
High-Deductible Health Plans

In an email to the faculty on July 11, the administration's negotiation team announced that they are interested in introducing a "high deductible" health plan (HDHP) as an option for WMU faculty and staff beginning in 2016. We are currently covered under a preferred-provider organization plan (PPO). So far, they have presented only hypotheticals at the bargaining table but have not shared any specifics about how HDHPs would work at WMU, what participation in a HDHP would cost those electing such an option, or how the coverage would work.

However, the WMU-AAUP chapter leadership and our negotiation team have been following trends in employer-based health benefits for many months in preparation for the contract negotiations now underway, and given the national trends among large employers, we expected that the administration would be interested in pursuing HDHPs. To prepare for negotiations, we have been conducting research and working with experts, including a healthcare consultant brought in to work with the team. Additionally, faculty colleagues with applicable expertise have been generous with their knowledge and continue to help ensure that we are well prepared for this discussion at the table.

Therefore, although we don't know yet what the plan the administration intends to bring to the faculty is going to look like, we can provide information for colleagues wondering what this development might mean. In addition to the information in this *Bulletin*, we will continue to share information with the faculty as it becomes available.

Some background on HDHPs:

- Employers are increasingly attracted to HDHPs in order to save themselves money.
- While employers often cite the Affordable Care Act as the driving force behind the increasing popularity of HDHPs, some industry experts have observed that the move toward arrangements for health coverage that shift more of the cost to employees predates the ACA.¹
- The trend toward attempting to shift more of the costs of healthcare away from employers and onto workers is analogous to the trend in retirement benefits over the past several decades, with many public- and private-sector employers nationwide moving from "defined benefit" plans to "defined contribution" plans, in which the employee contribution to retirement has increased while the employer's share has decreased.

Next: Advantages and Disadvantages of HDHPs

What are some advantages of HDHPs?

- Premiums for HDHPs are often lower than those for PPOs.
- Healthy workers who opt for a lower premium and higher deductible can save money if they do not become ill or suffer an injury.
- Workers with HDHPs can open a health savings account (HSA) and get a tax break on what they contribute to it. (This is primarily a benefit for higher-income workers who don't need to use their entire paycheck to live on and can afford to put money into an HSA.)
- Employee contributions to HSAs are pre-tax and withdrawals for qualified medical expenses are not taxed. (Withdrawals for non-medical expenses before age 65 incur a 20 percent tax penalty. After age 65, non-medical withdrawals are treated as regular income for tax purposes.)
- The money a worker puts into an HSA account rolls over from year to year, so the worker keeps those contributions even if he or she doesn't use it all to pay for medical expenses by the end of the year.
- Employees can take their HSAs with them if they change jobs or when they retire.
- HDHPs are much cheaper for employers than PPOs.²

What are the downsides of HDHPs?

- In contrast to PPOs, HDHPs shift more of the financial risk for health coverage from the employer to the employee.
- Compared to employees covered under PPOs, workers with HDHPs face much higher out-of-pocket costs when they or members of their family need medical attention.
- Participants in HDHPs may be more likely to delay needed care because of the high out-of-pocket costs.
- The American Academy of Pediatrics discourages HDHPs for families with children, citing concerns that parents might delay seeking care for a child because they haven't yet met their deductible and can't afford the out-of-pocket costs. In a May 2014 policy statement, the AAP said that "high-deductible health plans decrease health care expenditures, but at the cost of quality of care, continuity of care, and accessibility to care" especially for children, and especially those with special needs and from non-affluent families.³
- A 2013 study of the impact of high-deductible plans published in the journal *Medical Care* found that male participants "substantially reduced" their visits to the emergency room "at all severity levels" after the transition to the HDHP, suggesting that short-term financial cost savings realized by the employer and by the insured may come at the cost of employee health and wellbeing and involve greater long-term financial costs associated with more serious conditions that can result from deferred care.⁴

Downside of HDHPs (continued)

- A 2013 study published in the *New England Journal of Medicine* found a shortage of evidence for “how high-deductible plans affect health outcomes, such as diabetes control, cancer survival, heart conditions and mortality” and concluded that the U.S. is “poorly prepared for an increasingly HDHP-centered system.”⁵
- When workers may choose between PPO and HDHP options, HDHPs often attract younger and healthier employees who don’t think they’re going to get sick. This can result in significant cost increases to older and less healthy employees who continue to elect coverage under the PPO, which they are likely to do because they know they are going to need medical care and they know the premiums will be more affordable for them than the high deductible and other out-of-pocket costs associated with HDHPs.⁶
- HDHP employees are basically self-insuring, paying their own claims out of pocket until they meet their deductible.
- Enrollees in HDHPs can end up spending a lot of time wrangling with providers to get the price for service that they are entitled to and that the insurance companies will honor (i.e. by fully crediting it against the deductible).⁷
- They can also end up spending a lot of time wrangling with the insurance company to make sure all their payments are applied accurately to their deductible.
- Enrollees in HDHPs often see a major increase in the paperwork they must complete when they need care over what was required for their PPO.⁸
- In case of unexpected health crises, such as accident or illness, enrollees could end up having to write a very big check, which can create significant financial hardship, especially for those who are not high earners.

In sum, HDHPs are great for employers, who expect to save a lot of money by implementing them alongside PPOs. Employers can save even more by replacing the PPO option entirely with HDHPs. The WMU administration has said that this is not their intent, but HDHP-only employers are increasing in number nationwide, so it seems likely that they are thinking about going to an HDHP-only system at some point in the future.⁹

You might be able to save money by electing an HDHP, as long as you are young and healthy and don’t have children and never get sick or injured. But if you’re not young, if you have any health problems, or if you have a family, HDHPs can be a risky and expensive proposition.

References:

- ^{1, 2} Appleby, Julie (2013). “Expect To Pay More For Your Employer-Sponsored Health Care Next Year.” *Kaiser Health News*, Dec. 20, 2013. <http://www.kaiserhealthnews.org/stories/2013/december/20/expect-to-pay-more-for-employer-health-care.aspx>
- ³ “AAP Discourages Use of High Deductible Health Plans for Children,” American Academic of Pediatrics, April 28, 2014. Online at <http://www.aap.org/en-us/about-the-aap/aap-press-room/Pages/AAP-Discourages-Use-of-High-Deductible-Health-Plans-for-Children.aspx3>

- ⁴ Kozhimannil, K.B., M.R. Law, C. Blauer-Peterson, F. Zhang, and J.F. Wharam (2013). "The impact of high-deductible health plans on men and women: an analysis of emergency department care." *Med Care*. Aug. 2013. 51(8): 639-45. <http://www.ncbi.nlm.nih.gov/pubmed/23685403>
- ⁵ Wharam, J. Frank, Dennis Ross-Degnan, and Meredith B. Rosenthal (2013). "The ACA and High-Deductible Insurance: Strategies for Sharpening a Blunt Instrument." *N Engl J Med*. Oct 2013. 369: 1481-1484. <http://www.nejm.org/doi/full/10.1056/NEJMp1309490>
- ⁶ Appleby 2013.
- ^{7, 8} Pinsker, Beth (2013). "Beware of pitfalls in high-deductible health plans." *Reuters*. November 26, 2013. <http://www.reuters.com/article/2013/11/26/us-usa-health-billingmistakes-idUSBRE9AP0U320131126>
- ⁹ Andrews, Michelle (2013). Large Companies Are Increasingly Offering Workers Only High Deductible Health Plans. *Kaiser Health News*. March 26, 2013. <http://www.kaiserhealthnews.org/features/insuring-your-health/2013/032613-michelle-andrews-on-high-deductible-plans-and-large-employers.aspx>

For further reading

Direct links to these sources are available on the blog at http://wmu-aaup.com/2014/07/13/about_hdhrs/

Andrews, Michelle (2013). "Large Companies Are Increasingly Offering Workers Only High Deductible Health Plans." *Kaiser Health News*, March 26, 2013.

Cites meta-analysis of research findings suggesting that HDHPs "reduced total health-care spending by 5 to 14 percent" but that "reductions were concentrated among healthier enrollees." Analysis found that "Results were mixed on whether people in such plans cut back indiscriminately on both necessary and unnecessary care, as earlier research has found." (Full analysis at <http://www.rwjf.org/en/research-publications/find-rwjf-research/2012/10/consumer-directed-health-plans.html>.)

Appleby, Julie (2013). "Expect To Pay More For Your Employer-Sponsored Health Care Next Year." *Kaiser Health News*. <http://www.kaiserhealthnews.org/stories/2013/december/20/expect-to-pay-more-for-employer-health-care.aspx>

Outlines causes for increasing healthcare costs and discusses national trend toward shift of financial risk from employers to employees. Notes that "Employers like [HDHPs] because they cost about 20 percent less than an HMO and about 17 percent less than the most popular type of coverage, the preferred provider network or PPO."

Austin, Michael (2013). "Rise of high-deductible health plans tied to savings accounts alarms some." *Dallas Morning News*, October 18, 2013. <http://www.dallasnews.com/business/personal-finance/headlines/20131018-employers-push-health-care-savings-accounts-consumer-groups-wary.ece>

Discusses the trend of employers increasingly favoring HDHPs and the connection between HDHPs and workplace wellness programs.

Fuquay, Jim (2013). "High-deductible health plans are a growing trend for employers." *Fort Worth Star-Telegram*, Sept. 28, 2013. <http://www.star-telegram.com/2013/09/28/5200346/high-deductible-health-plans-are.html#storylink=cpy>

For further reading (continued)

Direct links to these sources are available on the blog at http://wmu-aaup.com/2014/07/13/about_hdhps/

Gustke, Constance. "Will a high-deductible health plan save you money?" Bankrate.com. <http://www.bankrate.com/finance/insurance/a-health-plan-to-save-you-money-1.aspx#ixzz37IUsB1jT>

Harwood, John (2014). "Architect of Health Law Predicts a Shift Away From Employer Coverage." *New York Times*, March 20, 2014. <http://www.nytimes.com/2014/03/21/us/politics/health-overhaul-may-spell-end-to-employer-coverage-author-emanuel-predicts.html>

Reports on new book by Ezekiel Emanuel, in which the author, who helped to design the Affordable Care Act, says he "expects the law to produce an unadvertised but fundamental shift in where most working Americans get their health insurance – specifically, a sharp drop in the number of employers who offer coverage to their workers."

"High-Deductible Health Plans, Gamble For Some, On The Rise." NPR News, July 28, 2013. <http://www.npr.org/2013/07/28/206370593/high-deductible-health-plans-gamble-for-some-on-the-rise>

Irwin, Neil (2014). "Envisioning the End of Employer-Provided Health Plans." *New York Times*, May 1, 2014. http://www.nytimes.com/2014/05/01/upshot/employer-sponsored-health-insurance-may-be-on-the-way-out.html?hp&_r=0

Landers, Jim (2014). "Brace for jarring health care costs." *Dallas Morning News*, June 30, 2014. <http://www.dallasnews.com/business/columnists/jim-landers/20140630-brace-for-jarring-health-care-costs.ece>

McCanne, Don (2014). "Catastrophic health plans are bad policy." *Healthcare Finance News*, June 16, 2014. <http://www.healthcarefinancenews.com/blog/catastrophic-health-plans-are-bad-policy>

McCanne: "Very high income individuals might select [HDHPs] to insure against catastrophic losses while deciding to self insure against more modest medical costs. [This] is a form of regressive financing of the insurance risk pools. Since average healthcare costs are well beyond the means of middle income families to pay for them, wealthier individuals need to contribute more to the collective insurance pools. Low-premium catastrophic plans would allow them to contribute less than average instead.

"For healthy middle-income families there is a preference for the tradeoff of lower premiums for higher deductible. Families that remain healthy will come out ahead, but those families that later face significant health problems often find that they will face severe financial hardship as well – even bankruptcy.

He concludes: "The insurance industry has been very successful in getting innovations that benefit themselves."

Miller, Stephen (2014). "For 2015, Higher Limits for HSA Contributions and Deductibles: Out-of-Pocket Maximums for High-Deductible Plans Also Up." Society for Human Resource Specialists, April 24, 2014. <http://www.shrm.org/hrdisciplines/benefits/articles/pages/2015-hsa-limits.aspx>

Outlines IRS guidelines for 2015 for Health Savings Accounts and HDHP out-of-pocket limits.

For further reading (continued)

Direct links to these sources are available on the blog at http://wmu-aaup.com/2014/07/13/about_hdhps/

Pinsker, Beth (2013). "Beware of pitfalls in high-deductible health plans." *Reuters*. Nov. 26, 2013. <http://www.reuters.com/article/2013/11/26/us-usa-health-billingmistakes-idUSBRE9AP0U320131126>

Discusses high out-of-pocket costs for illness or injury, problems associated with billing and coding errors, unexplained charges and fees, and the need for – and difficulty of – employees to become "billing experts" and advocates on their own behalf. ("These plans are putting people in the driver's seat, but without GPS.")

RAND Corporation. Analysis of High Deductible Health Plans. http://www.rand.org/pubs/technical_reports/TR562z4/analysis-of-high-deductible-health-plans.html

RAND: "Lower spending observed in HDHPs may be the result of favorable selection, that is, [HDHPs] may attract a higher proportion of healthier enrollees. A major limitation of studies comparing health care spending between HDHPs and more traditional plans is that they cannot completely control for the possibility that individuals who enroll in HDHPs are healthier overall than those who choose traditional plans. As a result, some portion of lower health care spending may occur because HDHP enrollees are healthier on average than enrollees in traditional plans. If healthier employees shift to HDHPs, comprehensive plans may increase premiums to account for the higher expected costs among the remaining enrollees. Such adverse selection might be ameliorated or eliminated if the employer subsidizes the costs of the comprehensive plan or if the employer offers only an HDHP."

Rau, Jordan (2014). "Poll: Americans Bristle At Penalties In Wellness Programs." *Kaiser Health News*, July 1, 2014. <http://capsules.kaiserhealthnews.org/index.php/2014/07/poll-americans-bristle-at-penalties-in-wellness-programs/>

Reports on new poll on wellness programs (often introduced alongside HDHPs), which finds that "76 percent of workers thought it was appropriate for employers to offer wellness programs that promote healthy behavior. But a majority opposed wellness plans that had financial repercussions for workers: 62 percent did not think employers should charge higher health insurance premiums to workers who did not participate, and 74 percent said management should not charge more to those who did not reach health goals."

Reinhardt, Uwe E. (2014). "The Illogic of Employer-Sponsored Health Insurance." *New York Times*, July 3, 2014. <http://www.nytimes.com/2014/07/03/upshot/the-illogic-of-employer-sponsored-health-insurance.html>

Argues that "premiums ostensibly paid by employers to buy health insurance coverage for their employees are actually part of the employee's total pay package – the price of labor, in economic parlance – and that the cost of that fringe benefit is recovered from employees through commensurate reductions in take-home pay." Concludes that it is time to "puncture the illusion that employer-provided health insurance is an unearned gift bestowed on [workers]" by employers.

Troy, Tevi D., and D. Mark Wilson (2014). "The Cost of the Affordable Care Act to Large Employers." American Health Policy Institute. http://www.americanhealthpolicy.org/Content/documents/resources/2014_ACA_Cost_Study.pdf (Focuses on developments in healthcare issues "from the employer perspective.")