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# Consumer-Driven Health Plans: Lessons for the Public Sector

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# Are Private Sector Experiences with CDHPs Applicable to Public Health Insurance?

1. Private companies that have experienced success with CDHPs may have unique leadership and organizations
2. Medicaid beneficiaries have a different set of characteristics than privately insured, which may diminish the effectiveness of CDHPs
3. CDHPs, when applied to Medicaid, may not lead to reduced government expenditures due to key features of the plans



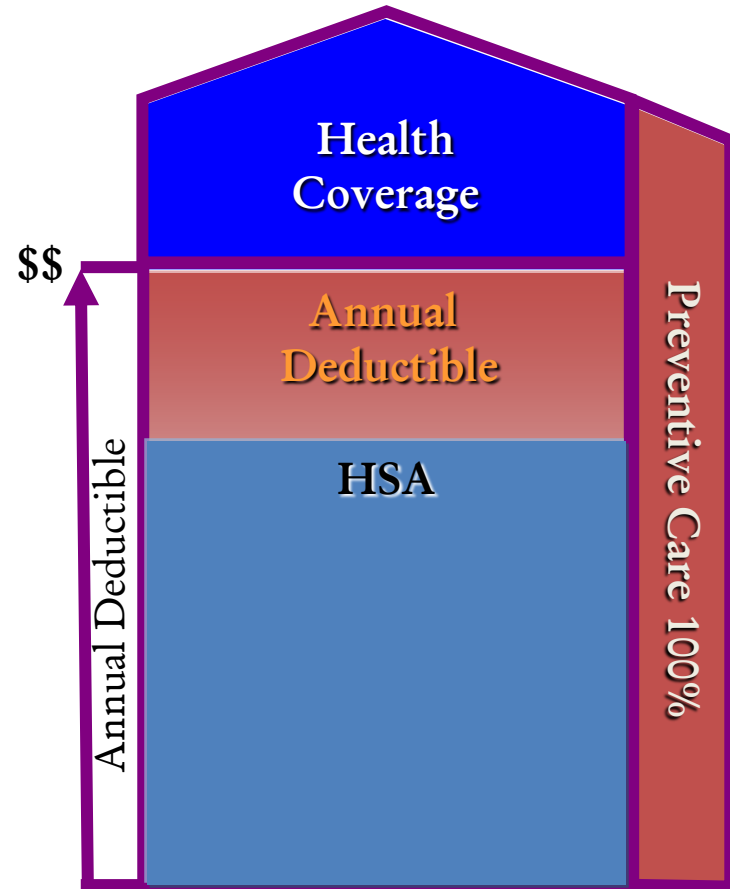
# Consumer-Driven Health Plans (CDHPs)

- Health Reimbursement Account (HRA)
- Health Savings Account (HSA)
- Both set up accounts from which enrollees pay medical expenses
- Both are combined with high deductible plans
- Both cover preventive care 100%



# Example: HSA

- Expenses first paid out of HSA
- Next, expenses paid out-of-pocket until the deductible is met
- Expenses above the deductible paid 80-100%



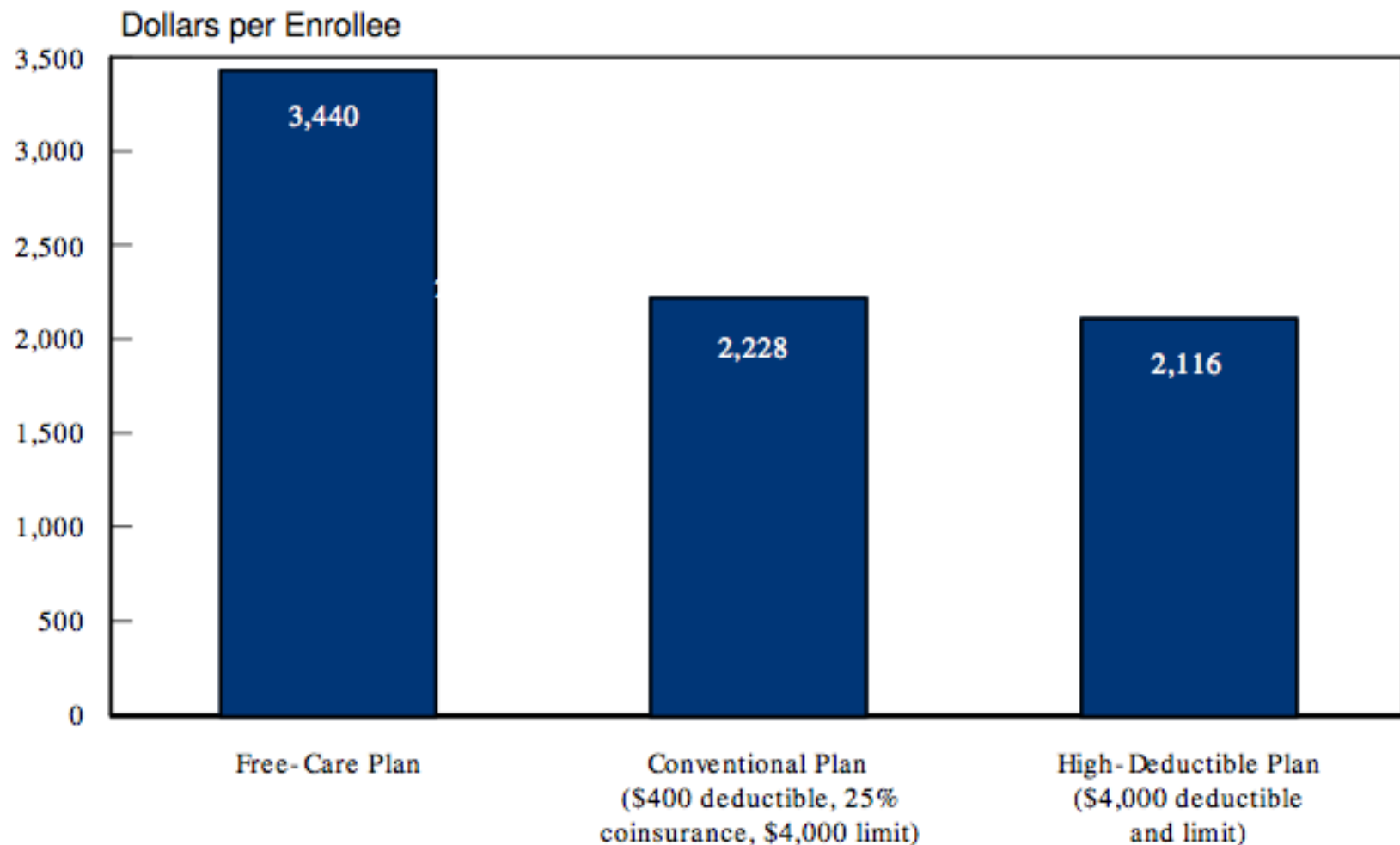


# What is the effect of cost-sharing on medical expenditures?

- Best evidence comes from the RAND health insurance experiment



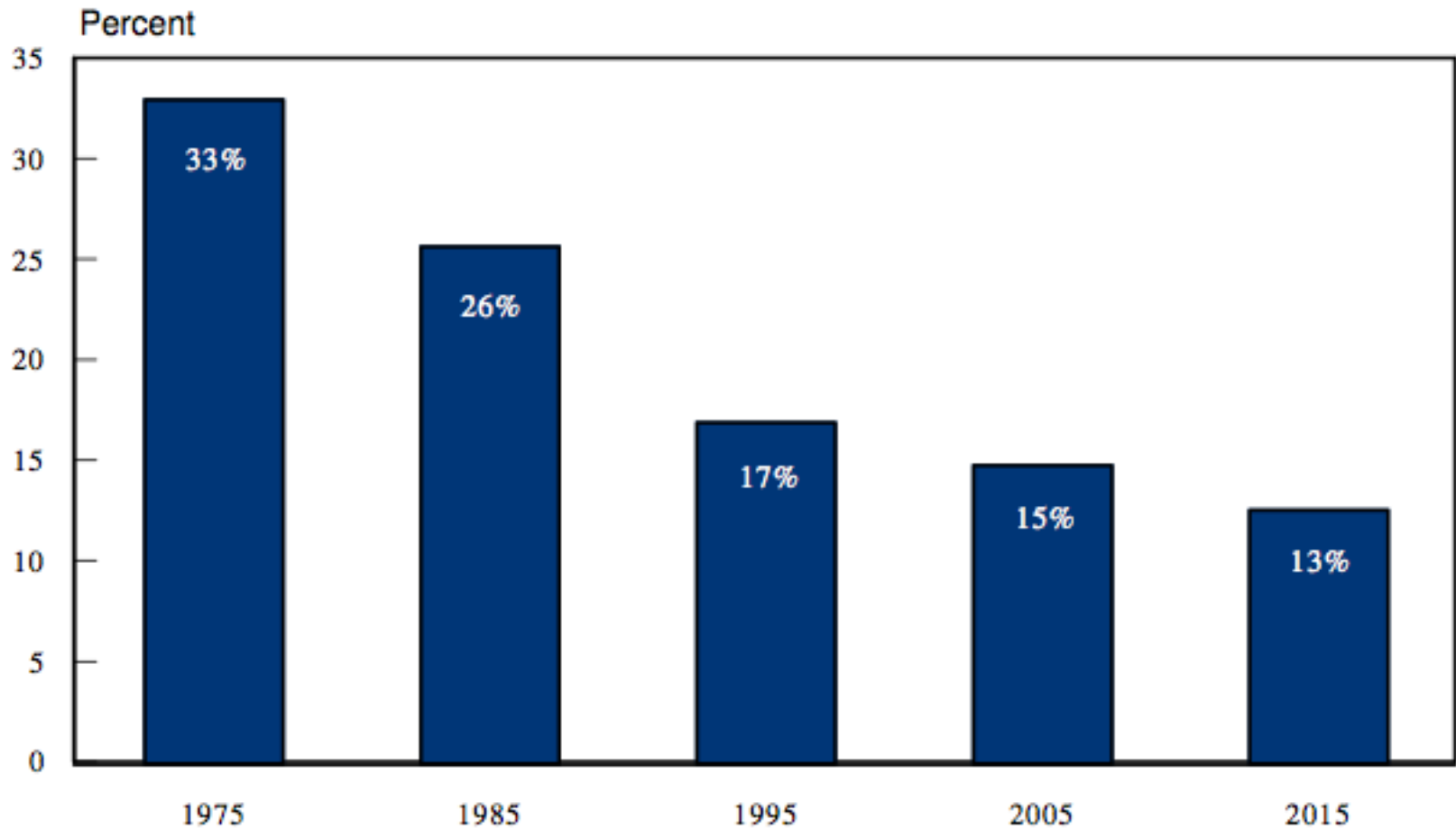
## Effects of Cost Sharing



Source: Based on data from RAND's health insurance experiment.



## Share of Personal Health Care Expenditures Paid Out of Pocket





# Mixed Evidence of effects of CDHPs on Spending

- Feldman et al. (2007)
  - Analysis of 1 large employer
  - CDHPs led to an increase in medical spending of about 23%
- Lo Sasso et al. (2010)
  - Examines data from one insurer covering 709 firms and about 76,000 enrollees
  - CDHPs led to a 5-7% decline in spending





# Summary so far

- CDHPs have the potential to reduce medical spending by giving consumers “skin in the game”
- Evidence to date is mixed on whether CDHPs reduce spending
- Specific design of plans matter



# The Medicaid Population is Different from the Privately Insured Population

- Among low-income, Medicaid enrollees:
  - 35% report being in “poor” or “fair” health
  - 48% are disabled
  - 50% higher medical spending overall
  - But this is driven by the disabled. Among the non-disabled, spending is lower for Medicaid enrollees



# Would CDHPs Reduce Spending for this Population (the Chronically Ill)?

- Parente et al. (2007)
  - CDHPs reduce spending among the relatively healthy, but increase spending among the relatively unhealthy including the chronically ill



# Would CDHPs Reduce Medicaid Spending?

- Key: consider total program spending, not just medical spending
- Even if a CDHP reduces medical spending, it could increase total program spending and dependency on public insurance



# Hypothetical CDHP for Medicaid

- Consider a hypothetical CDHP in which enrollees are given:
  - a \$1,000 account to spend on medical care; enrollees keep unspent funds
  - a high deductible health plan (which mirrors current Medicaid plan) above \$1,000



# How Could this Increase Costs?

- Currently, most Medicaid enrollees spend little or nothing on medical care
- Many others are potentially eligible, but do not enroll until they need medical care
- Since enrollees with low spending would keep unspent funds, this plan could substantially increase the cost of the program



# The Distribution of Medicaid Expenditures Nationally

	<u>Percent</u>	<u>Number</u>	<u>Expenditures</u>
\$0	11%	5.2 million	\$0
\$0-1000	42%	19.8 million	\$8.3 billion
\$1000-2000	18%	8.4 million	\$11.2 billion
> \$ 2000	28%	13.3 million	\$160 billion
Total	100%	47 million	\$180 billion

Source: Somers and Cohen (2006)



# Potential Impact on Program Costs

Not including eligible  
non-enrollees

HRA of \$1,000

9.4%





# Potential Impact on Program Costs

	Not including eligible non-enrollees	Including eligible non-enrollees
HRA of \$1,000	9.4%	14.4%

Note: Assuming 9 million eligible non-enrollees enter the program



# Potential Impact on Program Costs

	Not including eligible non-enrollees	Including eligible non-enrollees
HRA of \$1,000	4.7%	9.8%
HRA of \$2,000	21.6%	31.6%

Note: Assuming 9 million eligible non-enrollees enter the program



# Summary

- CDHPs hold great promise for the private sector
- Applying CDHPs to Medicaid has the potential to greatly increase State program costs, unless they lead to *substantial* reductions in medical spending