

THE ETHICAL IMPLICATIONS OF “CONSUMER DIRECTED” HEALTH CARE

Uwe E. Reinhardt

**Woodrow Wilson School of Public and International Affairs
and**

**Department of Economics
Princeton University**

**The Henry J. Kaiser Family Foundation and
Alliance for Health Reform**

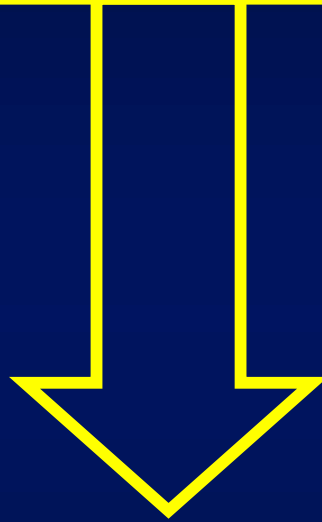
Briefing on

“Where are HSAs and High-Deductible Health Plans Headed?”

Washington, D.C.

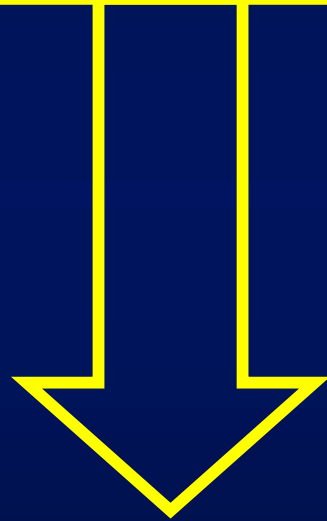
March 10, 2006

DISTRIBUTIVE ETHIC



**TECHNICAL PARAMETERS OF
HEALTH POLICY**

**TECHNICAL PARAMETERS OF
HEALTH POLICY**



DISTRIBUTIVE ETHIC

Thus, it probably is expected that we would have here a debate on technical matters, with appeal to judiciously selective empirical evidence on:

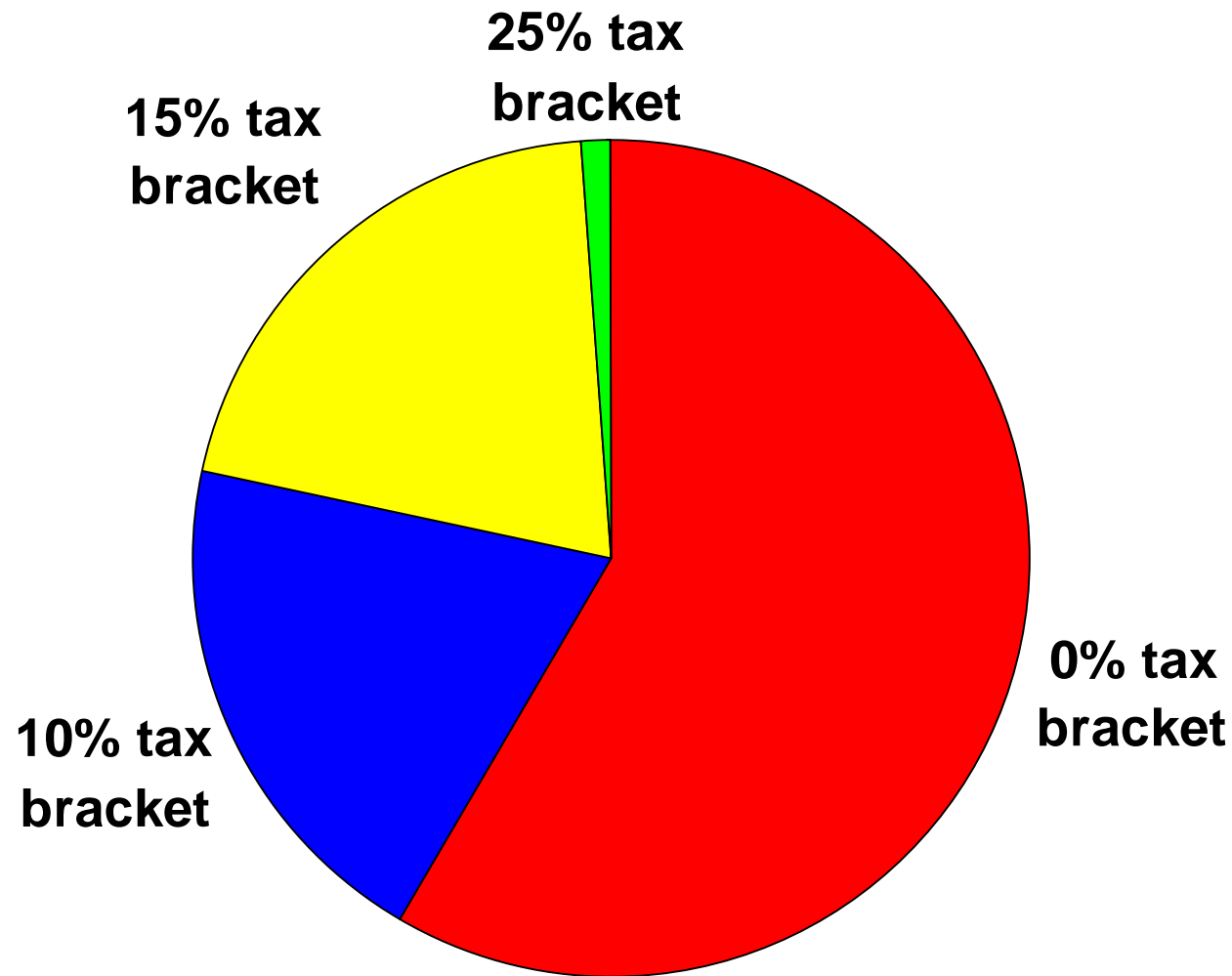
- 1. the price elasticity of the demand for health care;**
- 2. what kinds of services “consumers” (formerly “patients”) will forgo under high deductibles;**
- 3. how to measure quality and to present it to “consumers”;**
- 4. how to present price information on individual providers to “consumers”;**
- 5. how health care “consumers” respond to such information,**
- 6. etc., etc.**

Instead of doing that, I would like to explore what impact *HSA+High-Deductible Health Insurance (HDHI)* would have on distribute ethics in U.S. health care.

The HSA+HDHI construct, if widely adopted, will have the effects of:

- 1. making health care cheaper in absolute dollars for high income Americans than for low income Americans;**

TAX BRACKETS OF ADULTS WITH INCOMES OF \$30,000 OR LESS



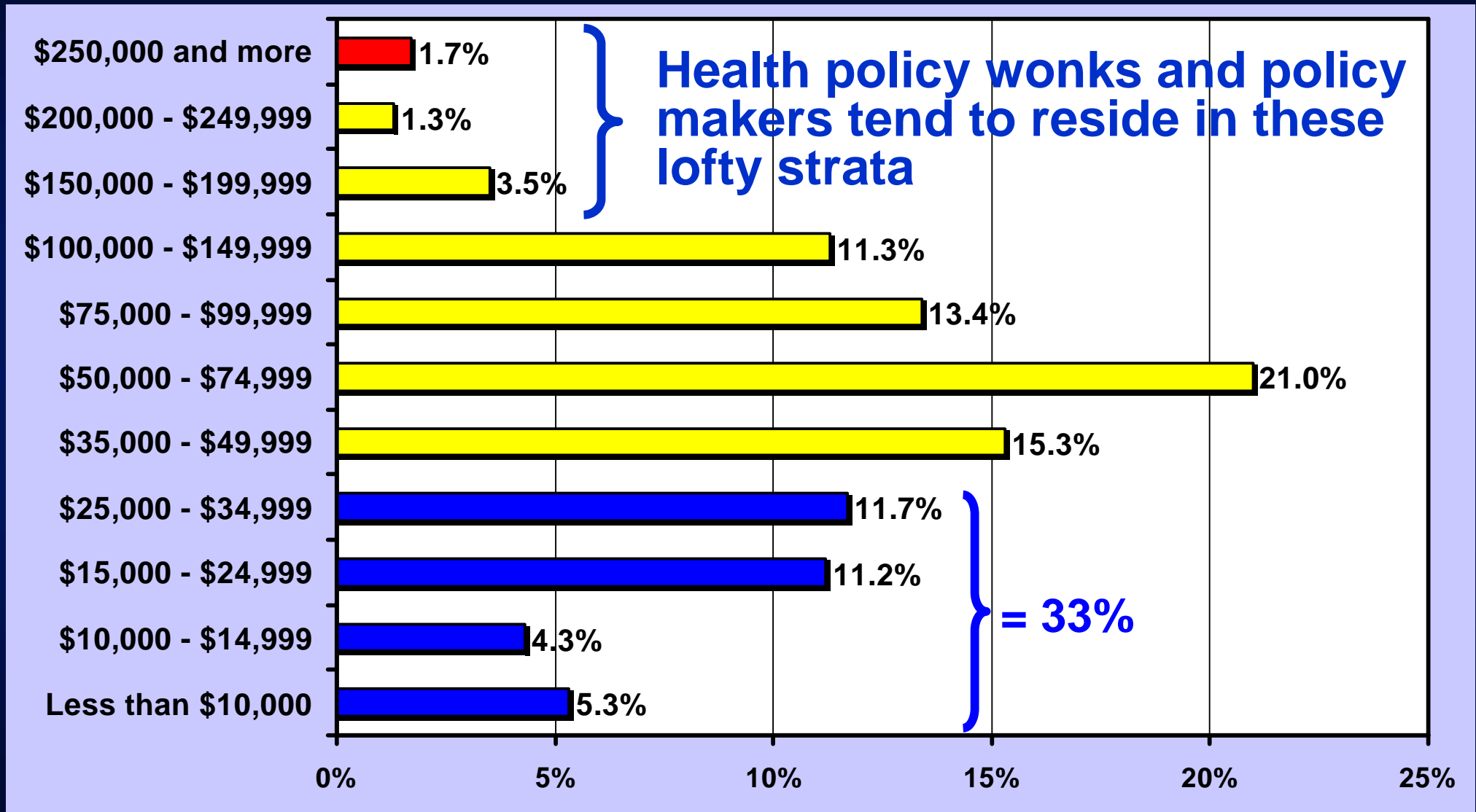
SOURCE: Kaiser Family Fdn. & Urban Institute analysis, March 06

The HSA+HDHI construct, if widely adopted, will have the effects of:

- 1. making health care cheaper in absolute dollars for high income Americans than for low income Americans;**
- 2. pushing the burden of belt-tightening in American health mainly onto families in the bottom half of the nation's income distribution (who, by the way, already bear a disproportionate share of the blood- and fiscal burden of combat duty on behalf of America abroad);**

DISTRIBUTION OF FAMILY INCOME, UNITED STATES, 2002

Average income \$66,970 (Median about \$50,000)



SOURCE: Bureau of the Census website <http://ferret.bls.census.gov/macro/032003/faminc>.

The McGraw-Hill Companies

Business Week

MAY 31, 2004

www.businessweek.com

One in four workers
earns **\$18,800** a year
or less, with few
if any benefits.
What can be done?
(P.58)

WORKING



eHealthInsurance.com[®]

Over 500,000 health insurance customers

HOME

HEALTH INSURANCE

LIFE INSURANCE

DENTAL PRODUCTS

Individual & Family Plans

| [Small Business Plans](#)

| [Short-term Plans](#)

| [Student Plans](#)

> Insurance Plan Benefit Details and Comparison

eHealthInsurance.com is a user friendly, Internet-based farmers market, so to speak, for individually sold health insurance policies, including HSAs.

eHealthInsurance

Over 700,000 customers insured nationwide

[HOME](#)[INDIVIDUALS & FAMILIES](#)[SMALL BUSINESSES](#)[HELP CENTER](#)[MY ACCOUNT](#)





[Health Insurance](#) | [Short-term Health Insurance](#) | [Student Health Insurance](#) | [HSAs](#) | [Dental](#) | [Dental Discount Cards](#) | [Life](#)

Insurance Plan Benefit Details and Comparison

[<< Back to previous page](#)

[1 Quote](#) [2 Compare](#)

Insurance Plan Summary

	UNICARE Life & Health Insurance Company	UNICARE Life & Health Insurance Company	Golden Rule Insurance Company	Golden Rule Insurance Company
<u>Company</u>				
<u>Plan Name</u>	HSA Compatible Plan 3 (Family)	HSA Compatible Plan 2 (Family)	Family HSA Saver	Family HSA Saver
<u>Policy Form Number</u>	TXIHDHPWP0304/TXIAPL1203	TXIHDHPWP0304/TXIAPL1203	C-006.3-42	C-006.3-42
<u>Plan Type</u>	PPO	PPO	Network	Network
<u>Estimated Monthly Cost</u>	\$148.00	\$187.00	\$195.26	\$322.83
<u>Deductible</u>	\$10,000	\$5,200	\$10,000 for entire family	\$3,550 for entire family
<u>Coinsurance</u>	0%	20%	0% after deductible	0% after deductible
<u>Out-of-Pocket Limit</u>	\$10,000	\$10,000	\$10,000	\$3,550
<u>Lifetime Maximum</u>	\$5 Million	\$5 Million	\$3 Million per covered person	\$3 Million per covered person
<u>HSA Eligible</u>	YES	YES	YES	YES
<u>Administrators</u>	view Options	view Options	view Options	View Options
<u>Online</u>				

[Live Assistance](#)

1-800-977-8860
M-F 6am-5pm PT
[Need Advice?](#)

[Get Online Help](#)
[Chat Available!](#)

[Learn More](#)

 [How does health insurance work?](#)

[How does a PPO work?](#)

[How does an HMO work?](#)

[What is coinsurance?](#)

[What is the difference between in-network and out-of-network providers?](#)

[How can I get an HSA?](#)



<u>Plan Name</u>	HSA Compatible Plan 3 (Family)	HSA Compatible Plan 2 (Family)	Family HSA Saver
<u>Policy Form Number</u>	TXIHDHPWP0304/TXIAPL1203		C-006.3-42
<u>Plan Type</u>	PPO	PPO	Network
<u>Estimated Monthly Cost</u>	\$148.00	\$187.00	\$195.26
<u>Deductible</u>	\$10,000	\$5,200	\$10,000 for entire family
<u>Coinsurance</u>	0%	20%	0% after deductible
<u>Out-of-Pocket Limit</u>	\$10,000	\$10,000	\$10,000
<u>Lifetime Maximum</u>	\$5 Million	\$5 Million	\$3 Million per covered person
<u>HSA Eligible</u>	YES	YES	YES

These policies typically do not cover maternity care and have many other limits and exclusions, stipulated in the fine print.

Surely we do not believe that a family with an annual income of \$25,000 will respond to a \$10,000 deductible the same way you and I would in our health behavior, not even to speak of families making \$200,000 or more.

Rationing by income class could be avoided or at least mitigated if the maximum out-of-pocket spending were tied to family income.

For example, if households with an income of \$40,000 should have a deductible of \$4,000 and a maximum risk exposure of \$6,000, then policy wonks and policy makers should have deductibles of \$20,000 and maximum risk exposure of \$ 30,000.

Corporate executives should have no health insurance at all.

Citigroup Paid Income Tax On Its Chairman's Salary

By ERIC DASH

Sanford I. Weill, the billionaire chairman of Citigroup, got a perk on his perks last year.

Not only did Citigroup's board hand Mr. Weill \$23.2 million dollars in pay; it also took care of the taxes on his benefits. The cost to Citigroup shareholders was hundreds of thousands of dollars, based on public filings disclosed yesterday.

A Citigroup spokeswoman, Leah Johnson, said the company long included the extra tax benefits in its executive pay calculations, but this year "voluntarily disclosed more information" about its perks to provide investors with the "most accurate and transparent" results.

The move also allows Citigroup to get ahead of more stringent disclosure rules proposed by the Securities and Exchange Commission in January. More companies that cover their top executives' taxes — not an unusual practice — could soon follow suit.

Shareholders picked up the bill for both taxes and benefits awarded to

Mr. Weill in 2005. Perks included Mr. Weill's use of the company's planes (calculated at \$524,000), the cost of Mr. Weill's medical and dental claims (\$61,846) and personal financial planning advice (\$85,714). Other top company executives were entitled to similar benefits.

Yesterday's filing also disclosed that Charles O. Prince III, Citigroup's chief executive, received \$23 million, a 16 percent raise. Those figures include salary, bonus, and other cash and stock awards. Citigroup's share price increased less than 1 percent in 2005.

Last week, the company disclosed that Mr. Weill, 72, had decided to gradually eliminate his lifetime use of the corporate jet, starting five years from his expected retirement in April.

And in the filings, Citigroup said it would stop paying for its top executives' financial and tax planning services in 2006. Still, Mr. Weill will be handed a nice parting gift when he steps down next month: a \$1.1 million annual pension.

The New York Times, March 2nd, 06: C9

Mr. Weill in 2005. Perks included Mr. Weill's use of the company's planes (calculated at \$524,000), the cost of Mr. Weill's medical and dental claims (\$61,846) and personal financial planning advice (\$85,714). Other top company executives were entitled to similar benefits.

Factiva

Dow Jones & Reuters

THE WALL STREET JOURNAL

Benefits: I'll Have What He's Having --- Roughly 1 in 8 U.S. Companies Reimburses its Top Executives For Out-of-Pocket Health Costs

By Joann S. Lublin

1213 words

20 May 2003

The Wall Street Journal

B1

English

(Copyright (c) 2003, Dow Jones & Company, Inc.)

MANY AMERICAN workers feel sick over recent cuts in their medical benefits. Yet at numerous companies, the top brass won't feel the same sting, thanks to a common but little-noticed executive perk: reimbursement of out-of-pocket medical expenses.

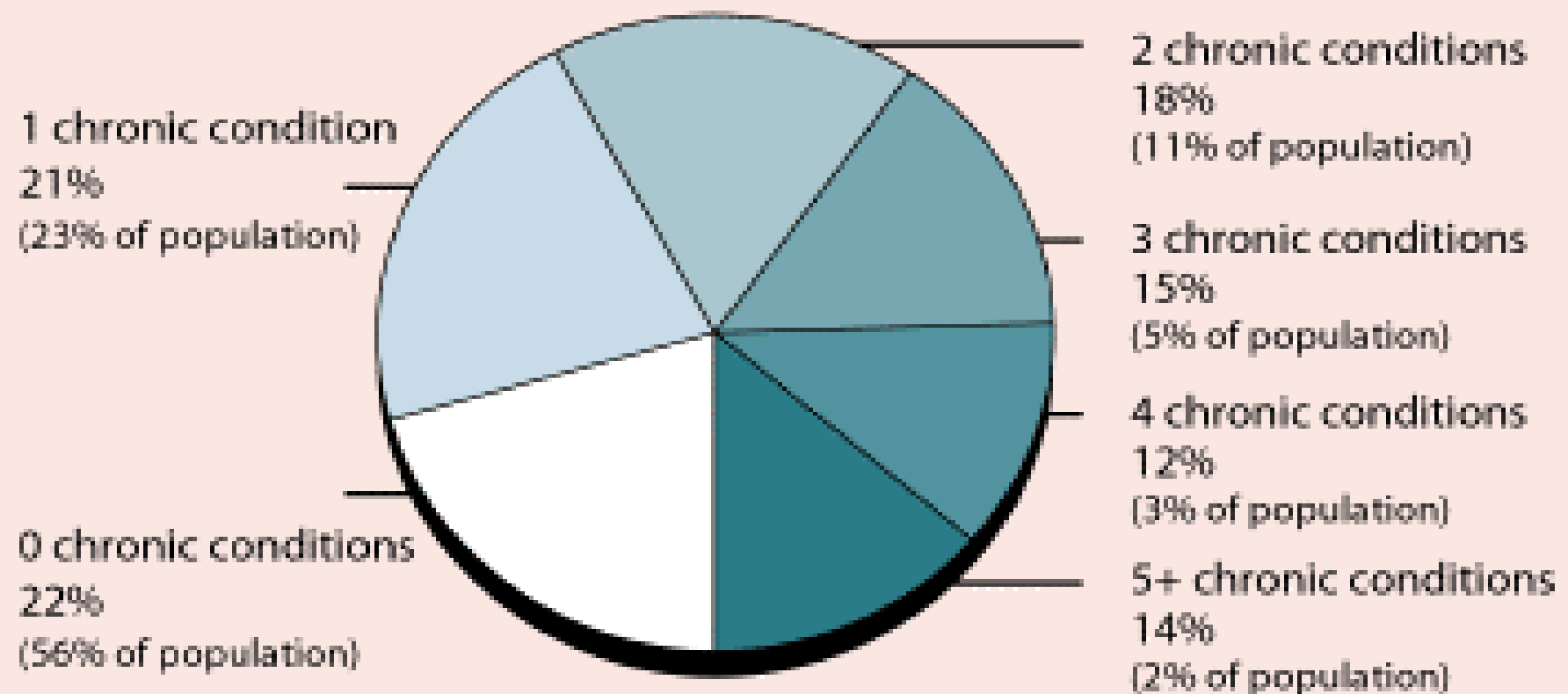
Corporate leaders and their lieutenants at many companies recoup outlays that aren't covered by basic health plans --

The HSA+HDHI construct, if widely adopted, will have the effects of:

1. making health care cheaper in absolute dollars for high income Americans than for low income Americans;
2. pushing the burden of belt-tightening in American health mainly onto families in the bottom half of the nation's income distribution (who, by the way, already bear a disproportionate share of the blood- and fiscal burden of combat duty on behalf of America abroad);
3. **shifting the financial burden of ill health away from the budgets of chronically healthy Americans and into the budgets of chronically sick Americans**

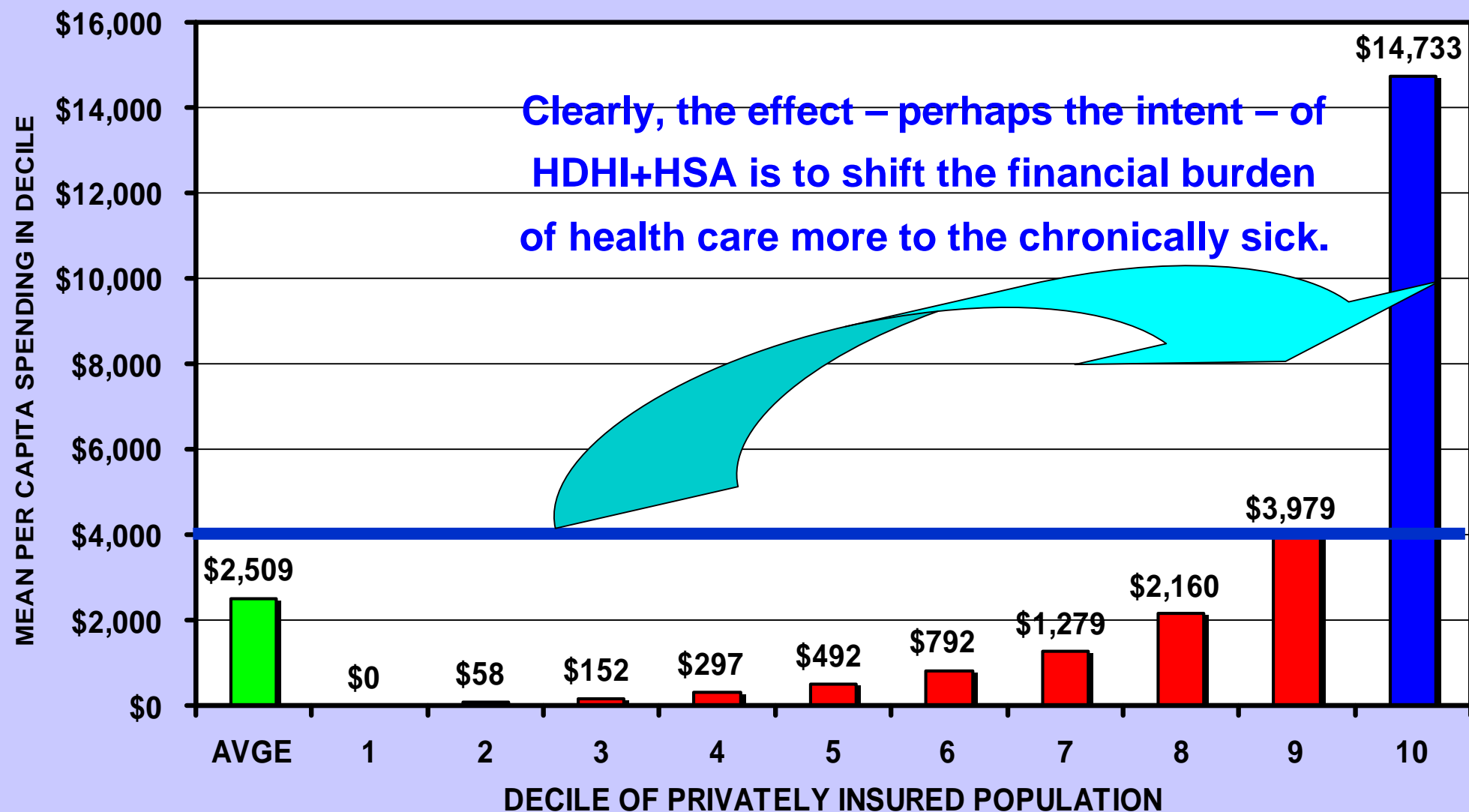
More than half of health care spending is on behalf of people with multiple chronic conditions

Percent of total health care spending by number of chronic conditions*
(Percent of population)



SOURCE: Martin Spikoff, "Health Plans Begin to Address Chronic Care Management," Managed Care, December 2003.

AVERAGE PER-CAPITA HEALTH SPENDING, BY DECILE, AMONG PRIVATELY INSURED AMERICANS, 2001



SOURCE: MEPS Data, provided by Kenneth Thorpe, Emory University

CONCLUDING OBSERVATION

The proponents of HSA+HDHI describe it as a liberation from the shackles of government regulation or regulation by private health plans (as in “managed care.”)

**I recently came across this item on a website for
Consumer Directed Health Care.**



Fresh Thinking on Health Policy

Number 5, November 21 2005

apers

Reclaiming Personal Power and Freedom in Decision-Making

Laurel Reinhardt, Ph.D.
author, *Healing without Fear*

Thomas Paine:

"Freedom has been hunted around the globe; reason was considered as rebellion; and the slavery of fear made men afraid to think."

CONCLUDING OBSERVATION

The proponents of HSA+HDHI describe it as a liberation from the shackles of government regulation or regulation by private health plans (as in “managed care.”)

But, as it is being presented to the nation now, one can also describe it fairly as one more policy designed to redistribute economic privilege (speak: tax cuts and health care resources) upward in the nation’s income distribution.

We should be honest about it in our debate on public health policy.

THE END