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BUSINESS GROUP ON HEALTH

High Deductible Health Plans—Upsides and Downsides

By Dr. Mark Cunningham-Hill

September 2018

High Deductible Health Plans (HDHPs) are offered by a large number of employers but have been receiving some less-than-favorable news coverage lately. Let's see if we can sort through some of the pros and cons as we get close to open enrollment season.

First, a little bit of history:

Back in the 1990's, providing comprehensive health coverage for employees—at little or no cost to them—was the norm. But two-plus decades of healthcare inflation resulted in a crippling burden on employers and more recently, on employees, as they began sharing a portion of the premiums. It is out of this healthcare hyper-inflation that the HDHP was born. The basic premise was that by increasing deductibles, premiums could be lowered and employees would have an incentive to use healthcare more efficiently. The net result: everyone would be a winner.

HDHPs first appeared in 2004[1] and by 2014, it was predicted that 44% of employers were considering offering a HDHP only moving forward, a trend that was expected to accelerate. The reality has been somewhat different. In 2018, 65% of large employers are offering HDHPs as an option for employees, but only 5% offer a HDHP as the sole healthcare benefit choice.[2] The percentage of employees enrolled in a HDHP was 8% in 2009, and by 2016, that number had increased to only 28%,[3] an indication that there is some reluctance by employees to move to these types of plans.

So what gives? Why haven't HDHPs turned out to be a panacea for both employers and employees?

Let's take a look at the benefits of an HDHP for employees:

- **Lower premiums.**
- **Access to a Health Savings Account (HSA)** – money contributed to an HSA is triple-tax-advantaged: contributions are pre-tax, interest earned is tax-free, and employees can make tax-free withdrawals for qualified medical expenses. Unlike Flexible Savings Accounts (FSAs), HSA dollars are owned by the employee who can keep this money, or even invest it, to pay for healthcare expenses at a future date. (FSA money is owned by the employee but generally forfeited if not used for medical expenses by the end of a calendar year.)
- **Preventive care** such as routine screenings, physicals and vaccines is typically covered before deductibles are met.
- **Networks** are not necessarily narrowed, as they've been with HMOs.
- People who rarely use their health benefits may **save money.**
- If a person is not on expensive medication, their **monthly bills may be lower.**
- Employees can still take advantage of the **rates negotiated by health plans** for their out-of-pocket healthcare expenses.

....and now for employers:

- **Lower premiums.**
- The **employee pays 100% of healthcare costs** until the deductible—higher for HDHPs than traditional coverage—is met, which shifts more healthcare costs to the employee for the majority of people.
- Offering a lower-cost premium healthcare option may be **popular among employees.**

Here's the "but:"

Despite these advantages, poor understanding about how HDHPs work, lack of user-friendly cost transparency tools for consumers and the complexities of human behavior can drive some unforeseen consequences including unexpected healthcare costs and worse health outcomes for employees and potentially higher costs for employers.

HDHPs can be a great option for some people, but a poor choice for others. It depends on a person or family's health needs and financial situation. In general, HDHPs work best for younger and healthier people who typically only visit the doctor to get an annual checkup, flu shot, and maybe an occasional prescription for a generic drug. They will probably save money with a HDHP, especially if they contribute to an HSA.

Here are some downsides of HDHPs:

Care avoidance: HDHPs work differently than traditional POS or PPO health benefit plans in that all healthcare expenses are paid out of pocket until the deductible (usually thousands of dollars, in the case of HDHPs) is met. If a person does not have very much in savings, or is unable to contribute to an HSA, they might end up owing hundreds or thousands of dollars they simply can't pay. These high upfront costs impact behaviors and there is now data to show that HDHPs are associated with a decrease in primary care visits, which results in potentially less preventive care being administered. Of even greater concern is that studies[4,5] are showing that some people are foregoing care for chronic conditions such as diabetes or hypertension, which will lead to higher rates of morbidity and higher costs when complications arise, like heart attacks or strokes.

Medical decisions based on cost vs. need: Having visibility into healthcare costs is generally a good thing and supports the "consumerist" argument for HDHPs. HDHPs put the cost for healthcare services front and center for employees, at least until their deductibles are met. This may lead people to think twice before accessing care or undergoing certain tests, which reduces healthcare spend and potential waste – again, generally a good thing. But when decisions to seek or receive care are made based primarily on cost vs. medical criteria, needed health information, care or medications may not be sought or administered, as noted above.

Employee dissatisfaction: Employees who enroll in a HDHP pay premiums, pay deductibles, and may also be paying into an HSA. Employees may see a big dollar hit to their wallets as they seek care before their deductible is met, leading to frustration or even anger in the belief that their employer is shifting more costs to them. Their perception may be that their employer-sponsored health benefits are less valuable than they were in the past, though that may not actually be the case once premium reductions are factored in.

HSAs benefit wealthier people: HSAs are beneficial for everyone but the tax-advantaged status means that the more money people contribute, the more benefit they receive. People who can contribute the maximum annual amount ($3,450 for individuals and $6,900 for families with an extra $1,000 if over 55) reap the most benefit.

And choice can lead to a potentially perverse result for employers: The original premise for HDHPs was to reduce healthcare costs for employers, encourage more consumerism and decrease waste. However, we need to keep in mind that when employees have a choice between a HDHP and a traditional plan, it is the younger and fitter employees who tend to opt for the HDHP, knowing they likely won't need much in the way of healthcare. Those who are older or have chronic conditions will generally remain with the traditional healthcare option, and these are the 20% of an employee population who drive 80% of the costs. So employers may be sacrificing premiums from a large pool of healthy employees who switch to a HDHP.

Helping employees transition to HDHPs:

So how can employers committed to HDHPs help employees utilize them – and healthcare services – most effectively?

- **Employee (& spouse) education:** Educating employees about how each plan works during open enrollment is key to ensuring that employees don't look only at premium costs in making their decision but also consider all aspects of each choice, including being prepared for healthcare bills at the beginning of the year before deductibles are met. Employers should also ensure that employees (and spouses) have help in navigating healthcare, and transparency about healthcare costs, so they know when and how to access the right healthcare, and what questions to be asking providers so that good decisions are made about diagnostic tests and management of chronic diseases.

- **Preventive care:** Preventive health examinations should be covered at 100% for employees and family members, and this should be effectively communicated and promoted.
- **Optimizing HSAs:** Employers need to make sure employees are aware of the benefits of HSAs and should make it as easy as possible to contribute. Encouraging employees to contribute the difference in premium between their HSA and a traditional plan is a great way to promote saving and encourage readiness from healthcare expenses they may incur. Some employers are pre-funding an employee's HSA account to assist employees in transitioning to HDHPs. This can certainly ease the transition but does reduce the employer cost savings advantage of HDHPs.
- **Continuous communication:** It would be tough to over-communicate with employees when it comes to making sure they're aware of their options, the factors they need to consider when choosing coverage, and the tools available to them to help them navigate care and cost.
- **A multi-year strategy:** Employers may need to take the long view when it comes to implementing HDHPs. Tactics such as seeding HSAs and reducing deductibles for employees in lower-income brackets can help ease the transition for employees in the early stages of a shift to HDHPs. ■

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