

# Consumer Driven Healthcare

VOLUME 4

NUMBER 11

NOVEMBER 2005

*Health care costs cut 20%*

## HVAC company engages employees by showing them how to save

It's one thing to talk about a health plan engaging employees with children, or those approaching middle age with all its potential maladies. But how do you inspire a bunch of healthy young men only a few years removed from their "indestructible" teens?

With money, of course.

At least, that's what worked at Air Comfort, an HVAC contractor in Fort Collins, CO. By implementing a consumer driven PPO and clearly explaining to employees how they could save money by being careful health care shoppers, the 68-employee company slashed its health care costs by approximately 20% in the first year.

The company's move to CDH was a gradual one. In 2001, Air Comfort faced a 60-70% increase in its HMO premiums. **Randy Fraser**, Air Comfort's controller, decided something had to change. With the assistance of a broker, he decided to try Great-West's self-funded PPO with stop-loss protection. That helped save about \$8,000, and the renewals were considerably lower, too.

At this point, Fraser and the broker decided to add a second option: the Great-West Consumer Advantage plan. Consumer Advantage is a tiered-benefits plan design that provides three levels of coverage. The highest level is for office visit; and preventive care, which is covered 100% after the copay. The second level is for medically complex or catastrophic services -- covered from 70-90%, depending on the plan design. The third tier is where members are most fully engaged. It covers routine outpatient or diagnostic services (from 50%-70%) -- areas where the consumer has more control, more choice -- and more time. (See **Figure 1**.)

It worked: In the first year, company saved about \$20,000 -- roughly 20%. Increases at renewal have been moderate, with the most recent being seven percent. (Since Fraser doesn't pass on

increases below 10%, his employees didn't face a premium hike.) Perhaps most significant, the employees like the Consumer Advantage plan, with 60% of those eligible opting for it over the PPO.

### Getting their attention

In the past, Air Comfort's employees just hadn't been paying attention to their health plan. They had, Fraser says, the "oh, the company is paying for it, so I don't care" mindset.

Fraser's challenge was to change that mind set and pique the interest of his workers. But Air Comfort's workers are generally young, healthy, blue-collar men with high school educations. Some are computer savvy, some are not. None was terribly interested in the minutiae of health coverage, and they were unlikely to be lured in by Great-West's suite of tools. "They weren't even getting physicals," says Fraser.

Something had to "hit them over the head" to capture their attention, he explains.

**Figure 1**

TIER I 100% plus copay	TIER II 90%, 80% or 70%	TIER III 70%, 60% or 50%
Preventive and primary care Office visits	Catastrophic Essential services Inpatient hospital services	Scheduled or routine services Outpatient/diagnostic services
PHARMACY BENEFIT		
NON-NETWORK 50%		

Source: Great-West Healthcare; used with permission.

The Consumer Advantage plan gave Fraser the leverage he needed by providing a financial incentive for wise choices. Knowing they could save money by shopping around motivated them to pay more attention to their health care decisions.

The speed of some of the changes surprised Fraser. With one exception, employees simply stopped using the ED. Once they compared the price, those needing immediate attention opted for urgent care centers, where they only had to make a copayment. In contrast, they would have to cover 60% of the total cost for an ED visit. (For patients admitted to the hospital, their share of the ED cost would be lower.)

In the first year, costs related to ED visits dropped from \$6,000 to \$500. "I was surprised to see how much of an impact it had," Fraser says.

**Cindy Donohoe**, Great-West's vice president of marketing and product development, was not surprised. The findings, she says, are consistent with a study of the Consumer Advantage plan Reden & Anders completed early this year.

"That study found that over an 11-month period, the plan reduced the use of medical services more than 9%, versus expected utilization under Great-West Healthcare's PPO. Utilization decreased 6.2% under Great-West Healthcare Consumer Advantage, while it would have risen 3.3% under the PPO during that time," she explains.

In addition to reducing their use of certain discretionary services, employees also began to check their spouse's coverage. In a couple of cases, the spouse had a better plan and the employee made the switch, saving money for the employee and for Air Comfort.

## More than money

While cost is the primary driver for most of his workers, Fraser is seeing interest and engagement evolve as employees grow older and start families.

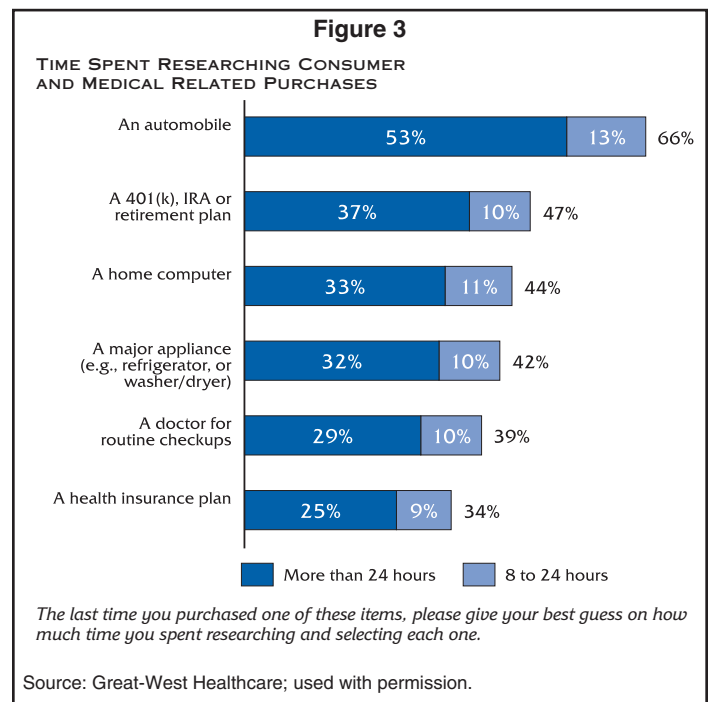
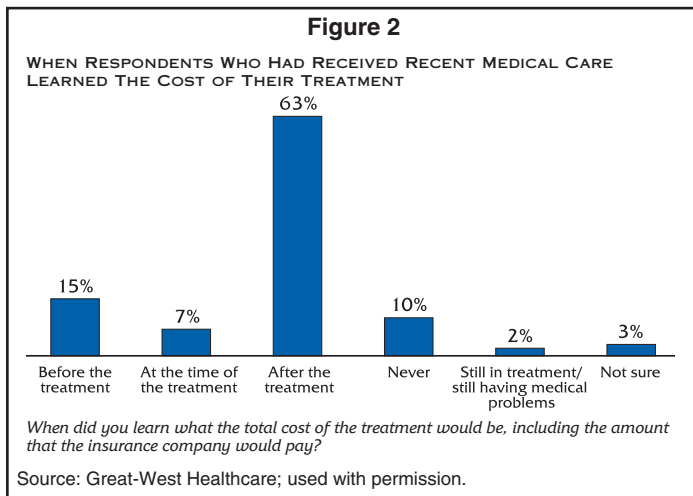
For instance, once there's a pregnancy in the family, interest begins to grow, he says. Employees start using the tools they previously ignored. Fraser compares it to how some people treat their cars: Until something goes wrong, they aren't worried about it.

Even though most of his employees aren't rushing to use the Great-West tools, he continues to provide the education, not just about how comparison shopping will lower costs, but on how to use the various decision-support tools. He incorporates this as part of a larger patient-safety program. The ability to reduce costs is the foot in the door, sparking the most basic interest. But if the tools are there, the workers will use them when the time is right, Fraser contends.

That's often the way it works, says Donohoe. "It's tough to engage consumers in any event before it happens. For example, most consumers won't research a car just to research a car. They research when the time comes to purchase a new car because, for example, their current vehicle is having maintenance issues." The same applies to health care.

"The key is for members to know and use available decision-support tools as medical needs arise," she explains.

She cites results from Great-West's Consumer Attitudes Toward Health Care survey, conducted by Harris Interactive, which revealed that 63% of those surveyed don't know the cost of treatment until after it is received, and 10% say they never find out treatment costs. (See **Figure 2**.) The survey also found that consumers spend less time researching health care than they do cars, investments, computers or even appliances. (See **Figure 3**.)



“It will take time and compelling educational programs by health plans, employers and providers to cultivate consumerism in health care,” Donohoe says. So while today some of the young guys at Air Comfort may only be interested in the bottom line, they are becoming more engaged, and when they need to use more sophisticated tools, they will be ready to do so.

## Lessons learned

Air Comfort’s success yielded important lessons for employers and carriers.

**1. Brokers can play an important role.** CDH wouldn’t have been on Air Comfort’s radar had the broker not brought it to Fraser’s attention. Brokers also can play a role in determining which companies would benefit most from a CDH-type plan, says Donohoe. Not every company is suited to make the switch, she says. “Readiness will vary widely from company to company.” A broker can help identify which ones are ready, increasing the likelihood of success.

**2. Administrative simplicity is critical.** Fraser spoke extensively about how easy it was to use Great-West’s administrative tools; he called the online reporting function “awesome.” Insurers need to understand how critical this element is, he says. Many small companies don’t have the HR staff to handle the entire administrative workload associated with a health plan; the simpler it is on the company’s end, the happier the company will be. For CDH to make inroads with clients such as Fraser, it needs to

make the process as hassle-free as possible, he says.

**3. Education matters.** Like most employers interviewed by *Consumer Driven Healthcare*, Fraser emphasizes the role of education. It’s essential to teach employees about the cost of health care and what they can do to lower these costs.

Donohoe agrees: “Education is an important element to help employees learn the true cost of employer-sponsored health care and how they can help control those costs.” It’s essential, she says, to help overcome the misconception that employees have no control over their health care costs. The Consumer Attitudes study indicated a stunning 80% of consumers believe they have no control over the cost of health care (See **Figure 4**). Air Comfort’s success, however, demonstrates that educating employees about the plans and the costs involved empowers the employee, letting them know they indeed have control over the costs.

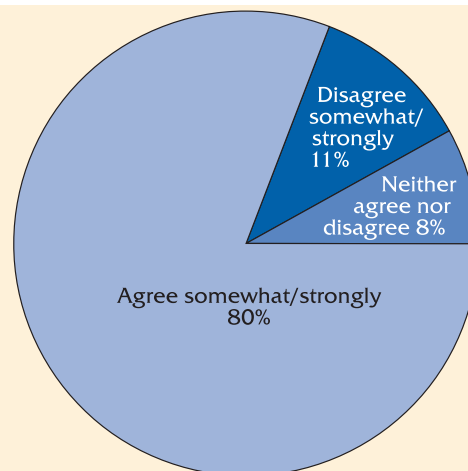
**4. You have to identify the “hot button.”** This tip is closely related to education, but it’s not quite the same thing. Fraser stresses the importance of identifying what motivates *your* employees. In Air Comfort’s case, it was money -- or more specifically, the notion that the choices employees made had a direct impact on how much they paid. In other companies, choice and control may provide the key. “You have to find the button,” says Fraser.

*Editor’s Notes: Contact Randy Fraser at [rfraser@air-comfortcolorado.com](mailto:rfraser@air-comfortcolorado.com) and Cindy Donohoe at [cindy.donohoe@gwl.com](mailto:cindy.donohoe@gwl.com). The Consumer Attitudes survey results are available at [www.greatwesthealthcare.com/C1/Studies%20and%20Surveys/default.aspx](http://www.greatwesthealthcare.com/C1/Studies%20and%20Surveys/default.aspx).) ♦*

Figure 4

### PERCEPTIONS OF CONTROL OVER HEALTH CARE COSTS

- 4 out of 5 (80%) feel they cannot control rising costs
- Two-thirds attribute that lack of control over cost to the fact that insurance covers most of the cost
- 1 in 5 thinks individuals are extremely responsible for controlling costs



*How much do you agree or disagree with the following statement: I am trying to control my health care costs but it doesn't seem to make a difference; costs keep going up anyway?*

Source: Great-West Healthcare; used with permission.