



BRIEF ANALYSIS

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Giving Patients More Control

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Eighty-eight percent of Americans with private health insurance coverage get it through employers, and the employment-based health insurance system has served millions of Americans for more than 50 years. Yet both employers and employees are increasingly seeking change.

Even though health insurance coverage typically is the second or third largest employer expense, many employees are dissatisfied. Fewer than one-third of insured employees are familiar with the major details of their health plan. And when they try to use the health care system, many find managed care's requirements confusing, frustrating and sometimes a barrier to needed care. Surveys show that employees prefer to choose their own health care providers and be involved in treatment decisions. However, they do not want to spend more money or put themselves or their families at financial or clinical risk.

Evidence shows that costs are reduced and care is improved when patients are involved in their own treatment decisions. This is reason enough for health care analysts and policy makers to explore ways of evolving toward a system that preserves the advantages of employer-sponsored health insurance coverage, while giving employees more control.

Patient-Directed Health Care. One idea now being pioneered by a number of companies is Patient-Directed Healthcare Benefits (PDHBs). PDHBs are usually offered as an option from among many other employer-sponsored plans (HMOs, EPOs, PPOs, etc.). In general they give employees and their families greater input in selecting the benefits they most want and need. Employees also have more choices of how they will pay for their health care, along with information on the tax implications of each option. The design of PDHBs varies widely, but in general they work like this:

- Employer and employee contributions are used to purchase major medical insurance.
- Preventive care is provided for all employees and is covered in full.
- The employer places separate funds in a Personal Health Account (PHA), from which the employee is able to directly pay for discretionary medical expenses.
- The employee can use the PHA funds to pay for alternative health care services and other IRS-allowed health care expenses.
- Employees also can use employer-funded PHAs to directly purchase individual health insurance coverage.

Employees can open a Flexible Spending Account (FSA) with their own pretax dollars to pay for additional health care services.

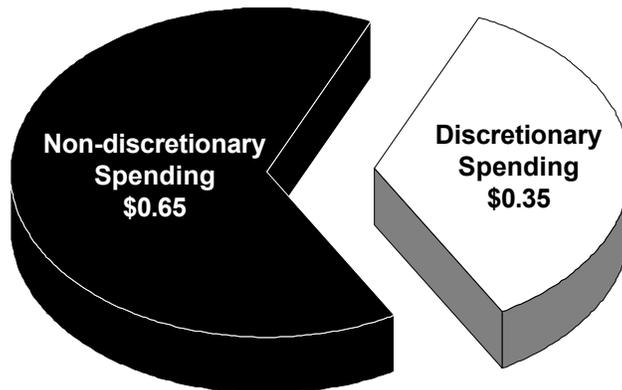
A PDHB works best when combined with a personal health account (PHA) or a flexible spending account (FSA). PHAs are funded by employers and can accumulate from year to year. (Although the funds accumulate in an accounting sense; mechanically the funds are actually deposited as they are spent.) FSAs are usually funded by employees. However, these accounts are governed by a "use it

or lose it" rule: funds are forfeited to the employer if not used by the year's end. Both accounts enable employees to pay for routine health expenses not covered by an employer-sponsored health plan. Under a common arrangement, about one-third of health care spending is through the PHA and the remainder is paid by third-party insurance. [See the figure.]

These plans are beneficial to both employees and employers, and they could ultimately benefit the entire country.

Benefits for Employees. In contrast to a typical managed care plan, PDHB plans give employees greater choice, more access and thus more decision making opportunities. For example, when spending from a Personal Health Account:

Dividing Responsibility Between Employers and Employees



Employees can manage up to one-third of their own health care dollars through Personal Health Accounts.

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- Employees can choose from a wider variety of treatment options than is permitted under more restrictive insurance plans.
- Employees pay their routine health care costs directly, thus reinforcing the perception that the doctor's client is the patient, not a third-party payer.
- Employees benefit by avoiding wasteful spending because unspent funds can accumulate and be used to meet other needs.

Funds in a PHA can be used for prescription drugs, alternative or experimental therapies or even cosmetic surgery. The knowledge that employees can access care they need at the time they think they need it provides security. But since employees are spending their own health care dollars from a PHA, they have an incentive to spend wisely and to save money for future health care events. For example, funds not spent will accumulate and can be used to pay premiums for early retirement health insurance or to fund coverage for prescription drugs and Medicare supplemental coverage after age 65.

Unlike HMO members, employees with a PDHB do not need a primary care gatekeeper. Under an HMO, the gatekeeper is the primary care physician the employee must see first, and only this doctor can refer the patient to a specialist. With a PDHB plan, employees usually have the option of selecting both the doctor and the hospital they prefer.

A PDHB offers more choices because the patient has more control than under conventional managed care. Employees have a greater stake in spending decisions because the money they save is their own. That encourages them to ask in advance what each medical service will cost and to check their medical bills with care. With enabling legislation, an employee could combine a PHA with that of his or her spouse.

Benefits for Employers. Employers typically focus on the affordability of a health care plan, and they are discovering that many of their cost concerns are met with PDHBs. For example, under PDHBs, employees must make decisions about how they will spend their health care savings. Since people are usually careful about spending their own money, these choices tend to be prudent ones. And when employees save money for themselves, they often also save money for the company. Additionally, employers are finding they can lower administrative costs by setting up Internet sites to process

claims and provide "round-the-clock" information. Greater employee involvement in selecting providers and treatment options may even decrease the employer's liability in the case of malpractice or other tort claims.

Benefits for Society as a Whole. PDHBs will play a significant role in the development of the next generation of health insurance products. They will also create benefits for society as a whole. Patient-directed health care can offer new hope to groups that in the past have been most vulnerable — the working poor, the growing retiree population and the uninsured:

- By making health insurance more attractive, PDHB options will encourage more employees to enroll in an employer-provided plan, thus reducing the number of the uninsured.
- By allowing accumulation in PHAs, this approach will give more seniors the resources to purchase prescription drug coverage.
- By giving employees more control over health care dollars and encouraging prudent shopping in the medical marketplace, PDHBs will encourage the private sector to increasingly use market mechanisms to reduce rising health care costs.
- By creating strong incentives for employees to control costs, PDHBs and PHAs help keep premiums down and make health insurance more affordable for small employers.

Needed Policy Changes. Low-wage and transient employees often find themselves without health insurance coverage. But through appropriate legislation, employer contributions to a PHA can be made portable. Portability will enable insured employees who leave a job to continue their coverage with the same insurer, either by paying premiums themselves with funds from the PHA or by having a new employer begin paying them.

Conclusion. PDHBs are not a panacea, but they can help to lower costs and increase access while offering patients more choices and better medical care. With the support of national legislation and proper regulations, PDHBs can change health care dramatically over the next three to five years. Achieving these objectives is long overdue. The time is right to consider PDHBs and give patients more control.

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