

## CONSUMER-DIRECTED HEALTH PLANS Why They Might Work Better Than Managed Care

It has long been recognized that health insurance generates incentives for the overconsumption of medical care. This happens because providers stand to benefit from the delivery of additional care, because consumers incur little financial cost or penalty for utilizing health services, and because insurers, consumers, and even providers sometimes find it difficult to accurately assess the appropriateness of treatment delivered.

Over the last decade managed care plans have tried to address this problem by reimbursing physicians in a way that encourages them not to recommend or deliver unnecessary care, and by prospectively and retrospectively attempting to assess procedure appropriateness. An example of the former is a capitation arrangement in which the provider is paid a fixed amount for delivering each covered patient's medical care for a given period.

While these efforts have been somewhat successful, and do not appear to have lowered quality in the aggregate, dissatisfaction with managed care is increasing. Partly this stems from the lack of choice inherent in many managed care plans, especially health maintenance organizations. But it also results from a sense that these cost control efforts have played themselves out. Thus consumers and employers are looking for the "new thing" in health insurance.

The new thing is consumer directed health plans. These plans, which include medical savings accounts and health reimbursement arrangements, feature high-deductible insurance for catastrophic medical events combined with a tax-deductible employee savings account that can be used for more traditional medical expenditures. Unlike traditional "flexible savings accounts" that have been used for years, money remaining in this account can be rolled over from one year to the next.

Are consumer-driven health plans here to stay? It's too early to tell for sure. I see some reasons for optimism. But there are also some reasons for pessimism, potential problems that may need to be addressed to make consumer driven health plans a fixture of the health economy.

The most important advantage of these new plans is that they put more of the responsibility for maintaining good health on the consumer. Consumers who have lower health expenditures will benefit financially, while consumers who have higher health expenditures can incur a financial penalty. This is important because personal behavior, such as diet, exercise, and lifestyle, can have very large effects on health and health expenditures.

To illustrate, I went to a life expectancy calculator available on the Internet from Northwestern Mutual Insurance Company, calculated my life expectancy assuming good personal health behaviors (think Forrest Gump), and then re-calculated my life expectancy assuming poor personal health behaviors (think John Belushi in "Animal House"). Forrest had a life expectancy of ninety-two years; John, merely fifty-four. The difference is thirty-eight years. I am thirty-eight years old, so to me it was like getting my whole life, up until now, for free. Or rather, for following good health habits.

But these new plans have important liabilities that currently limit their effectiveness and their ability to compete in the insurance marketplace. One important way, probably the most important way managed care plans limit costs is by negotiating low rates with the providers on their network. If consumers are left to shop for health care on their own, they will not have the bargaining power that insurance plans have. This can mean higher prices and consequently higher health care costs.

A second liability is that these new plans contain some disincentives to receive preventive

care. While catastrophic medical events, such as treatment for a heart attack, would be covered by the consumer's insurer, preventive care such as annual checkups may come out of the consumer's pocket. Because acute care is so much more expensive than preventive care, this can lead not only to worse health but also higher health care costs.

Neither of these problems are insuperable. If they are resolved, consumer directed medical savings plans have the potential to lower health care costs and give consumers increased flexibility in choosing their health care providers and treatment options.