# Does a High-Deductible Plan Lead to Good Purchasing Decisions?

CONSUMER-DIRECTED HEALTH PLANS, an innovation in health insurance design, promise to be the new political battleground in the United States. On one side are those who believe that only the power of centralized government purchasing and management can save the health care financing system. On the other side are the believers in choice and free enterprise, who see no more reason for the government or the employer to be involved in health care consumption decisions than in, say, the purchase of a new car.

While some large employers offer consumer-directed health plans, most employers are waiting to see whether the product has a long-term future. There appears to be some evidence that the plans save money for employers, but as with any other plan that allows individual selection on the part of employees, it's difficult to determine whether the employer saves money *overall*.

Economic theory says that properly designed products should save money. However, two key features need to be included to ensure the plans generate the right clinical and financial results: First, consumer-driven plans need financial incentives to promote appropriate use of care (not just less care, but the right type of care). This can be addressed by ensuring that risk and cost are matched.

Second, consumers need information so they can determine the appropriate care in any situation. Consumers must have access to sufficient, credible, and up-to-date information when it's needed.

A frequently used plan design includes a high-deductible health indemnity insurance plan that covers catastrophic or high-cost events that generate claims in excess of the deductible. Matched with the high-deductible plan is a health care spending account, in which funds made available by the employer (or the insured, if it's a personal policy) are deposited. The accumulated funds may be used to pay for current health care purchases not covered by the insurance policy, or may be rolled over for future use, such as paying for long-term care services in retirement.

A frequent criticism is that older, sicker workers lose out because they have higher expenses—which will make it critical, in the future, to risk-adjust the employer contribution to participating individuals. (Medicare has begun to do this with the amount it pays Medicare HMOs on behalf of enrollees.) To help employees decide on the best plan, insurers such as Humana and Definity offer online tools that enable the employee to test different insurance designs, as well as to find alternatives for providers and drugs.

Are consumer-directed health plans, in fact, incentives for the type of behavior their designers expect?

The Furlongs (left to right): Will, Tucker, Susan, Tess

Early results indicate they are. Here's an example that shows how a particular high-deductible plan member evaluates health care decisions and makes choices that include a thorough cost-benefit analysis of different treatment options and purchasing decisions.

### A Real-Life Case History

Susan and Clark Furlong own a small organic farm outside Phoenix. They supply local markets with fresh produce and sell their products on the Internet. They have three children: Tucker, 6, Will, 4, and Tess, 2. Susan has a background in diabetes and lactation education, and works part time for Lotter Actuarial Partners.

As a part-timer, she's not eligible for benefits, so she and Clark shopped around for a high-deductible policy, eventually buying one from Fortis. Their policy covers 100 percent of medical costs after a $4,800 family deductible. The quarterly premium is $753, before contri-

IAN DUNCAN is a partner of Lotter Actuarial Partners Inc., an actuarial consulting firm in New York City. He can be reached at iduncan@lotteract.com.

# "You can't analyze ten ways to Sunday if you don't get the numbers until Monday."

— Milliman on a key challenge to the P & C analysis process.

Do you typically have a couple of days to do each quarter's analysis — but wish you had weeks instead? Do you spend too much time preparing data and exhibits, and not enough analyzing them? Milliman has solutions that give you what you need most: more time for analysis.

ReservePro® and Affinity® are full-featured reserving systems that make it easier for you to spend more time doing what you do best. Setup is a cinch. In no time, you eliminate tedious number crunching, reduce review time, and finish up to four times faster than with "homegrown" spreadsheets. The result: you'll have more time to really analyze your business — ten different ways.

Find out all the ways our solutions help hundreds of actuaries and finance professionals around the world every day. Contact us at (800) 404-2276 or email reservepro@milliman.com. To download sample reports, visit www.actuarialsoftware.com

*ReservePro® & Affinity®*

Milliman

*www.milliman.com*
*Offices in principal cities worldwide*

butions to the optional medical spending account. The Furlongs decided to forgo the optional drug rider, self-insuring their drug benefits because they're not on any maintenance medications.

As parents of young children, the Furlongs have their share of emergency room visits. Recently, Will fell while playing a recorder, which scraped the back of his throat, resulting in a fair amount of blood and discomfort. The Furlongs wanted to have Will examined by a doctor. The first decision they faced was: hospital emergency room or walk-in medical center?

The walk-in medical center was closer and likely to be cheaper, so that's where they went. Because the Furlongs didn't have comprehensive first-dollar insurance, the medical center wanted payment in advance before the doctor would see Will, so they paid the $200 fee. But the doctor decided that he couldn't help, and told the Furlongs they should go to the emergency room. Before they left the walk-in center, Susan negotiated her advance payment back.

Two things immediately differentiate the Furlongs' response under the high-deductible plan, compared with a typical insured's response: first, a cost-benefit evaluation of the clinic vs. emergency room setting, and second, getting their money back from the clinic.

In the emergency room, the Furlongs faced a decision about having an X-ray, which they decided to do after discussing cost and benefits with the physician. Will was checked out and given a clean bill of health, although he was uncomfortable and couldn't swallow. His physician prescribed Augmentin (a name-brand antibiotic) and Lortab elixir (a brand-name painkiller). Susan checked both of these carefully, particularly the antibiotic, which cost $94.99 per prescription. The painkiller cost $27.39. In the end, she chose a generic antibiotic (Amoxicillin) at $69.69 and a generic painkiller ($14.79).

There wasn't much the Furlongs could do about the emergency room costs, but every other expense associated with the accident was checked carefully and evaluated. They made each decision before incurring the expense.

How carefully would an indemnity plan member evaluate similar expenses? Susan is the first to admit that she feels more comfortable with the health care system than the average consumer because of her professional background. Nevertheless, armed with good information and tools, most consumers could have made the same evaluations and come to the same good purchasing decisions, provided they had the appropriate incentives to make the effort.

Health plans are beginning to provide consumers with tools to help them make more economically affordable choices, including deciding about procedures or providers. Humana, for example, provides an attractive set of tools for members to model their use of prescription drugs and choose the "right" benefit design. Other plans offer services such as those of Health Dialog, a company that provides education and information about alternative treatment methods to members facing options and choices.

Every year, millions of consumers confront the same kinds of decisions the Furlongs face. In the typical insurance model, the purchasing decision is left to the provider and the insurance company, with little input from the consumer. The potential for systemwide savings from consumer involvement is huge. But the devil is in the details, and the proper combination of financial incentives and consumer information must be built into products to yield both savings and good health care buying decisions. ●