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Cost-Sharing and "Consumer Driven Purchasing":

Part 1: The Economic Challenge to Consumers

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Note: ***This Issue Brief is the first of a two part series. Part 2 looks at the impact on consumer utilization of health care and, in turn, the potential to contain costs.***

"Consumer-directed" or "consumer driven" health insurance plans have emerged as a popular strategy among employers and purchasers to contain health care costs and further engage consumers in purchasing decisions.[1] This trend includes general increases in employee cost sharing, through larger premium contributions, deductibles or co-payments.[2] These may be intended to simply shift costs to employees, or designed to steer employees in their purchasing decisions toward lower cost and/or higher quality providers, services and products.

Consumers face increased financial responsibility for their care at various points: first, when selecting a health plan and provider, and later, through co-payments and deductibles at the point of service provision. Proponents of this trend maintain that consumers, with greater financial stake in their care, will be motivated to select based on quality and value, and will thereby improve their own care and foster higher quality, lower cost care in the system as a whole.

Underlying this is the premise that patients contribute substantially to the current cost escalation by making sub-optimal decisions regarding quality, value, and utilization.

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One Wisconsin corporate leader, a regular op-ed columnist in the *Milwaukee Journal-Sentinel*, characterizes consumers as "entitled, passive participants."[3] This suggests that consumers have yet to feel any financial responsibility and thus the opportunity costs associated with their health care utilization and purchasing decisions.

To what degree might the trends in consumer cost-sharing ultimately reduce system costs? And what effects might these trends have on the health and well-being of individuals and families in Wisconsin?

Rising Insecurity

Survey and other data suggest that, rather than being passive and entitled in their behavior, many consumers actively struggle with health care purchasing decisions, have intense anxiety about their coverage and, at times, must choose between basic necessities and health care. Although the magnitude certainly varies by demographic sector, even those who are insured report experiencing significant burdens.

The Employee Benefit Research Institute's most recent "Health Confidence Survey"[4] reports that fully one-half of Americans feel stress due to medical bills, and health care costs cause many to delay or avoid health care. Twenty-nine percent of Americans say that in the past two years they have delayed or decided not to get health care when they thought they needed it. Sixty-three percent of insured respondents who delayed or decided not to get health care say it was because they could not afford it or the condition or treatment was not covered.

Of those reporting financial stress related to heath care costs, 21% have been unable to pay for basic necessities like food, heat, or housing; 49% have had difficulty paying other bills, and 36% have had to use up all or most of their savings.

Further, 71% of non-retired Americans report placing a higher value on a job with health coverage and a comparatively lower salary than a higher paying job without health care coverage.[5]

Consumers' ability to shoulder additional financial responsibility in health care, although it will vary by income, remains questionable: from 2002-03, Wisconsin experienced a 16% increase in the number of people filing for Chapter 7 bankruptcy, which is most commonly associated with medical debt.[6] Over half of all bankruptcies nationally in 2001 resulted from medical debt or a medical condition.

Premiums grow, take home wages decline

Employer-based health insurance provides coverage for 58% of Wisconsin residents, compared with two-thirds nationally.[7] This system is now under unprecedented stress for both employers and employees. Inflation in health care costs substantially exceeds inflation in other products and services.[8] Although in 2003 health care spending growth, at 7.8%, showed its first major slowdown in a decade, it still grew twice as fast as growth in the overall economy, and is projected to continue to grow at rates far outpacing the economy and wages. And for the third straight year, consumers in 2003 faced significant increases in cost sharing.[9]

Wisconsin's above average health care and insurance costs [10,11] and below average

employee earnings[12] continue to erode real earnings and reduce non-health related purchasing power. Wisconsin employers have recently had success in shifting insurance costs to employees.[13] Employers and unions here and across the nation report that health insurance is the dominant issue in collective bargaining, and pressure to increase employee cost-sharing has fueled many state-level labor-management disputes.[14]

Premium Cost Sharing

Since 1988, the U.S. average monthly employee contribution for family coverage has tripled.[15] While the employee's share as a percent of the total premium has been fairly constant, the nominal dollar employee contribution to premium has increased 50% since 2000.[16]

Employee premium co-payments are highly regressive. Lower-paid employees work in industries that require higher payments (both in actual dollars and as a percentage of total premium), while higher paid employees have lower actual and relative payments. Wisconsin employees working in low-wage establishments are asked to contribute more than twice as much for coverage as employees working in high-wage establishments.[17]

Plan Deductibles

Deductibles vary widely depending on type of plan (HMOs, PPO, POS), size of firm and type of treatment.[18] For employees, deductibles have been increasing along with costs. In the one year-period of 2002-2003 in Greater Milwaukee, average deductibles paid by employees for physician and hospital services doubled.[19] About half of all plans have deductibles for hospitalization.

Co-Payments

In Milwaukee, the median co-pay for a physician's office visit is $25 in 2004.[20] Co-payments can be much higher for out-of-plan care. Use of hospitals and prescription drugs is increasingly subjected to co-payment tiers, which are generally based on cost rather than quality of a service or product.[21]

Insurance co-payments are intended to curb what are considered consumers' unnecessary expenditures through two avenues – reduced overall utilization and more price-conscious choice of providers, services, and products. But their ultimate affect on costs is uncertain. Recent research supported by the federal Agency for Healthcare Research and Quality, for example, found that co-payments for prescription drugs, while reducing these costs, actually increased other costs for persons with certain chronic conditions, through increased hospital emergency room visits and longer hospital stays.[22]

Unintended Consequences

Meanwhile, employees facing increased cost-sharing show a steady decline in take-up rates for employer-sponsored insurance for themselves or their families.[23] The trend in cost-sharing may thereby increase the number of uninsured persons.

Newly uninsured and underinsured persons ultimately incur health care costs through uncompensated care, often delayed and delivered through emergency departments or other inappropriate and expensive points of service. As well, some may qualify for BadgerCare, adding to the state (and taxpayer) expense and incurring under-compensated care costs on providers. This inflates the costs of service for all payers, and thus employers ultimately end up bearing the costs of care through increased insurance premiums.

Beyond Cost-Shifting

While cost-shifting may provide some short-term relief from premium costs to employers, it alone appears unlikely to reduce underlying costs and their growth. Given the uncertain results of higher cost-sharing, some speculate on a longer-term and more indirect effect of increasing financial insecurity and under-insurance: that public opinion may increasingly shift more toward preference for universal sharing of health care costs through government-sponsored solutions.[24,25]

Part 2 of this Issue Brief explores the alternative viewpoint: that cost-sharing is part of a broader movement in consumer-driven purchasing. Consumer-directed health plans, rather than simply shifting costs, may empower individuals to make informed choices with regard to their health and health care. Consumers, when provided information and decision support, will make cost-effective and healthier choices and will possibly allow them to pocket some of the savings themselves. What does the evidence suggest about the potential and the limits of such plans? (See Part 2)

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