Consumer Directed Health Plans
Growth, Trends and Why to Buy

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Over the last decade, predictions about the growth of consumer-directed health plans (CDHPs) have come and gone. But it has been a renewed focus on health care and its costs that has proven to be the catalyst for the explosion of CDHPs in recent years. Employers are seeing the benefit of these health plans as a vehicle for cost savings and as a way to create smarter, more engaged health care consumers. In addition, employees are showing that they are increasingly more willing to trade their traditional plan’s high premiums for the lower premium and slightly higher deductible of a CDHP. This willingness stems from the pairing of Health Savings Accounts (HSAs) with consumer-directed plans. HSAs offer employees a way to manage their health care expenses with their own funds, which not only gives them ownership of their health care dollars, but also provides a tax-free savings vehicle that they can use to pay for medical expenses now and in the future.

CDHP Growth

As CDHP enrollment accelerates, they are swiftly entering the mainstream and are beginning to compete with traditional plans on an unprecedented level. In fact in 2013, for the first time ever, enrollment in CDHPs was equal to that of HMOs. So it should come as no surprise that consumer-directed plans were the only health plan that grew last year, showing a 7% increase in employer participation over 2014. Expectations for future growth in the market are optimistic, with predictions that 37%¹ of all employers are considering offering only an HDHP in the next three years. For large employers, this number is almost doubled¹.

The onset of the Affordable Care Act (ACA) is driving more employers to adopt these low cost health plans. The reason? The impending excise tax on high cost, “Cadillac” health plans coming in 2018. This mandate will assess a 40 percent tax on any employer-sponsored plan spending more than $10,200 per employee annually ($27,500 per family). Clearly, searching for ways to avoid this tax is at the top of many companies’ to-do lists, and increasingly, adopting a CDHP is the best course of action. And it’s clear why. Consumer-directed plans address rising health care costs at their source, pricing of prescriptions, services, and amount of use². Of course, employers cannot simply implement a CDHP and call it a day, they need to put in the work to ensure that their employees are equipped with the knowledge and tools they need to manage and control their individual health costs. This is a necessary component because it will ultimately be the employees’ smart use of the health care system that will cut health care expenses for the entire company.
One of the strengths of the consumer directed health plan is its ability to encourage good decision making. Because these plans call on members to utilize a larger portion of their own money to pay for health care expenses, they naturally seek lower-cost, higher quality providers, while eliminating unnecessary care. It’s this behavior that not only saves employees money, but also drives down the costs of the employer sponsoring the plan. According to the Center for Disease Control and Prevention, consumer behavior ultimately drives 50% of health care costs for employers. For this reason, greater numbers of employers have been pushing the use of CDHPs and educating their employees on the value of these plans. According to one of the most comprehensive studies of employer CDHP adoption by the Employee Benefit Research Institute, average health care spending per employee was reduced by $527 after the first year of full a replacement CDHP accompanied by an HSA. Although spending did increase in subsequent years, annual employee spending on health care was still consistently less than traditional plan participants.

For individuals that are new to the CDHP market, understanding these plans can be daunting. Solid communication and education on behalf of the plan sponsor will not only help consumers see the value of CDHPs, but also result in more informed, intelligent decision making and a smoother transition from their old health plans. It is essential that employees are well educated on how to fully utilize their plans before, during, and after enrollment.

Plan design and presentation also plays an important role in helping employees choose the health plan that is right for them. The impact of different health plans on employees with low health costs, versus those with substantial ongoing health conditions needs to be considered by employers during the plan design process. Employees must be able to make informed choices that are in their best interest relative to their health needs. Engaging employees in such a way is often a difficult task, but there are tactics that can be used to get the attention of those that are still attached to their traditional plans. It is important to continue the conversation with employees far past open enrollment times to ensure they are actively engaged with their plans and using available tools to become smart health care shoppers.
According to PricewaterhouseCoopers, health care costs will grow by 6.5% by the end of 2016 and future projections point to consistent increases. CDHPs are proving to be a successful strategy for combatting these rising costs. A pivotal part of this success stems from the pairing of a CDHP with a Health Savings Account. These accounts are a key component as they give users the ability to use tax-free, personal funds to invest in their health and thereby take ownership of their health care dollars. HSAs provide consumers a safe and secure vehicle for retirement savings that can supplement other traditional accounts like 401(k)s.

This idea of ownership supports the notion that the consumer is the one who owns, manages, and guides their health plan. This fits perfectly into the consumer-centric picture being painted by the current trends and future projections in health care. As these predictions come true and health care reforms are realized, the value of CDHPs and HSAs will continue to be recognized by both employers and employees as the effective and affordable option to manage rising health costs.

For more information on CDHPs and eligible medical savings accounts, contact the SelectAccount sales line at 855-363-2583 or email at SASales@SelectAccount.com

1 - "Large Employers Add CDHPs in 2013." American Association of Preferred Provider Organizations. May 2014.