



Look Before You Leap into Consumer-Driven Health Plans

The hype around consumer-driven health care has gained more and more momentum in recent years. Some believe the plans bring the promise of lower employer costs, and others say they are the ticket to empowering health care consumers. But are these plans appropriate for your employer customers?

The \$1,000- or \$2,000-deductible CDHC plans will obviously carry a significantly lower price tag for employers than a traditional managed care plan, usually as much as 18 to 20% lower. That much we know. The list of unknowns around CDHC plans, however, is long and, depending on an employer's particular circumstances, potentially daunting. In considering a shift toward a CDHC benefits approach, brokers can play an invaluable consultative role in guiding their employer customers by posing the right questions and conducting a form of due-diligence. We urge thoughtful consideration of the following:

- consumer resources and research
- willingness of employees to save for health care costs
- workers' deferral of appropriate care
- early identification of and engagement in chronic and catastrophic illness

by Cindy Donohoe
Vice President of Marketing and Product Development
Great-West Healthcare
Greenwood Village, CO

Preparing for a Shift to Consumer-Driven Health Care



To realize the potential benefits of a CDHC plan, employers need to consider a variety of factors:

Long-Term Plan Objectives. Set objectives that support long-term goals while providing short-term cost relief.

Employee Readiness. Assess employees' current health care behaviors and attitudes, and their readiness for assuming greater responsibility.

What Works. Create a consumer-driven plan design that maintains the effective features of managed care and other plan designs.

Multiple Options. Employee needs are different. A CDHC option might work better for one segment of the employee population than another.

Commitment to Education. Work with health care plan sponsors to develop a long-term program of information and education.

Commitment to Improved Employee Health. Create plan designs that reduce utilization—and cost—through programs and information that can actually improve employee health.

Promise of CDHC Plans

There are multiple versions of CDHC plans but at the most basic level they include a combination of a high-deductible health plan and either a Health Savings Account or Health Reimbursement Account. The plans eliminate most of the co-payment coverage employees have grown accustomed to under managed care and shift responsibility for managing the dollars in the HSA or HRA to individual employees. Proponents of CDHC plans say this will prompt greater involvement in health care purchasing decisions on the part of employees because these plan designs do not insulate employees from real costs and employees must spend their own dollars, or dollars they could otherwise save, on health care expenses.

But by far the most compelling impetus for adopting a CDHC plan is also the most basic: High-deductible CDHC plans can provide immediate cost relief to employer health care budgets already at the breaking point.

According to Mercer HR Consulting's 2004 National Survey of Employer-Sponsored Health Plans, a traditional benefits package for one employee costs employers more than \$6,600 per year, which means an employer with 500 employees pays around \$3.3 million annually. The rate of increase is even more alarming. Over the past five years, health benefit costs have risen 70%, compared to the general Consumer Price Index increase of 10.9% for the same period.

Challenge of Engaging Consumers

Part of the appeal of CDHC plans is that they shift not only costs, but the power of decision-making as well, from employers to employees. This is a dramatic change from the era of managed care, when the employer or the health plan made the majority of decisions concerning health care costs. Therefore, the CDHC approach requires that employees research medical information—cost and quality—to make more informed health care purchases. Put simply, we will not create educated health care consumers simply by adding a high-deductible health plan with a spending or savings account.

Granted, consumer education will be a challenge as a recent Great-West



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Healthcare-commissioned survey revealed. Speaking with 2,000 U.S. adults covered by employer-sponsored health plans, participants were able to guess the price of a Honda Accord within 1% but were off by 57% on the cost of a four-day hospital stay. Even more surprising was that 63% do not know treatment costs until the medical bill arrives, and 10% never know the cost.

Why do consumers know the price of a car or plane ticket but not of an MRI or knee surgery? Resources and research. When it comes to purchasing a car, consumers have resources such as *Kelley Blue Book*, *Consumer Reports* and the price sticker on the window of a car sitting in the sale lot. But there is no sticker on health care prices for outpatient procedures or a 24-hour hospital stay. Fifty-three percent of respondents spent more than 24 hours researching their last auto purchase, according to our study, and 32% spent that much time doing their homework before buying a major appliance. But only 25% reportedly spent more than 24 hours reviewing and selecting a health plan.

For your employer customers that are considering CDHC, ask them if they're committed to providing cost and quality information about health services. Ask them if they believe their employees are ready to become engaged consumers.

Willingness of Employees to Save for Health Care Costs

Data around the savings habits of Americans prompts questions about whether employees will take advantage of the accounts associated with CDHC plans to save for future health care costs. The personal rate of saving money overall is around two percent in the United States—closer to zero in recent months, a 70-year low according to the Bureau of Economic Analysis. Even the popular 401(k) plan has experienced flat contribution growth over the last several years.

A steady 25% of employees are simply not saving for a known event (their retirement) even when their employers

offer a match to their savings. A still larger percentage does not take advantage of the maximum for pre-tax savings. How many of these same employees are likely to save for an unknown event like future health care costs? Not many. Results from the Great-West Healthcare survey show that 40% of respondents have set aside nothing for health care expenses, and an additional 17% have saved less than \$1,000.

Encourage your customers interested in CDHC to think about whether their workers are likely to buck the trend and set aside dollars for health care under such plans.

Workers' Deferral of Appropriate Care

Will individuals in CDHC plans defer appropriate health care to avoid costs only to deal with a more complex condition sometime in the future? This is another question brokers should raise with customers considering such plans. A recent study published by the California Healthcare Foundation on consumer responses to costs found that over the past year, 19% of Americans had a specific medical problem but did not visit a doctor. The same study also reported that another 17% of the respondents did not receive a medical test or treatment that was recommended by a doctor. Cost-related non-compliance was even more significant among those with low incomes and those in fair or poor health. More sobering still, these statistics come in a state in which benefit-rich HMOs predominate.

Burden of Chronic and Catastrophic Illness

Generally, about 10% of any given employee population accounts for 80% of the employer's health care costs. This small group typically is facing chronic or even catastrophic conditions that require extensive, long-term care. The individuals are often in an acute medical state and not in a position to make many decisions that factor in cost. With average treatment costs ranging from \$25,000 to \$1 million, a \$1,000 or \$2,000 deductible CDHC will have minimal impact on the total medical cost to employers for this small, but significant, population. Well-coordinated medical- and disease-management programs can be highly effective with these individuals. We also know that early identification and engagement are the key to better cost management.

In counseling employers, it's prudent to ask if they are committed to linking a credible medical-management program with the launch of CDHC plans.

Encouraging Potential

Great optimism exists over the fact that consumer-driven plans are saving employers and employees money. A recent Reden & Anders study of Great-West Healthcare's Consumer Advantage plan found that over an 11-month period, the plan reduced the use of medical services more than nine percent versus expected utilization under Great-West Healthcare's PPO. Utilization decreased 6.2% under Consumer Advantage, while it would have risen 3.3% under the PPO during that time.

The reduction in the number of members' office visits and other health care services under Consumer Advantage translates into cost savings for employers that offer the plan. Results included a 9.6% decrease in office visits and 11.3% drop in outpatient physician services. Great-West Healthcare Consumer Advantage engages members in health care decisions and purchases. The premise is that with their own money at stake, and information and tools with which to make informed decisions, consumers will be more discriminating about ordering tests and making trips to the doctor.

But consumer-driven plans can deliver savings only if employees enroll. Frankly, this concern has arisen from studies by Hewitt Associates and Mercer Human Resource Consulting that have shown just 3-16% enrollment in HRA plans that were offered side-by-side with a traditional PPO option. Great-West Healthcare Consumer Advantage offers a viable alternative; the Reden & Anders study showed that 37% of workers enroll in this plan when it is offered as an option.

Preparing for the CDHC Shift

There are certainly many unknowns to CDHC plans, and it is a leap of faith to believe that we can cultivate engaged consumers simply by launching high-deductible account-based plans. But this doesn't mean CDHC plans aren't worth considering. If employers are aware of the challenges and weigh the short- and long-term needs of the organization against the readiness of their employees, there is promise in CDHC plans. Employers contemplating a move to CDHC should be sure to identify what is working best in their benefit programs and retain these elements when migrating to a consumer-driven strategy. Let's acknowledge that the managed care plans most employers have in place brought many positive changes to health care, such as the emphasis on preventive care, the primary care

physician relationship, disease-management programs and competitive provider networks.

Getting individuals engaged as genuine consumers and assuming an increasing amount of financial responsibility will likely result in a steady shift, not a leap, toward CDHC. Employers can, and should, work toward achieving the best of both worlds. ■

Cindy Donohoe is vice president of marketing and product development for Great-West Healthcare, a division of Great-West Life & Annuity Insurance Company and a national employee benefits provider. She is responsible for designing products to support the company's mission to control health care costs. Donohoe can be reached at cindy.donohoe@gwl.com.