



The CDHP Dilemma

- ▶ The health care consumerism movement has caught fire. It can empower employees to be more accountable, but employers experience varying results.



Consumer-driven health plans (CDHPs) have drawn significant attention across the corporate landscape over the past five years – and with good reason. The CDHP model is designed to encourage employees to make more informed decisions about their treatment when they become sick or injured, as well as shoulder greater financial responsibility for their care. This interest has caused CDHPs to become the second most popular plan design with employees, surpassing HMOs for the first time.

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But CDHPs may not be the magic bullet. Concerns exist as to whether they even generate savings for employers even though they contain savings accounts and high deductibles – elements that are widely viewed as vital to the success of the health care consumerism movement. Even so, CDHPs are considered indispensable for promoting healthy living and revealing the true cost of care to consumers (who have long been insulated from the actual cost).

At the very least, a health reimbursement arrangement (HRA) or health savings account (HSA) must be in place for employee buy-in, because the accounts may help offset higher out-of-pocket costs. Using these vehicles – which may allow employees to set aside their own funds and roll over from one year to the next the unused balance of their contributions on a pretax basis – may help consumers reduce their out-of-pocket costs, but they could increase the cost for their employer as well. Without them, however, there would likely be little CDHP penetration in the group insurance market.

Strong Interest

Some independent employee benefit advisors offer a more bullish report. William L. Kite, Jr., president of D & S Life Agency, Inc. in Roanoke, Va., estimates that 94 percent of his clients have moved to CDHPs since 2003, and as a result, reduced health care expenses by 25 percent to 30 percent, depending on key demographic variables.

“Interest in CDHPs is extremely high because so many businesses want their employees to be more engaged in the day-to-day process of accessing health care and to know the true cost of care,” said George Martin, President of Benefit Resources, Inc. in Colorado Springs, Colo. Noting that nearly 40 percent of his clients have an HSA or HRA, Martin said these accounts can help maintain strong benefit levels and keep employer costs predictable for up to half a dozen years “as long as they will take the savings and set it aside to help stabilize future costs.”

Percentage of Employers Offering CDHP by Region



CDHPs Surpass HMOs, Cost the Most

The 2009 UBA Health Plan Survey, the nation's largest health plan benchmarking survey with 17,655 plans from 12,316 employers reporting, shows that CDHPs grew 33.9 percent within the past year and now cover more employees than HMOs (15.4 percent vs. 13.6 percent).

CDHPs do experience a lower premium cost than all other plan types. However, the addition of an employer contribution to an HRA or HSA increases the cost over that of traditional PPO plans. Higher-than-average renewal increases means that they can end up costing significantly more in both the short and long term. As mentioned, the first-year premium savings, if put aside, could mitigate this cost. With increased awareness of the cost of medical care, it still may be worthwhile to implement a CDHP for a near-term solution.

Regional differences become very clear when reviewing the average annual cost of CDHPs as compared with traditional PPOs. The Northeast (with its recent adoption of CDHPs) is still experiencing much greater savings than the North Central region (who were early adopters of CDHPs). Advisors and employers should be aware of this trend so they don't over-inflate the imputed savings of these plan designs in their long-term strategies.

Also, consider that CDHPs feature the highest participation of dependents, who account for 54.5 percent on average of an employer's annual share of premium, whereas employee coverage makes up 45 percent of that equation. Employer contributions to HRAs averaged \$1,310 for a single employee, which was up from \$1,209 in 2008, and \$2,502 for a family, which increased from \$2,274 in 2008.

Regional Disparities

CDHPs have enjoyed tremendous growth in the Northeast (which now has the largest concentration at 23%) where the nation's highest plan costs have de-

Cultural Change

The main objective is to help employees understand that they have a pot of money from employer and employee contributions each year to help budget for medical expenses, and once it runs out, they'll need to go out-of-pocket. "If they can be a good steward of the employer's money, they may never have to spend their own money," Martin said. However, the 2009 UBA Health Plan Survey shows that employers rarely cover the entire deductible with their contributions to HRAs or HSAs. (Less than 17 percent cover the single deductible and less than 13 percent cover the family deductible.)

According to Gerald L. Staten, senior vice president for Leonard Insurance Services in North Canton, Ohio, advisors need to embrace a psychological



change when explaining CDHPs to their customers. This means a willingness on the part of employees to self-insure small dollar amounts of medical-related costs for doctor visits or prescription drugs.

mandated alternatives to first-dollar coverage. The percentage of employees enrolled in CDHPs in the Northeast region nearly doubled.

According to William Stafford, Vice President, Member Services, for United Benefit Advisors, "The positive result of all this is the awareness of medical costs being identified by the consumer-focused plan designs from which our current system has kept the covered public insulated for decades. At the same time, we must all stay focused on the parts of the system that work very well while addressing redundancies and defensive medical practices that could, if eliminated, go a very long way in funding the coverage of the uninsured population."

High Price for Wellness

The survey also found that plans with wellness programs cost more, averaging \$8,391 a year per employee in organizations that offer such plans compared with \$7,539 for those without them. The problem is worse for employers with fewer than 50 employees who lack the necessary cost and quality tools of their larger counterparts.

How is this possible?

Given the complexity of behavioral modification, coupled with resistance among many Americans to eat better, exercise more and quit smoking, wellness programs are considered a longer-term investment that doesn't necessarily create savings for employees who don't stay long enough at a particular company. However, a more likely explanation is that employers who are the most willing to be early adopters of wellness programs are those who typically have the least healthy populations (and most expensive from a health insurance perspective). Another likely cause is the wellness plans that have been in place for two or three years may see an increase in claims as a result of employees doing the right things by getting necessary treatments early

His analogy is that people with auto insurance don't expect that their annual deductible will cover oil changes, so why should it be any different with health insurance?

Martin learned the power of health care consumerism first-hand three years ago when his doctor suggested he get a CAT scan. Facing an annual deductible of \$6,000, he shopped the procedure and was amazed to learn the three quotes he received (\$750, \$1,050 and \$1,950) were separated by nearly a 150 percent differential.

Martin's doctor later expressed surprise that he eventually was able to bargain down the first quote to \$500, that most of his patients have insurance and needn't worry about those details. Even worse, the doctor was prepared to refer Martin to a more costly hospital-affiliated facility downstairs from his office because it was convenient – completely insulated from the cost of those services. "We don't go to one grocery store and find \$3 per bunch of asparagus on one shelf and \$20 per bunch on another," he said. "There just isn't that kind of disparity."

A Different Approach

Kite became accustomed to seeing employees fret at open enrollment over how health care premium increases would erode their paycheck until HSAs took

before they become major claims and by becoming medically compliant with previously untreated chronic conditions. These are the "good kind" of claims to have, as they are a result of the employees working to become healthier and will result in fewer large claims in the future.

"Employers that are getting involved with CDHPs and wellness programs



purely from a cost perspective and ignore the behavioral components necessary for both plans to be effective are likely to be disappointed with the results," Stafford, said.

Negotiating Renewals Reaps Rewards for Employers

While the initial renewal offer for all health plans in the 2009 UBA Health Plan Survey averaged 13.8 percent, effective carrier negotiations and plan design changes resulted in a final rate of 7.3 percent – amounting to nearly a 50 percent reduction, Stafford said. "The average renewal for CDHPs is nearly 50 percent higher than all other plans, which may not come as much of a surprise given the previously explained data results and a logical progression to the mean caused by an ever-decreasing impact of a higher deductible". In other words, the

effect in 2004, moving the health care consumerism movement to the next level. HSAs became a promising savings vehicle for many employers (partners of partnerships and 2 percent or more shareholders of Sub “S” corporations) for whom HRAs weren’t allowed under the law.

Employer Annual Funding Levels*

	HRA	HSA
Median Single	\$1,000	\$420
Average Single	\$1,310	\$621
Median Family	\$2,000	\$500
Average Family	\$2,502	\$977

* The 2009 UBA Health Plan Survey found the average employer contribution to an HRA was \$1,310 (up from \$1,209 in 2008) for a single employee and \$2,502 for a family (up from \$2,274 in 2008). The average employer contribution to an HSA was \$621 (down from \$642 in 2008) for a single employee and \$977 for a family (down from \$1,053 in 2008).

The beauty of an HRA is that the account helps those who have the greatest need for assistance, which typically is about one-quarter of an employee population that spends more than \$500 in health care in a given year and meets their deductible, Kite said. “It’s a whole lot better paying out the full benefit to 25 percent of your employees than to put money for each employee into an HSA,” he added.

The health care consumerism movement, of course, is modeled after the defined contribution approach to retirement planning that emerged with the creation

of a higher deductible wears off over time, creating a slight “catch-up” effect in future years. In addition, insurance companies have tended to give too much credit through reduced premiums in the early years of CDHP adoption.

All told, UBA members generated about \$1.5 billion in aggregate savings within the past year on behalf of their clients, who collectively have about \$16.5 billion dollars of premium and premium equivalents with the various carriers.

“The implication is that they are proving their worth as trusted advisors and strategic business partners of their employer clients, year in and year out,” Stafford explained.

Integrated Strategy

The best course of action for plan sponsors is to pursue an integrated approach that’s part of a long-term strategy featuring wellness and disease management programs underpinned by a comprehensive educational campaign that helps people become smarter health care consumers. Only then will employees realize their full potential to live healthier and happier lives, and employers will reap the benefits of higher productivity and profits tied to improved health care outcomes.

“The key is it must be behavior-driven, which requires effective communication to employees – an area where UBA Member Firms’ independent advisors excel,” Stafford said. Despite the cost challenges associated with the health care consumerism trend, he forecasts continued growth for these plans. Roughly one-fifth of the population is currently enrolled in a CDHP, but he still sees a huge potential for these plans to gain market traction as more insurance carriers integrate their wellness and disease management programs, refine plan designs and rely on predictive modeling to help manage health care costs and quality for employers of all sizes.

of a 401(k) plan. But in an ironic twist, it could affect an employee's retirement contribution.

Martin, for instance, recommends to his clients that they encourage employees to maximize their HSA fund contributions each year before contributing to a 401(k) or 403(b) because, unlike those plans, they're not subject to FICA taxes and are not taxed upon withdrawal if used for unreimbursed expenses related to medical, dental and vision plans, as well as over-the-counter drugs, long-term care insurance and Medicare Part B and D premiums.

Methodology



The 2009 UBA Health Plan Survey features two and a half times more employers than other leading national surveys combined, as well as a meaningful representation of small and mid-size employers roughly in equivalent ratios to the general business population in the U.S. Benchmarking data from all 50 states enables UBA advisors to offer their clients comparative results related to state, industry and employer size categories. The reports generated from the survey results provide the basis for making more informed decisions about health plan designs and the costs associated with them.

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UBA conducts an annual health plan survey that provides small to mid-sized employers with valuable benchmarking data that previously was only available to large corporations. With responses from more than 18,000 health plans sponsored by nearly 13,000 employers nationwide, the UBA Health Plan Survey is by far the most comprehensive, validated survey of medical plan design and plan costs ever conducted. UBA also sponsors an annual employer opinion survey through the joint effort of select UBA Member Firm clients and area employers. For more information, contact your local UBA Member Firm or visit www.UBAbenefits.com.



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