By Jeffrey C. Bauer

Consumer-Directed Health Care: Reform's Red Herring

Consumer-directed health care (CDHC) got lots of attention when enshrined in law by the Medicare Modernization Act of 2003. Its architects touted CDHC as the force that would finally reform health care. Providers, they said, would reduce costs and improve quality to compete for the business of informed consumers who were spending more of their own money for health care.

The idea sounded good in theory, but no one had proof it would work in practice. Preliminary results are now available, and the assessment is mixed. People have not rushed to plans with a high-deductible health savings account (HSA), the feature that defines CDHC. Demand for the new option is growing, but at the low end of projections. CDHC is doing better than predicted by its detractors while falling short of its proponents' optimistic speculations.

Many employees selected an HSA because they didn't have a choice or couldn't afford the higher premiums of a traditional health plan. Others were attracted by tax deferral provisions. Consequently, participation in CDHC cannot necessarily be seen as an enthusiastic endorsement of consumer empowerment. On the other hand, employees who did choose an HSA have tended to stay with the plan, and it is popular with people who are self-employed or working for companies that do not offer health benefits.

Déjà Vu

The situation is reminiscent of the early days of health maintenance organizations (HMOs), the centerpiece of health reform in the 1970s. Employers and employees did not flock to HMOs, as predicted by the reformers. Hundreds of capitated health plans were created in response to generous federal incentives; at least half of them ultimately failed. However, surviving closed-panel plans established a solid market niche. A few HMOs are even recognized today as among the best health systems in the United States.

CDHC adds to the complexity of healthcare finance, hardly qualifying it as the ultimate solution to perennial problems that energize reform. History suggests that CDHC will become just one more vehicle for financing medical care, one more on the growing list of payment mechanisms that providers need to master. It will not replace the remnants of panaceas from previous reforms, nor will it disappear.

The Red Herring

But debating the short-term success or failure of CDHC distracts attention from the long-term consequences of getting consumers more financially involved in buying medical care.

Providers cannot breathe a sigh of relief just because HSA growth is falling short of expectations. For them, the real issue is not consumer-directed health plans but high-deductible health plans. High deductibles are becoming the norm for traditional reimbursement products, too. Out-of-pocket obligations are rising fast for all insured patients, well beyond the level where resulting receivables can be written off or ignored. Higher deductibles are here to stay, even if CDHC founders.

Furthermore, CDHC was accompanied by other new marketplace mechanisms to promote consumerism.

Transparency in pricing. Promising programs have been launched to give consumers detailed information about prices. Even if HSAs don't grow, databases with price comparisons surely will.

Provider accountability for quality. Numerous groups are now publishing data to compare outcomes of care on a hospital-by-hospital basis. The grading systems are imperfect, but many patients will consider them.

Individual responsibility for health. Dozens of web sites help patients understand and manage health problems. Consumers can no longer complain that providers control access to medical information.

Mechanisms for supporting consumerism are alive and well, even if CDHC and HSAs are not taking the market by storm. The number of informed consumers will grow at a rapid pace—along with increasing deductibles and hospital receivables.

The Missing Ingredient: Affordability

What the reformers have failed to address is affordability. Neither providers nor consumers will be better off if the latter have good information about care they cannot afford. All providers have got to get serious about cutting the waste out of their enterprises, producing good-quality services, and helping patients find the resources to pay for desired care.

As health care becomes even more competitive, providers must think and act like businesses that sell major items such as cars, homes, and vacations. Price and quality are important, but consumers ultimately base their big-ticket purchases on monthly payments. Hospitals that succeed in the new marketplace will produce a good service at a low price *and* make it affordable. That's the real challenge of consumerism.

Jeffrey C. Bauer, PhD, medical economist and health futurist, is a Chicago-based partner in management consulting for ACS Healthcare Solutions, and a member of HFMA's First Illinois Chapter (jeff.bauer@acs-hcs.com).