

Consumers Demand Better-Fitting Health Plans

Health Insurance Plans

Early 2006 reports on the kinds of health plans Americans are purchasing signal a shift away from comprehensive health insurance with first-dollar coverage toward plans more tailored to individual or family needs.

According to the January issue of Health Market Survey, nearly 12 million people now have high-deductible health plans, the type that do not cover day-to-day medical expenses but function as pure insurance covering unexpected medical occurrences. Doctor visits and routine medical expenses are paid from a personal health savings account or out of pocket.

Of those covered by high-deductible health plans, about half have a health savings account (HSA) or health reimbursement arrangement (HRA) to pay day-to-day medical expenses not covered by insurance. The remaining six million presumably pay out of pocket for doctor visits and prescription drugs until the deductible is met.

Plans Experience Growth

The growth in high-deductible health plans is not the only sign that many people are moving toward customized health insurance. The Wall Street Journal reported on January 19, 2006 that more employers are offering "limited benefit" health plans to their workers.

Currently one million people have "mini-medical plans," according to the Journal, referring to these types of plans as "the inverse of consumer-driven plans." Unlike high-deductible consumer-driven health plans, these low-cost plans generally offer little if any coverage for catastrophic health problems. Many workers don't want to pay for comprehensive health coverage because the odds are low that they will need catastrophic care. Insurers selling mini-medical policies report yearly sales growth as high as 20 percent.

Such limited benefit plans function mostly as prepaid medical care that workers expect to use. They typically pay for four to 10 doctor visits per year and a limited amount of prescription drugs. Most feature a yearly maximum benefit ranging from \$10,000 to \$50,000. Prices start at about \$480 per year for individual coverage and higher for family plans.

Most families arguably want health coverage, but the working poor and even middle-income families may feel they cannot afford the cost of comprehensive health plans, and they do not want to pay for high-deductible plans from which they are unlikely to benefit. The choice remains to pay only for health coverage they expect to use.

Poorly Informed

Economist Arnold Kling, author of the forthcoming health care book, *Crisis of Abundance*, has looked into how employees view health coverage. In a December 15, 2005 Tech Central Station column he concluded that comprehensive, employer-sponsored insurance is more popular than it otherwise would be only because many workers assume it costs them nothing. They erroneously believe their employer is paying for it.

Once workers realize they are footing the bill, Kling believes, many of them simply no longer want catastrophic health coverage. Speaking with Health Care News, Kling explained further: "A useful way to think about health insurance is not as something that employers provide but as something that employers sell to their employees." Given a choice, Kling said, "some people would prefer to have more take-home pay rather than employer-provided health insurance."

Robert Hopper, a California insurance agent and author of the continuing-education text *HSA Strategy: The Future of Health Insurance in America*, agrees. "Workers often do not realize that the

cost of their health insurance impacts their take-home pay," said Hopper. "When employers are straight with employees, it's a big eye-opener." Thus, Hopper said, "When [workers] discover they are paying 100 percent of their health benefits, they no longer want to pay such large amounts for health insurance."

As a result, there appears to be a trend toward workers selecting limited benefit plans. For instance, in 2003 Wal-Mart reported its fastest-growing employee health option was a low-cost, limited benefit plan with only \$1,000 in annual benefits.

Legislation Impedes Trend

Some legislators do not welcome the trend of workers opting for limited benefit health plans.

In January, the Maryland legislature overrode the governor's veto and passed a law requiring employers with more than 10,000 workers to spend at least 8 percent of payroll on medical benefits. This law is referred to as the "Wal-Mart law" because no other firm in Maryland will be affected. (See "Maryland Legislature Overrides Veto of 'Wal-Mart' Bill," page 1.) Reportedly, 33 other states are considering similar actions, 14 with currently pending legislation. (See "Fair Share" story on page 12.)

About half of all Wal-Mart workers nationwide are covered by the firm's employee health plan. Wal-Mart spends about \$2,660 each year per covered employee--less than firms that primarily employ higher-income workers. Wal-Mart admits it does not quite spend 8 percent of payroll on employee health coverage in Maryland.

At first glance these two trends - limited-benefit health plans and high-deductible health plans - appear at odds. However, both signal a trend away from comprehensive medical benefits toward health plans that better meet the needs of workers.

The emergence of many different types of health plans is a sign that consumers are taking more control and demanding health plans that meet their needs. This can take the form of comprehensive health plans or managed care but, increasingly, workers are also demanding high-deductible and limited-benefit plans.

<http://www.emaxhealth.com/72/4778.html>

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