline

Identify University of Wisconsin researchers who are studying child and family issues by calling (608) 262-5779.

Briefing Reports

Download 21 briefing reports written specifically for Wisconsin policymakers on topics such as education; helping poor kids succeed; juvenile crime; long term care; parenting; prescription drugs; welfare reform; and preventing youth crime, smoking, and substance use (<http://www.uwex.edu/ces/familyimpact/wifis.htm>); download 77 briefing reports written specifically for state policymakers on topics such as children with incarcerated parents, early childhood education and care, the effect of changes in the tax codes, family preservation, prostituted teens, and rising health care costs.

Family Matters Newsletters

Download eleven issues of Family Matters, a newsletter written specifically for Wisconsin policymakers. Newsletters provide cutting-edge research and a family perspective on current policy issues such as prescription drugs, early childhood care and education, the role of families in policymaking, rising health care costs, and children of incarcerated parents (<http://www.uwex.edu/ces/familyimpact/newsletters.htm>).

Audio Tapes or Web Audio

Listen to audiotapes (call 262-5779) and web audio of most seminar speakers (accessible via speaker web pages).

Family Impact Assessment Tools

Use family impact assessment tools for examining how responsive policies and programs are to families. Tools are available for conducting family impact analysis of schools, communities, adolescent treatment centers, and state child and family service plans (<http://www.uwex.edu/ces/familyimpact/impact.htm>).

Web resources

This website is designed specifically for busy policymakers and professionals, and includes 77 briefing reports and eleven newsletters written specifically for state policymakers, 17 policy newsletters, and over 100 links to leading policy sites. Browse these resources and more at <http://www.uwex.edu/ces/familyimpact/wisconsin>

The Family Impact Seminars produce seminars, briefing reports, newsletters, and discussion sessions which provide state policymakers with:

-  **Easy Access** to state-of-the-art, solution-oriented research on current policy issues such as education, juvenile crime, long term care, parenting, prescription drugs, and welfare reform
-  **Relevant Research** that responds to the issues legislators are debating
-  **Objective Information** on a range of policy options rather than a specific legislative agenda
-  **A Family Impact Perspective** that examines the impact of policies on families
-  **Neutral, Nonpartisan Settings** outside the political environment for discussing issues and seeking common ground

"Improving Health Care Quality While Curbing Costs: How Effective Are Consumer Health Savings Accounts and Pay for Performance?" is the 21st Family Impact Seminar and briefing report in a series designed to provide state policymakers with objective, solution-oriented research on current policy issues. Family Impact Seminars analyze the consequences an issue, policy, or program may have for families. Wisconsin Family Impact Seminars are a joint effort of University of Wisconsin-Extension and the Center for Excellence in Family Studies in the School of Human Ecology at the University of Wisconsin-Madison.

For further information contact the Director of the Family Impact Seminars, [Karen Bogenschneider](mailto:kpbogens@wisc.edu), at 1430 Linden Drive, Madison, WI 53706, kpbogens@wisc.edu, or (608) 262-4070. Karen is a Professor and Extension Specialist at the University of Wisconsin-Madison/Extension. You can also contact Family Impact Coordinator [Heidi Normandin](mailto:Heidi.Normandin@wisc.edu) at the Policy Institute for Family Impact Seminars at (608) 262-5779.

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