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## Consumer Directed Health Plans: Good Medicine?



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# Tremendous Opportunity Awaits with Small and Mid-Size Employers

by Ron Goldstein, CLU

A year ago, word was just beginning to circulate about a creative approach to healthcare benefits. It's been called "consumer directed," "consumer driven," or "consumer focused." But in all cases, the model was the same. With insurance premiums rising at double-digit levels, this new model was seen as a way to allow employers to continue offering healthcare to their employees while trying to control the rising cost of coverage. The plan would encompass lower-cost, higher-deductible care tailored to individuals who wanted to take greater control of managing their healthcare decisions and dollars.

Consumer-directed healthcare (CDH) has become a legitimate part of the health-insurance landscape. While there are many designs, all feature three key elements:

1. A high-deductible and low-cost insurance product to protect against major or catastrophic illness.
2. A Health Reimbursement Arrangement (HRA) or Medical Savings Account (MSA), which creates financial incentives for the employee to be a more prudent healthcare purchaser.
3. Access to robust health information that helps consumers navigate through the system and self-direct their care.

Thirty one percent of the nearly 1,000 public and private firms surveyed plan to offer a HRA-based consumer-directed plan in the next two years, according to a recent survey by the Health Research and Education Trust (the research arm of the American Hospital Association). The survey

reveals that employers aren't yet convinced CDH plans will improve the health of enrollees, but there is optimism that they will help control costs.

Nearly one-third of employers surveyed expect to offer a consumer-directed health plan by 2005. But, only about 2% have any form of a CDH plan in place. That means that there is tremendous opportunity with small- and mid-size employers.

Until now, most of the excitement surrounding CDH has been focused on the large employer. But there are fewer than 11,000 large businesses (501 or more employees) in the United States, compared to 7.2 million small- to mid-size businesses. For consumer-directed care to achieve its greatest potential and truly go mainstream, the health plans that design the programs and the insurance brokers who sell them must start attending to these smaller employers.

Only 30% of benefit directors at companies with fewer than 1,000 employees had heard of the CDH concept, according to a parallel survey from the Health Insurance Association of America (HIAA). This indicates a tremendous need for education. California's brokers can bring even greater value to their clients by playing a lead role in that arena. As small employers become more familiar with CDH plans, their adoption rate is likely to increase quickly, according to the HIAA study. "Small employers today are heroes if they can find a way to continue to insure employees," says pollster Bill McInturff of Public Opinion Strategies. More than ever, brokers could be the ones to help make heroes out of their employer clients.

When asked to select the most important health-plan feature, survey respondents were split between low out-of-pocket expenses and the ability to choose their own healthcare providers. In fact, HIAA survey participants were far more comfortable with the plans when “choice” was used to describe them — causing HIAA to recommend that the terms “consumer directed” or “consumer driven” be replaced with “consumer choice.”

The importance of choice should be nothing new to those of us who have watched the health insurance industry mature in recent years and those of us who have been advocating choice-oriented products and designs. There is little in life as personal, as important, or as fundamental as your own healthcare. If consumers take time to choose their clothes, their cars, and their vacation spots, why shouldn't they have equal interest in choosing their healthcare? In fact, more and more employees are demanding greater flexibility in benefit options and are willing to seek out employers who share this philosophy.

Simply put, employees reject being forced to accept coverage that may not work for themselves and their families. They want to select the plan, benefit structure, and model that fits their needs best. Evidence shows that even budget-conscious employees are willing to pay their fair share when given the chance to do so. This is particularly relevant for consumer-directed plans. Without offering choice, consumer-directed plans would scramble for an adequate answer to the question, “Isn't this little more than cost shifting from employer to employee?”

To offer the optimum benefit, ensure employee satisfaction, and avoid the cost-shifting stigma, many businesses are wisely combining CDH with two other concepts that have gained a great deal of traction in recent years: defined contribution and consumer choice exchange models.

Defined contribution recognizes that the one-size-fits-all approach is a thing of the past. Rather than selecting a specific health plan (as is done under the traditional defined benefits program), employers determine how much to spend on health insurance for each worker and give employees those dollars as a sort of voucher. Such a system provides cost pre-

dictability and allows the employer to stay within budget.

A consumer-choice exchange assembles and administers HMO, PPO, and HRA/MSA options under one umbrella with varying benefit levels. Health plans have to compete for business because the employee can make a selection based on the plan, benefit level, provider network, or premium. An employee who wants a plan that costs more than the employer's contribution can pay the difference. Our experience has shown that 64% of employees buy up to a higher level of benefits or additional dependent coverage. The most successful exchanges include a good mix of carrier choices; a strong broker channel; and streamlined enrollment, billing and administration.

Defined contribution, consumer-choice exchanges, and consumer-directed healthcare are important breakthroughs, which involve the end user's active decision making. A participant who has to pay \$95 for a doctor's visit and \$45 for a prescription as opposed to a \$10 HMO co-pay is likely to think twice before running to the doctor for a mild fever.

It is yet to be seen whether consumers are willing to assume the mantle of fiscal responsibility and be able to navigate through the complex healthcare system effectively. Clearly, each individual has to decide what is right for him or her, which is why smart employers view consumer-directed healthcare as an additional option rather than a full replacement product.

While consumer directed plans gained popularity in 2003, the big question is whether it's working. A year ago, the jury was clearly still out and there were a litany of questions, including:

- Are consumers able and willing to become “smarter” healthcare purchasers and navigate effectively through the complex healthcare system?
- Can CDH plans demonstrate true short term and long-term savings?
- Will we see a balance of users — healthy consumers who don't use many healthcare resources and those who require more medical attention — enrolling in self-directed in order to make it a financially sustainable product?
- Will brokers be receptive to selling this product.

Jeff Goldsmith, president of Health Futures in Virginia, said, “Brokers have become accustomed to viewing health insurance as a commodity...Decisions to place insurance are often based on a feature/cost comparison or on prior relationships with specific carriers. Brokers are skeptical of new forms of health coverage that do not fit their models and which they do not understand operationally. Brokers...appear to be a source of channel resistance to the adoption of consumer-directed health plans.”

Goldsmith's sentiments were echoed in a study released last September by the National Association of Health Underwriters (NAHU). The study, which was based on interviews with about 700 insurance brokers and agents, revealed that not many brokers are selling CDH because they are skeptical about the economics, the logic behind such plans, and the extra work and time needed to explain these plans.

But brokers who hesitate may regret it. Forrester Research expects CDH to grow 500% in enrollment by the end of 2005. Goldsmith says, “this adoption curve will continue to steepen as CDH plans are used to phase out traditional HMO coverage — by enabling plans to price the rich benefits more accurately to their costs and letting subscribers decide if the benefits are worth the increased premium costs.”

Only time will tell if the predictions by industry pundits will ring true. Time will also tell us if true cost savings continue to emerge from CDH and if consumers are really able to engage in this model effectively.

But, this much is clear, as we move into 2004, consumer-directed healthcare is no longer a new or wild notion. It has fast become a viable model for those who seek it. That makes it more important than ever for brokers to become familiar and comfortable with its nuances, benefits, and unique selling propositions. □

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