Big Data is the fuel of risk management analytic engines…

The Mechanics Of Big Data, Deductibles and Healthcare Marketing…

Deductibles turn gears in consumer choice, plan design and risk management...

Deductibles have become a standard healthcare benefit feature in many plans. In basic terms, a deductible is a specific dollar amount a health insurance plan requires a member to pay out-of-pocket towards medical care costs each year before the member's plan begins to pay for covered expenses. The deductible is a cost paid by the member in addition to their premiums.

Deductibles turn gears in plan designs, premium adjustments, budgets, risk management and consumer choices. Big data is the fuel of the analytic engines that drive the management of deductibles, premiums and plan designs. Knowing the mechanics of how deductibles work, how they are perceived and big data's role and impact is important knowledge for healthcare marketers and other stakeholders in the healthcare industry to understand.

How Deductibles Work For Health Plans And Employers…

For health plans, deductibles serve a variety of purposes. They are financial buffer zones to protect bottom lines from increases in healthcare costs and expenditures. If costs rise due to increased member use of benefits, provider network rate hikes or other healthcare sector price escalations, members absorb these increases first via the deductible.

Deductibles offset the costs of care provided by the plan prior to the deductible being met such as screenings, immunizations and other preventative care. This helps ensure larger portions of premiums collected by insurers have longer investment earning paths with the plan until a portion of them have to be paid out to cover member costs beyond deductible thresholds or other plan expenses. This applies to self-insured employer plans as well as conventional insurance carrier or MCO programs.

Employers and plans like the cost management utility deductibles provide. Besides absorbing increased member use of benefits or planned/unplanned cost increases, plans and employers can negotiate with providers knowing the deductible provides some leeway for them. Plans and employers can modestly increase premium costs from year to year if deductibles protect their bottom line or vice versa, they can keep premiums the same and increase only deductibles to manage costs.

Since plans are offered on an annual basis, deductibles go back to the starting line each year and members start over in being responsible for a certain portion of out of pocket costs again until they meet the new deductible finish line. Deductibles, premiums, average member-out-pockets for members who do/do not meet their deductible plus provider or plan administration cost increases are routinely accounted for and adjusted by data management for existing and future annual plan cycles.

How Deductibles Work For Plan Members And Consumers...

For members/consumers, plans with deductibles have advantages and drawbacks. High deductible plans usually have lower monthly premiums. Since health plans cover some care such as screenings, immunizations and other services before a deductible is fully met, members are not on the hook for all the costs of healthcare provided to them. However, once they start using their healthcare benefits, members are responsible for some out-of-pocket costs. Depending on the size of the deductible and extent of the healthcare benefits used, the out-of-pocket costs for the member can accelerate quickly at an unanticipated rate before the deductible is met.

As members progress through the year and use healthcare benefits, they may eventually reach and exceed their maximum out-of-pocket spend. At this point plans pick up a much larger burden of the healthcare costs but not all. The member is still responsible for paying monthly premiums and other healthcare costs not covered by the plan.

Members who understand deductibles manage their benefit expenditures carefully. By choosing a high deductible plan they are taking advantage of lower premiums --although if they do use the benefits, they will be shouldering a large portion of costs until they meet the deductible. If they need elective or mandatory procedures performed in the foreseeable future, they will get this underway once they meet their deductible before the year's end. The plan picks up a greater share of the costs before the deductible resets itself in the new year. By waiting until the following year, a member may incur even greater out-of-pocket costs if the deductible is increased. Historic, present and forecasted data accounts for benefits paid for by members before/after deductibles, the costs of covered/non-covered care and utilization trends of members timing their use of benefits in a plan year.

How Big Data Works With Deductibles…

Deductibles became more prominently used with the advent of consumer driven healthcare plans in the late 90's into the early 2000s. While the term "consumer driven healthcare" or "CDH" somewhat faded in use, the plan deductible feature continued to motor on. As employers and plans continued to explore ways to control rising healthcare costs, plans with deductibles became standard offerings for consumers, plans without a deductible are sometimes not offered at all and if they are, the premiums for them often significantly higher. As benefit years roll on, more and more data on deductible and non-deductible plans is accumulated hence the term "big data" certainly applies. The means to decipher it are well developed; through advanced programming and trend analysis, deductibles can be leveraged against premiums (and vice versa).

Big data has always played a pivotal role in the insurance industry and risk management. Information sharing, compiling, trending and other functions are easily performed with enormous sums of data gathered from numerous sources. Electronic medical records, automated medical/pharmacy claims processing and sophisticated provider/healthcare organization billing software keep close, real-time tabs on out-of-pocket cost totals. Health outcomes and demographic data profile healthcare population care and cost trends. All of this data is blended seamlessly together based on algorithms and formulas to align costs, plan designs, member utilization patterns and budgets. Big data and programming converts the enormous and abstract sums of data into defined deductibles, premiums and plan designs.

Big data also acknowledges government and other industry regulations involving plan coverage, maximum out-of-pocket costs and other variables. If existing regulations are changed or new ones put into place, there is historical data to work with based on previous regulatory changes to determine how deductibles, premiums and plan designs need to be modified. Using big data and sophisticated modeling programs, employers, employee benefit consultants and plans are able to run deductible, premium and plan design scenarios based on predicted and actual changes of regulatory decisions. In most cases, changes in regulations do not take effect immediately, giving employers and plans even more time to fine tune their decisions.

When Things Run Rough…

Several issues are common with deductibles:

- A growing consumer voice says plans are shifting a greater cost burden onto members in addition to rising copay and premium costs; members consider this a triple threat.
- Members seem consistently surprised that once they meet their deductible, not all healthcare costs are covered and of course, they are still paying premiums.
- Timing can work against members depending on when they reach their deductible (especially late in the year); they may not get to take full advantage of benefits and may have to pay large out-of-pockets costs early in the following year as they need to pay down the new deductible.
- Some consumers choose the highest deductible plans with earnest thoughts of not using their healthcare benefits and when they have unexpected need of them, experience the brunt of high out-of-pocket expenses.
- New regulations can trigger changes in plan designs, forcing members to change from plans they are already comfortable with, creating issues if the new plans they must consider cost more than their former ones and/or do not have the same scope of benefits.

How Things Could Run Smoother In The Future…

Looking ahead, the use of deductibles and the use of big data as a resource in deductible, premium and plan design equations are self-perpetuating. Today's consumers and those in the future need to better educate themselves in how deductibles work and how to manage their benefits; employers/plans have to provide improved resources to enable this to happen. Consumer dissatisfaction with deductibles creates noisy issues that trigger further regulation and government intervention which can drive up costs further. Plan simplification, improved communication and cultivated consumer awareness will improve the friend versus foe perception balance of health plan deductibles.

For Healthcare Marketers…

Being cognizant of and understanding how healthcare insurance deductibles work is important. Plan members are managing their benefits more closely. They are acutely aware of premium costs, out-of-pocket costs, timing their use of benefits as well as office visit and prescription copays. Healthcare reform, employer profitability, consolidation in health plans and hospitals/health systems are everyday news nationwide; healthcare benefits and their associated costs is top-of-mind for many consumers.

Based on greater consumer awareness, plan members are more selective of the health plans they choose and their use of pharmacy or medical benefits. This also goes for any other healthcare-related costs they incur. Traditional purchasing patterns can also be affected such as when and where they choose to use their benefits and their choices in products and services. This directly impacts healthcare product manufacturers and service companies positioning, pricing and promoting their offerings for competitive market access. Healthcare marketers need to account for these variables on a local, regional and national basis (think dominant large/self-insured employers, large practice groups, IDNs, MCOs, PBMs, GPOs) to assure their strategies and tactics align with member/consumer, employer and plan marketplace considerations.

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