

# **HIGH DEDUCTIBLE HEALTH PLANS AND THE UNINSURED**

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# Outline

- What is a HDHP?
- Who chooses HDHP?
- What is the potential of HDHP to reduce the number of uninsured people?
  - Under current law
  - Under possible additional tax subsidies
- How much will this cost?

# 'Classic' HDHP Model – Definity Health

## Personal Care Account (PCA)

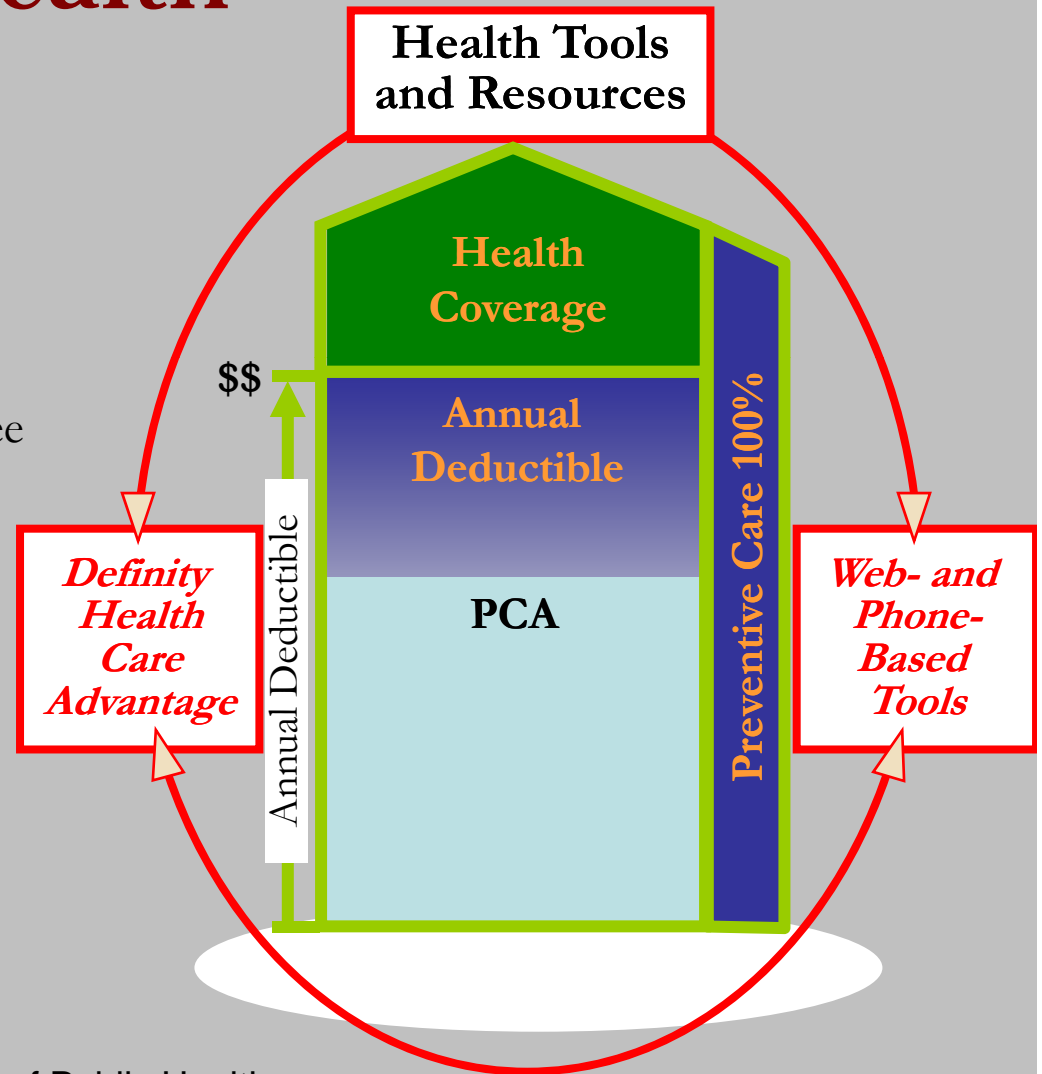
- Employer allocates \$\$\$ to PCA
- Member directs PCA
- Account rolls over at year-end
- Account does not belong to employee

## Health Coverage

- Preventive care covered 100%
- Annual deductible
- Expenses above deductible covered at 80-100%

## Health Tools and Resources

- Care management program
- Internet enabled



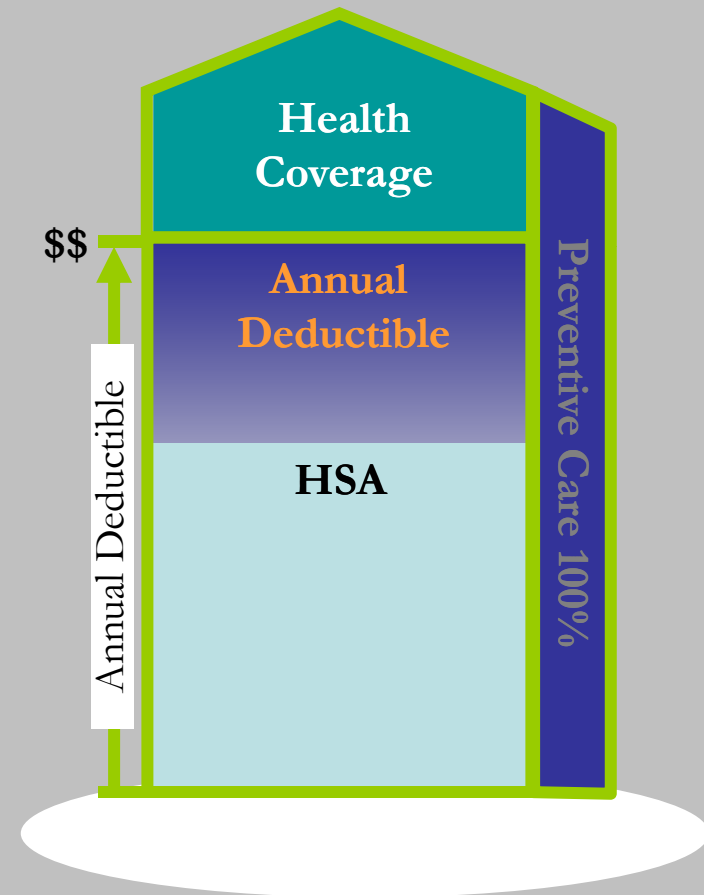
# The HSA Model

An HSA is a special account owned by the individual where tax-free contributions to the account are used to pay for current and future medical expenses.

Used with High Deductible Health Plans (HDHPs)

Bush Administration has proposed refundable tax credits for individuals to purchase plans with HSAs.

HSAs now offered by:  
UnitedHealth, the Blues, Aetna (w/preventive meds), Cigna, Humana and Kaiser Permanente



# Who Chooses HDHPs?

- Strongest and most consistent conclusion: CDHPs are preferred by highly-compensated employees
- A large employer that offered a PPO and POS plan introduced a HDHP in 2001
  - 38% of employees choosing the HDHP had income above the firm's 75% percentile
  - 19% of POS and 29% of PPO enrollees were above the 75<sup>th</sup> percentile

# Do HDHPs Experience Favorable Selection?

- When the University of Minnesota offered a HDHP in 2002, there was no evidence of favorable selection (Parente, Feldman, and Christianson, HSR, 2004)
- In the large employer previously mentioned, CDHP enrollees had lower baseline illness burden than the PPO but about equal to the POS plan
- In our largest sample of 80,000 covered lives in 3 employers, there is evidence of mild unfavorable selection against the HDHP

# Potential Take-up of HDHP

- Medicare Modernization Act of 2003 allows both individuals and employers to contribute to tax-free health savings accounts up to the lesser of the deductible (at least \$1,050 for an individual or \$2,100 for a family) or a maximum set by law (\$2,700 for a single person or \$5,450 for a family).
- 2006 SOTU proposes to eliminate *all* taxes on out-of-pocket spending through HSAs.
- Low-income families would be offered refundable tax credits to purchase health insurance policies with HSAs.

# Impact of MMA 2003

	Plan Choice	Population %	Population #
<b>INDIVIDUAL MARKET</b>	HSA-Full Price	9%	3,155,982
	PPO_High \$\$	13%	4,651,023
	PPO_Low \$\$	1%	310,041
	PPO_Medium \$\$	4%	1,426,040
	Uninsured	74%	27,273,018
<b>EMPLOYER INSURANCE OFFERED MARKET</b>	HMO	31%	26,295,237
	HRA	2%	1,811,281
	HSA-Shared Prem	1%	530,882
	HSA-Full Price	0%	332,249
	PPO_High \$\$	7%	5,930,246
	PPO_Low \$\$	2%	1,571,384
	PPO_Medium \$\$	41%	34,949,793
	Turned Down	16%	13,298,512

Population is 19-64, non public insurance; source: Feldman et al, 2005



# Administration's\* Proposal

Plan Choice	Baseline (MMA) Population %	Simulation Population %	Baseline Population #	Simulation Population #	% Change	Subsidy Cost
<b>INDIVIDUAL</b>						
HSA-Full Price	9%	19%	3,155,982	6,971,694	120.9%	\$ 6,900,791,439
PPO_High \$\$	13%	11%	4,651,023	4,017,191	-13.6%	\$ -
PPO_Low \$\$	1%	1%	310,041	263,278	-15.1%	\$ -
PPO_Medium \$\$	4%	3%	1,426,040	1,215,872	-14.7%	\$ -
Uninsured	74%	66%	27,273,018	24,348,069	-10.7%	\$ -
<b>OFFERED</b>						
HMO	31%	31%	26,295,237	26,232,550	-0.2%	\$ -
HRA	2%	2%	1,811,281	1,803,079	-0.5%	\$ -
HSA-Shared Prem	1%	1%	530,882	528,590	-0.4%	\$ -
HSA-Full Price	0%	1%	332,249	861,387	159.3%	\$ 1,174,289,915
PPO_High \$\$	7%	7%	5,930,246	5,921,970	-0.1%	\$ -
PPO_Low \$\$	2%	2%	1,571,384	1,569,135	-0.1%	\$ -
PPO_Medium \$\$	41%	41%	34,949,793	34,627,195	-0.9%	\$ -
Turned Down	16%	16%	13,298,512	13,175,679	-0.9%	\$ -

\*As interpreted from February, 2006 U.S. Treasury Blue Book

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# Take-up by Income Quartile

Percentile of Income Distribution	Baseline # of Uninsured	Reduction in Uninsured	% reduction
0-25%	15,127,288	1,231,485	8.1
25-50%	7,106,918	952,335	13.4
50-75%	2,877,585	492,181	17.1
75-100%	2,161,227	248,948	11.5
Total	27,273,018	2,924,949	10.7

# Price-elasticity\* of uninsured take-up with respect to HSA premium subsidy

<b>Income Quartile</b>	<b>Single Adults</b>	<b>Adults with Dependents</b>
0 to 25	0.080	0.039
25 to 50	0.138	0.107
50 to 75	0.498	0.250
75 to 100	0.754	0.378
<b>All</b>	<b>0.205</b>	<b>0.107</b>

\* = % change in uninsured / % change in premium

# Policy Implications/ Questions

- Compared with Medical Savings Accounts, insurers are willing to offer this product and buyers appear ready to accept it
- To reduce uninsured, we need more targeting of subsidy to low-income population
- Is buy-out of group market good or bad?
- Implementation complexity – tax credit needs to be available at time of premium payment; otherwise, delay could be 12 months or more