

Healthy Consumer-Driven Health Care

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EBRI-ERF Forum

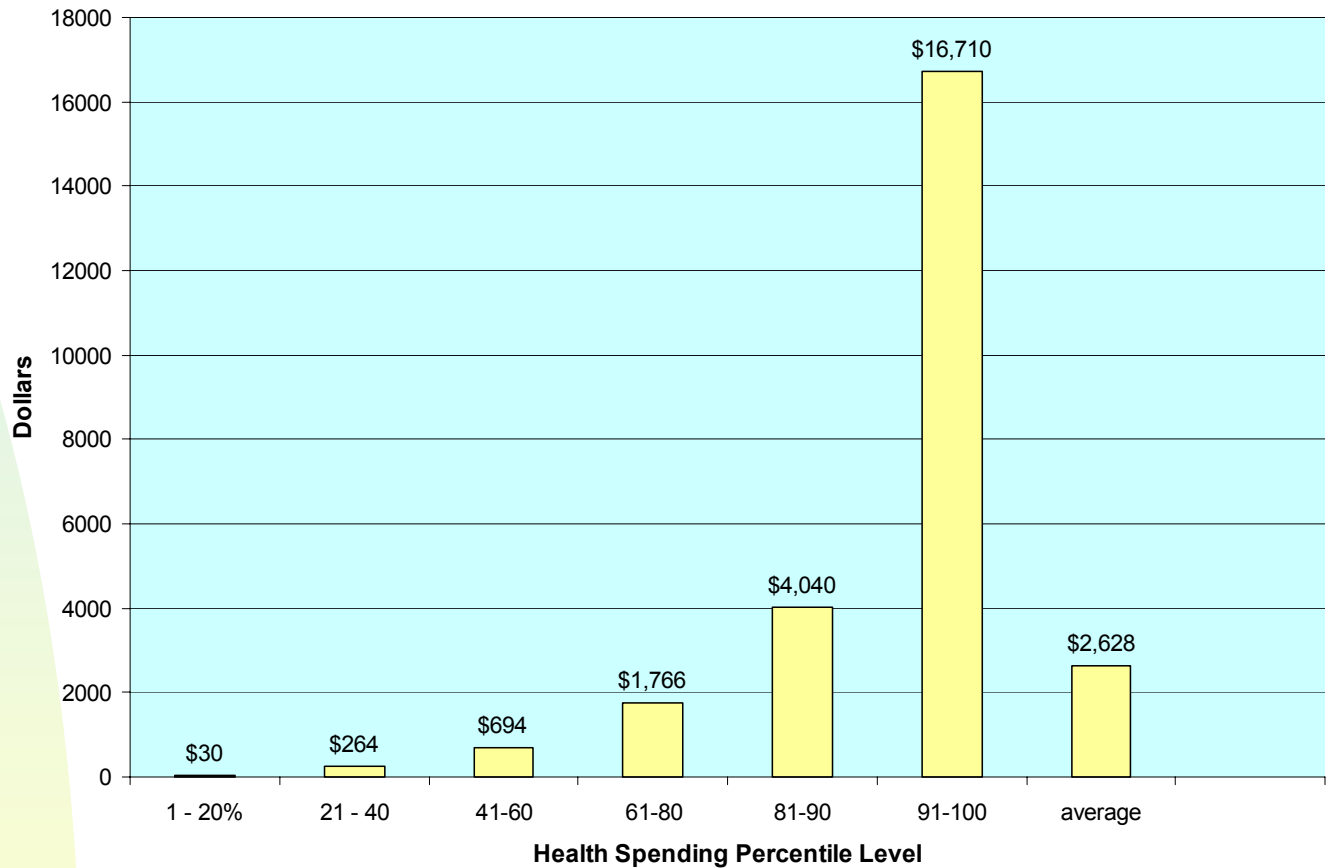
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Introduction

- Variation in health care expenditures
- Nature of individual health insurance marketplace
- Myth of “consumer choice”
- Winners and losers

Variation in Health Costs

Variation in Health Care Costs of People with Employer Coverage, 2000

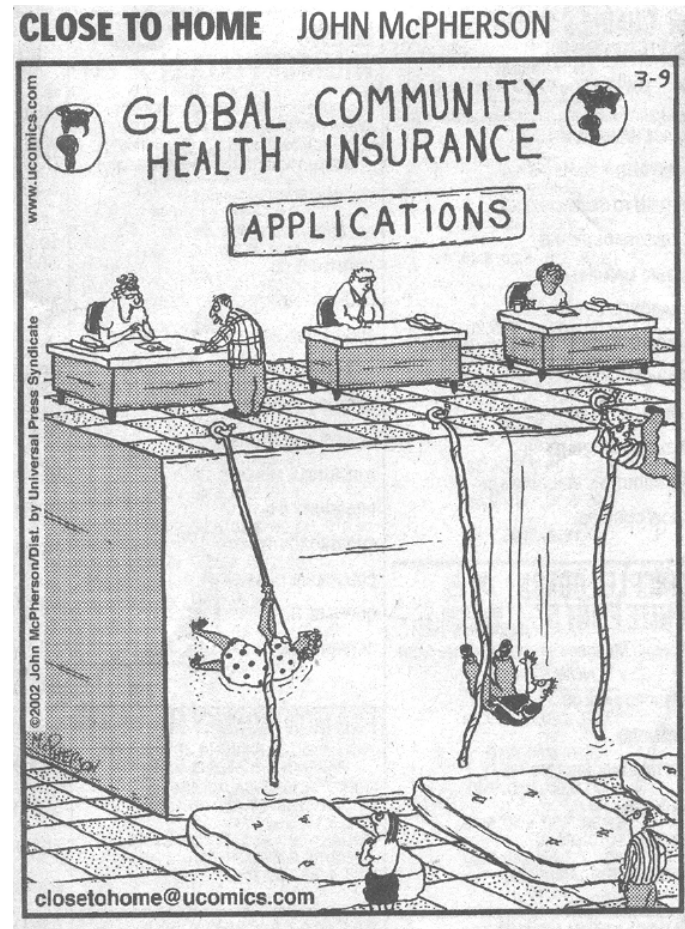


Lewin HBSM AHRQ MEPS (1996)

Possible scenario

- Cash or voucher to purchase insurance
- Employee determines coverage
- No more employer pooling of risks

Is the individual market ready?



Individual marketplace

- High premiums
- Denied coverage: uninsurable
- Exclusions of individuals, body parts, body systems
- Reunderwriting and premiums of \$58,000
- Recent Kaiser Family Foundation study

High Risk Pools

- High premiums
- Limited benefits
- Waiting lists
- Cost shifting to small business
- Modeled on flawed individual market

What happens to the healthy?

Winners:

- Find high deductibles relatively attractive
- Might “go bare” (out of risk pool)
- Low premiums
- More choice

What happens to the sick?

Losers:

- Prefer lower deductibles but would probably face higher deductibles
- Face higher premiums
- Limited coverage: riders and exclusions
- Possibly uninsurable

The Myth of Choice

- Health insurance is different
- Adverse selection
- Death spirals
- Healthy and sick have different options
- Studies: crowd-out of low deductible coverage

Information Consumers Need

- Risk-adjusted quality information about providers
- Disclosure on W-2 forms of employer and employee premium payments
- Underwriting practices (denials, exclusions)
- Re-underwriting practices
- Payment schedule

Public Policy Implications

- Tax credits for individual coverage (economic stimulus, trade adjustment, free standing)
- Medical Savings Accounts
- Tax policy: Incidence by income *and* health status

Conclusion

- Variation in risk
- Important employer role: risk spreading
- Healthy could come out ahead
- Sick will face higher out-of-pocket costs, higher premiums, reduced access to affordable, comprehensive coverage