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Article from:

# Health Section News

April 2000 – No. 37

# Consumer-Driven Health Care

by Stacey Muller

The health care debate continues to consume a significant amount of time on the national political scene. The reforms proposed range from highly focused incremental changes to sweeping revisions. However, the debate often excludes one important variable to the health care equation, the consumer.

Currently, the majority of U.S. population receives health insurance coverage through an employer relationship or government programs. Of those with employer-based coverage, only a proportion has a choice of health insurance options. This results in most employees having limited choice of the type or amount of their health insurance. Chart 1 on this page depicts employment-based coverage.

A consumer-based health insurance market would place the consumer solely in charge of choosing and purchasing health insurance coverage. The type and extent of coverage purchased would be driven by consumer demand and market supply. A consumer-based market will require consumer-friendly information and competition to succeed. This approach to health care financing is shown on Chart 2 on page 13.

Such a dramatic shift in health insurance purchasing would obviously affect the roles of all participants in the health care industry. Some possible implications of consumer-based health insurance on each of the groups included in the charts are discussed briefly.

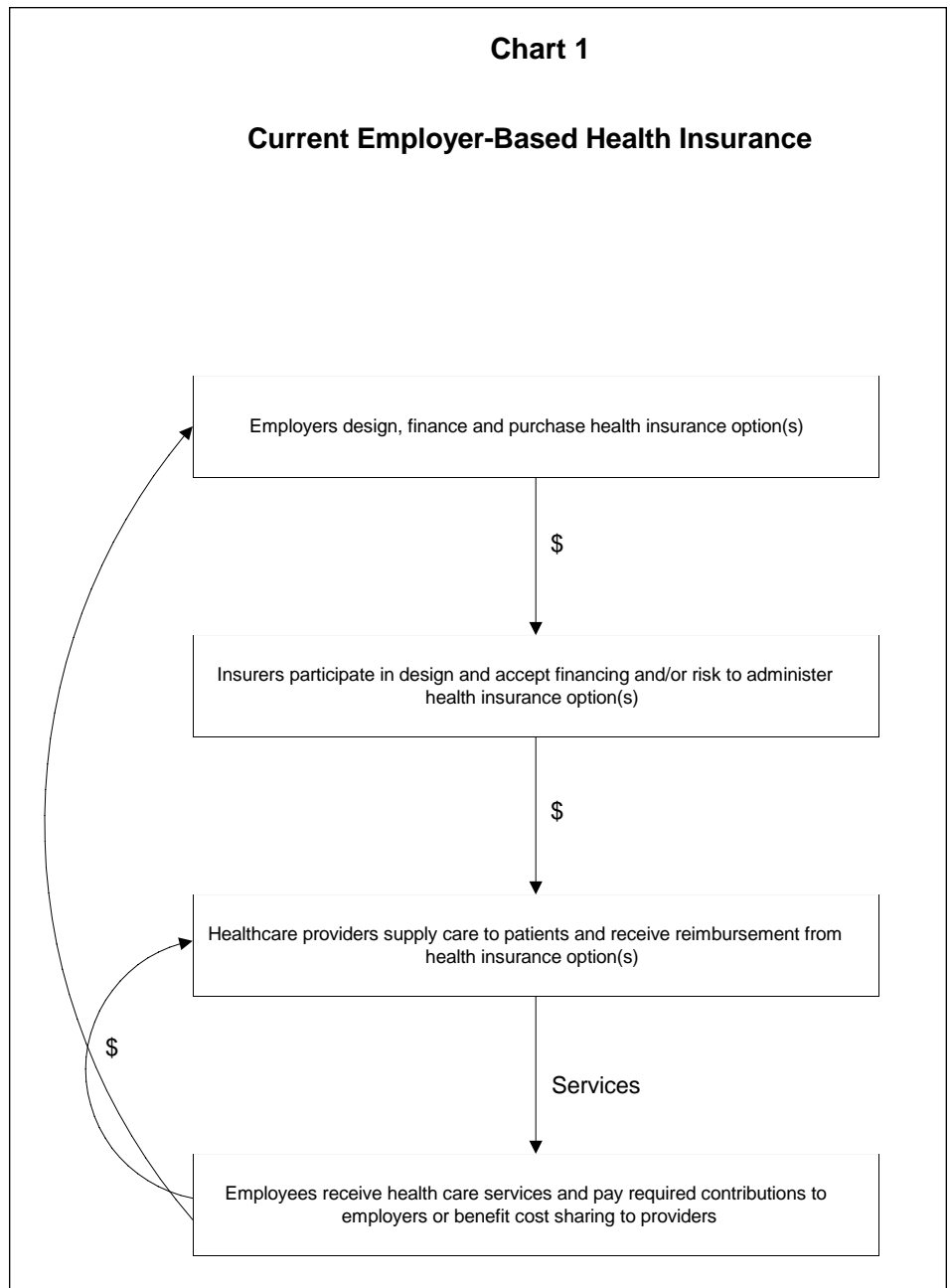
## Consumers

Consumers would experience the greatest shift from relatively passive accepters of health insurance to active purchasers. Consumers will require knowledge and/or assistance in selecting and purchasing their health insurance. Their involvement in the selection of a health insurance plan will require an evaluation of the trade-offs between insurance benefits and premium levels.

Since the consumer will choose and purchase the health insurance, the insurance can remain the same regardless of employment changes. And to the extent premiums reflect various underwriting variables, consumers may be encouraged to place greater emphasis on personal responsibility for lifestyle choices. In addition, consumers may become more involved in medical decisions and the

evaluation of cost/benefit tradeoffs among treatment options.

Consumers will have more choice but to encourage competition, they must be willing to “vote with their feet” and leave plans they are not satisfied with. Consumers will need to demand comparable information on insurer performance and utilize that information in their health insurance decision.



One key detail for consumers will be the impact of underwriting. Too much underwriting may prevent consumers with significant medical needs from acquiring adequate or affordable insurance. On the other hand, too little underwriting may encourage consumers with few medical needs to forego coverage in the short term. In either case, these uninsured consumers pose a problem to the health insurance system. Underwriting may need to encourage continuous coverage without interfering with consumers' ability to exert competitive pressure by changing plans.

The level of underwriting and pricing variables allowed in a consumer-driven market will require significant debate to strike the right balance. Whether that balance can be achieved remains to be seen. It also remains to be seen whether consumers are ready to take on the health insurance purchasing role.

**Employers**

Employers are the current purchasers and major financiers of health insurance for

many consumers. They determine the type, level, and coverage details of the health insurance option or options to be offered to their employees and their dependents. Consumer-based health insurance would require a shift from the role of purchaser and designer to a role solely as financier.

This shift will result in a fundamental change in plan commitment from defined-benefit to defined-contribution for health insurance. Employers may welcome such a shift. However, employees will need considerable assistance to become informed health insurance purchasers. The experience with movement to defined-contribution pension plans has shown employers that not all employees make the best choices. Employers will have a responsibility to educate their employees about this new benefit approach.

A defined-contribution benefit is also more visible and easily compared from one employer to the next. Depending upon the employer's labor market, this may or may not be desirable. Certainly

union negotiations will be refocused to account for the quantifiable benefit value.

Employers will also have to deal with pressure to reduce subsidies to employees with families (i.e., all employees receive equal contribution). This subsidy is often hidden by the way in which the defined-benefit plan is presented to employees. A defined-contribution approach may encourage employers to reduce their financial commitment to health insurance, however, such reductions occur now in defined-benefit plans through increased cost-sharing or contributions.

**Insurers, HMOs and other Health Insurance Plans**

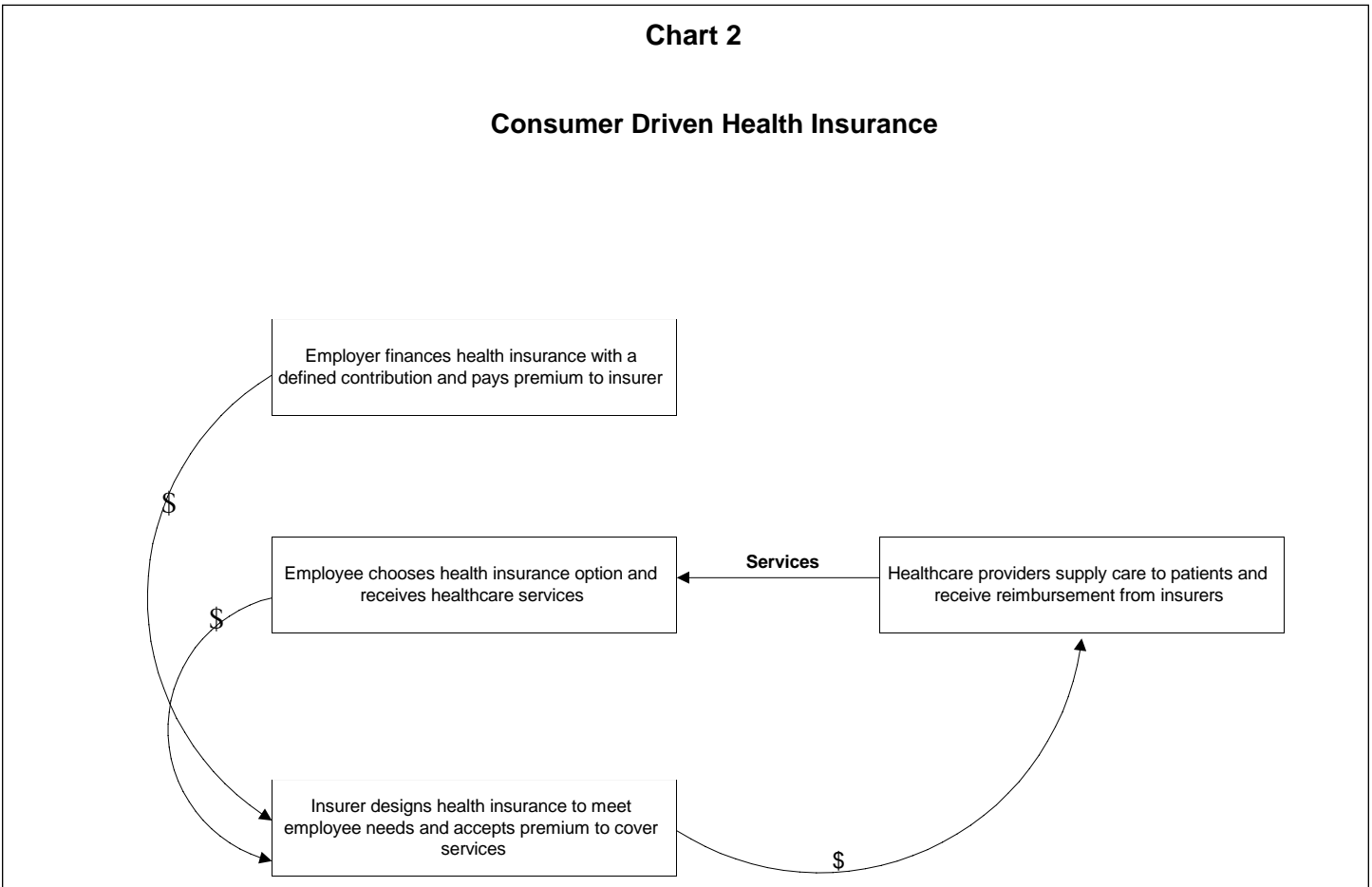
The introduction of consumer selected and purchased health insurance will have significant impact on the entities supplying the health insurance products. Among these are:

- Need for greater capitalization to meet long term commitments

*(continued on page 14, column 1)*

**Chart 2**

**Consumer Driven Health Insurance**



## Consumer-Driven Health Care

*continued from page 13*

- Product innovations needed to maintain competitiveness
- Consumer-centered culture to improve administrative systems and customer service

Health insurance may begin to take on characteristics similar to whole life policies rather than term insurance. For example, medical savings account policies could be considered cash value health insurance policies. A health insurance product might be designed with components similar to universal life. A side fund is available to hold contributions during younger ages when term premiums are lower in anticipation of higher term premiums at older ages.

Considering that consumers use their health insurance much more frequently than say life or auto insurance, competitive insurers will need superior customer service or product designs to attract and maintain market share. And as mentioned earlier, underwriting will pose a challenge to insurers.

The ultimate financial impact on health insurance affordability will be a major consideration in comparing a consumer-driven health care system with the current system or other suggested alternatives.

### Health Care Providers and Delivery Systems

Health care providers often criticize managed care as interfering in the patient/physician relationship. Consumer-based health insurance may provide an opportunity to strengthen this relationship as patients may change their health care provider fewer times. However, consumers will also likely increase their scrutiny of physician's practices, especially when deciding among treatment options.

Health care providers may find a need to alter their practices to address consumer issues directly, such as:

- Greater integration across the care continuum

- Increase focus/emphasis on wellness rather than the disease treatment
- Patient-centered culture to enhance medical outcomes and patient satisfaction.

Health insurance coverage may continue to include network elements. However, consumers will have more discretion regarding provider relationships. Consumers will evaluate and choose providers more directly. Providers that present a full spectrum of care that offers convenience (all in one building) or coordinated services (shared medical records) may have an advantage. Even providers in the current environment are finding that patient-centered cultures assist in maintaining a patient base, especially for fixed facilities. To the extent consumers connect the cost of health insurance with their overall health status, consumers may prefer providers with a wellness focus.

### Overall Implications

This brief discussion has outlined some of the implications of a consumer-driven health care system to specific participants. These and many other issues would need to be addressed before such a system could become a reality. However, there are perhaps two key concepts that may bring consumer-based health insurance closer to reality; for example, regulatory and income tax issues. The first is data management and the second, competition.

Efficient and effective data management would play a large part in a consumer-driven health insurance industry. New technology, especially the Internet and other online applications, has increased the amount and speed of data collection and dissemination. Consumer-based health insurance will require the ability for all health care participants to deal directly with consumers. Consumer education on health insurance alternatives and insurer performance information will need to be customized to meet each consumer's circumstances. Employers may

provide interactive education materials that assist employees to determine the health insurance option that is right for them. Insurers will require efficient means to communicate with consumers and administer their products, from enrollment to claim adjudication, to remain competitive. Health care providers can enhance medical outcomes through rapid dissemination of proven treatment options from a central database directly to providers while the patient is still in the provider's facility.

Competition will play a larger role in health insurance if consumers become the purchasers. The increased choices available to consumers will affect employers, insurers, and health care providers. Competition's role will be to balance the incentives of each group of participants. Employers may wish to lower their health insurance defined-contribution but must still attract and retain employees who will be able to easily compare among employers. Health insurance products with the lowest premiums may not achieve the greatest market share if lower premiums are achieved at the expense of less customer service. Health care providers may find consumers more interested in treatment alternatives and their costs.

The increased availability of data can foster greater competition and greater competition can, in turn, increase the demand for information. Consumer-based health insurance will rely on this cycle to encourage and support this approach to health care reform. However, only further debate and trial will determine the feasibility of this approach to health insurance.

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