

Consumer-Directed Health Care

Understanding Its Value in Health Care Reform

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The purpose of this article is to describe the importance of consumer-directed health care as the essential strategy needed to lower health care costs and support its widespread adoption for making significant strides in health care reform. The pros and cons of health care consumerism are discussed. The intent is to show that the viability of the US health care system depends on the application of appropriate consumer-directed health care strategies. Key words: *consumer-directed health care, consumerism, health care reform, high deductible health plans*

THE US HEALTH care system continues to experience dramatic changes in response to multiple challenges of cost, access, and quality. Incremental efforts have not resulted in the provision of a basic health care benefit package for every American. The latest attempt at reform by President Obama is aimed at overhauling the entire system, thereby giving every citizen the right to universal health care.

Without the passage of the Obama reform bill, the state of health care remains dismal. More than 45 million Americans lack health insurance.¹ Even those insured are struggling to pay soaring health care bills and exorbitant costs in health premiums; both of which are expected to escalate considerably in light of the current national economic crisis. Employers and especially small businesses are finding it more difficult to provide health care insurance for their employees.

Although employers endeavor to provide relevant and useful health plan information

to their employees, a major dilemma for employers is their inability to take a strong stance and be seriously committed to implementing cost-effective strategies affecting both employers' and employees' mounting health care costs. In the last decade, cost containment strategies such as the use of strict managed care (ie, health maintenance organization) models have resulted only in short-term effects. Now more than ever, the attention should be focused on developing innovative and sustainable solutions.

The purpose of this article is to describe the importance of consumer-directed health care (CDHC) as the essential strategy needed to lower health care costs and support its widespread adoption for making significant strides in health care reform. Consumerism in health care enables plan participants (ie, employees and individual purchasers of health care) to have access to information and decision-making tools they need to become involved in the purchasing of health plans. Therefore, for health care consumerism to work in actuality, it must be able to transform an employer's health benefit plan into one that puts the purchasing and decision-making power into the hands of employees.

It is also crucial for individual purchasers to have the ability to choose their own affordable and accessible health plans that are ideally designed for themselves and their

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families. The pros and cons of health care consumerism are discussed, and CDHC efforts are explained as necessary for controlling health care costs while maintaining access and quality.

BACKGROUND

A health care consumer is defined as anyone who receives or has the potential to receive health care services, regardless of whether the individual pays for those services directly or indirectly. Consumerism in health care is a concept of involving consumers in the health care decision-making process. Specifically, it enables consumers to have larger financial incentives, information on prices, quality, and treatment alternatives, so that they can take more responsibility for their health. One particular approach to designing health benefits based on consumerism is called consumer-directed health plans (CDHPs), which include large deductibles and a tax-preferred savings account.² In recent years, as the employee portion of health benefit costs has grown sharply, employers have begun to use CDHPs as a cost-saving alternative. Consumer-directed health plans generally involve high deductible catastrophic coverage combined with an employer-funded health care spending account which employees use to pay for all other health care services. High deductible health plans with a savings option include (1) health plans with a deductible of at least \$1,000 for single coverage and \$2,000 for family coverage offered with a health reimbursement arrangement (HRA) and (2) high deductible health plans (HDHPs) that meet the federal legal requirements to permit an enrollee to establish and contribute to a health savings account (HSA), referred to as "HSA-qualified HDHPs."³

Health savings accounts were created as part of the 2003 Medicare Modernization Act enabling individuals and employees to invest tax-free dollars in health accounts to pay for health care. Employers can also contribute to HSAs if they offer qualified HDHPs. A major advantage of HSA plans is that they cover 100% of medical costs once the deductible has been met. However, consumers pay all their health

expenses out-of-pocket until they reach the deductible. Health reimbursement arrangements are funded solely by employers who usually contribute a specified amount toward employees' health care expenses.

The ultimate goal of HDHPs is to reduce unnecessary utilization of health care services and lower out-of-pocket payments to decrease overall spending. In other words, by making plan participants (employees or consumers) more aware of the actual cost of health care services, then plan participants are encouraged toward greater involvement in the decision-making process and they develop a more consumer-oriented mind set. Because employers offer several health plans for employees to choose from, selecting the high deductible coverage generally means that the employee will be responsible for a larger share of the overall health cost. Thus, the employee would be much more cost conscious and choose wisely. Consequently, allowing the consumer to direct where and how costs should be spent would result in lowering costs while empowering and educating consumers to make more appropriate decisions regarding their health care.

Consumer-directed health plans are expected to become a major force in the health insurance market the same way that managed care did in the 1990s. Nearly every major health plan now offers an HDHP.⁴ For instance, 13% of organizations offer an HDHP as one of the health plan choices in 2008 compared with 10% in 2007 and 7% in 2006.³ Firms with 1,000 or more workers are more likely to offer HDHP (22%) than firms with 200 to 999 workers (15%) or 3 to 199 workers (13%). Among firms offering health benefits, 3% offer an HDHP/HRA, and 11% offer an HSA-qualified HDHP.

These plans are becoming more popular because of two primary reasons. The first is the advantage for consumers, because they are much more sensitive to cost. The second is aimed at employers who view this product as a lower-cost alternative compared with conventional health plans. For example, CDHPs deliver substantially lower cost-per-employee than either preferred provider organizations or health maintenance organizations did in 2006.⁴ Because of these reasons, CDHPs are expected

to grow more quickly. When employers were surveyed on the types of health plans they would offer 5 years from now, 61% of employers with 500 or more employees indicated that they would be offering one or more CDHPs, suggesting an overwhelming increase in health care consumerism. This is a significant trend in foreshadowing the future of consumerism efforts and the use of CDHPs as the viable solution for greater cost sustainability.⁴

PROS AND CONS OF CONSUMER-DIRECTED HEALTH CARE

Consumer-directed health care has engendered strong support, yet criticism has also been cited. There are several arguments against CDHCs. The first is adverse selection. Critics of CDHPs are concerned that HDHPs result in adverse selection so that enrollees are more likely to be wealthier and healthier individuals who can afford high out-of-pocket expenses and less likely to use the health care system. As more employers switch to HDHPs, there would be less affordable health care for poorer and sicker individuals.⁵ The second criticism of CDHC argues that lower service utilization with CDHP enrollees is due to their better health status and not price sensitivity; thus, CDHPs would only result in very little change over the use, price, and quality of health care services. The final claim against CDHC is lack of consumer information. In other words, while critics agree that consumerism provides increased access to health information, they contend that CDHC does not

necessarily lead to more informed consumers. Moreover, it could result in potentially dangerous self-care by individuals who lack knowledge to make valid health care decisions⁶ (Table 1).

Although CDHC has been criticized, arguments have been countered by various positive evidence. For instance, Turner⁷ gathered conclusive data in support of CDHPs. She found that employers who replaced traditional health insurance with HRAs have seen their health costs fall by nearly 20%, and the use of preventive services and health promotion programs by employees increased by as much as 23%. Furthermore, the cost of health premiums for HSA-eligible insurance decreased by as much as 15%.

Health savings accounts are utilized by those with modest income (family income of ≤\$50,000 annually). For CDHPs to have broader appeal, better information tools, more consumer-friendly delivery options, greater competition, and information on prices are essential. Moreover, advocates of CDHPs state that high deductible plans promote awareness and responsibility because consumers are incentivized to become more participative in managing their health and more engaged in healthy behaviors, which ultimately reduce health care costs. As health plans offer more and better coordinated care options from those with chronic conditions such as diabetes, heart disease, or asthma, patients enrolled in CDHPs were 20% more likely to comply with treatment regimen for chronic conditions, avoid overutilizing the health care system, and select

Table 1. Pros and cons of consumer-directed health care

Pros of CDHC	Cons of CDHC
Utilized by those with modest incomes, not just wealthy and healthy	Adverse selection
Better coordinated care and more integrated services	
Consumers are more likely to comply with treatment regimens	
Lowered health costs, greater accessibility, and higher quality	No effect on price, utilization, or quality
Increased use of health promotion (preventive) services	
More educated and informed consumers (better information tools, more options)	Consumers lack knowledge to make choices
More consumer control and decision-making power	
Positive consumer values and sustained changes over time	

cost-effective treatment options⁸; therefore, both employers and employees favor the use of CDHPs as a cost-cutting strategy.

Research has shown that consumers are assuming a larger role in the decision-making process by seeking health information from numerous sources including the Internet.^{9,10} Supporters of CDHPs believe that educated and empowered consumers will make cost-conscious decisions and will ultimately drive down the cost of employer-sponsored health benefits.^{7,8} McKinsey & Company⁸ conducted a study on CDHPs and found the following results in support of CDHPs:

1. Consumer-directed health plan consumers were more value conscious in deciding whether to consume health services and in selecting appropriate care than consumers of traditional health insurance. For example, they found that more than 50% of CDHP consumers were more likely to ask about cost and 3 times more likely to have chosen a less extensive, less expensive treatment.
2. Consumer-directed health plan consumers were more likely to engage in healthy behaviors. For example, more than 20% were more likely to say they would participate in company-sponsored wellness programs, and more than 30% were more likely to get an annual checkup because they thought it would save them money in the long run.
3. More CDHP consumers were engaged in behavioral changes that could significantly reduce not only the short-term rise in medical costs but also long-term medical cost trends, such as following treatment regimen and inquiring about drug costs.
4. Consumer-directed health plan consumers were responsive to employers who switched to these plans not simply to shift costs, but because they encouraged employees to take more control over their long-term health.

Herzlinger¹¹ believes that for CDHC to work, it must not only change demand (ie, implementation of high deductible health insurance policies to restrict overutilization), but also change supply (ie, hospitals and

other health providers must be motivated to change their ways). She offered three revolutionary innovations for changing the supply of health care: (1) health care “focused factories” (integrated team of health professionals) are needed to bring generalists and specialists into an integrated “stop and shop” system of care, (2) consumer-based medical records are necessary to create one information access point for patients and providers, and (3) medical technology should be personalized for the individual patient. Herzlinger¹¹ further described evidence in favor of CDHC through the case study of Switzerland which has a long-standing CDHC system. Switzerland provides universal coverage at substantially lower cost than in the United States, disease outcomes are equal or better, and administrative cost is lower. Furthermore, the country has more health resources such as hospital beds, physicians, and cost medical equipment than in Canada, Great Britain, and the United States.¹¹

Based on a review of the pros and cons of CDHC, there is much more positive evidence that has been obtained to justify the adoption and implementation of CDHC as the answer for cost sustainability and the ideal solution for reforming the health care system. Research suggests that although currently there is only a small percentage of CDHPs, they are expected to triple in the next 5 years.⁹ Thus, for CDHC to be effective, genuine effort on the part of all stakeholders is required to overhaul US health care system.

DISCUSSION AND CONCLUSION

The rise of CDHC is resulting in a more engaged and informed consumer who is better able to make decisions about his or her health care. As consumers’ expectations continue to grow, they are demanding better products, more real-time information, greater accessibility, and lowered cost. Consumer-directed health care will not work until consumers have access to reliable information about cost and performance. Current challenges in the health care system include unnecessary, inappropriate, and wasteful services.

To create an accessible, affordable, and high-quality system, the widespread adoption of CDHC is necessary to provide the focal point in any health care reform proposals because it will make a significant impact on lowering health care costs while maintaining access and quality. As this paper has discussed, for consumerism to succeed in transforming the US health care system, better understanding of CDHC is nec-

essary. Thus, additional studies are needed to more specifically analyze the key components of CDHC and the new roles of health care organizations and managers within the CDHC system. Both are crucial to overhauling and re-vamping the existing health care system to bring about the creation of an ideal CDHC system that will result in high-quality, affordable, and accessible health care for all Americans.

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