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Forces at work on the US health care system

Two major forces are influencing the US health care system.

- The first is above average health care inflation after a period of relative stability during the 1990s. While many factors are driving health care inflation, significant factors include increases in medical technology, increased utilization, disease prevalence, and aging of the population. The US is projected to spend over \$2.5 trillion on health care in 2009, or 17.6% of the Gross Domestic Product (GDP)¹. Since 1970, health care spending and premium increases have consistently outpaced inflation and the growth in workers' earnings.²
- The second major obstacle is that health care consumers have little knowledge about the actual cost of services they obtain. Since healthcare services are generally "price invisible" to the consumer, they understandably act as though they are spending someone else's money—because they are.

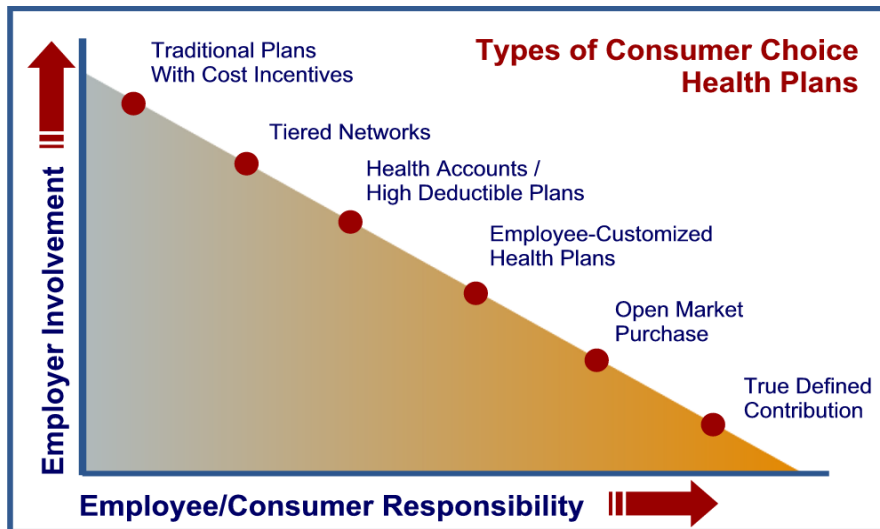
Charting a new course: "Consumer Direction"

These two factors have directly impacted employer-provided health plans. Many employers now offer health benefits that transfer more responsibility for health care cost and benefit management from the employer to the employee. Employers are moving toward a strategy that relies on the premise that if employees pay a meaningful share of the cost of services they acquire, normal laws of economics will prevail to improve overall value. Providers will compete based on price and quality and consumers will make the system more efficient by reducing expenses for unnecessary services.

These ideas are generally referred to as "defined contribution", "consumer directed" or "self-directed" health care. The common thread in all the discussions is consumer choice; the idea that employees, as the end-consumers of health care, must play an active role in reshaping the health care economy by becoming sensitized to the actual cost of services.

Approaches to consumer directed health care

There are many different approaches to consumer directed health plans. As the chart below illustrates, moderate strategies (beginning with most changes to plan design within traditional health plans) still involve a high level of employer involvement in selecting and managing health plans and stop short of transferring 100% of the cost and quality responsibilities to employees.



¹ Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, at <http://www.cms.hhs.gov/NationalHealthExpendData/> (Historical data from NHE summary including share of GDP, CY 1960-2007, file nhegdp07.zip; Projected data from NHE Projections 2008-2018, Forecast summary and selected tables, file proj2008.pdf)

² Kaiser Family Foundation, *Health Care Costs: A Primer Key Information on Health Care Costs and Their Impact March 2009*

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The most aggressive strategies dramatically reduce employer involvement in selecting and managing providers and plans and place the responsibility squarely on the employee's shoulders. In its purest form, a defined contribution health care strategy would loosely resemble a 401(k) plan model, where the employer makes a predetermined monthly contribution toward the employee's health care needs, and the employee is responsible for deciding how to "invest" that money in available health care options.

Plan design and cost sharing strategies

Within this range of options are varying plan design and cost sharing strategies, which are summarized in the table at the end of this article. The first three options—modified traditional plans, tiered networks, and health accounts ([Health Savings Accounts](#) and [Health Reimbursement Accounts](#))—are already being implemented en masse today. Employers are adjusting current benefit plans to share costs and lessen the brunt of inflation. Cost sharing strategies such as increasing copays, deductibles, and coinsurance creates more of a vested interest for employees in determining the frequency and type of services consumed.

The more revolutionary options on the spectrum may become available within the next five to seven years, depending on their acceptance in the marketplace.

Is the industry ready?

As observers of the current attempt to reform the system have seen, the US health care industry is vast and complex, with many constituents whose needs and objectives are not always aligned. For consumer choice health care, the various players appear to be positioned as follows:

- **Employers** - Receptive to the concept and have become drivers of the process as they look for ways to combat high annual premium increases. Some aspects of consumer directed health plans, such as cost-based incentives, are already well on their way to becoming the "norm," however, few companies have made a wholesale transition to these new models and many are resistant to significant changes due to labor pressures.
- **Insurers** - Continue to be responsive to the demands of the market, although the pace at which changes occur will depend on their magnitude and the effect on the underlying infrastructure of the health care industry in terms of web-based technology and interfaces, claim paying processes, provider agreements, etc. Most insurers have introduced some level of consumer directed plans into their products and will continue to develop resources in this area.
- **Providers** - One question is how this trend will affect providers and their relationships with insurers, managed care networks, and patients. It is highly probable that providers will need to become more price-aware if patients are allowed to choose individual providers based on cost and availability. Providers may have to reevaluate the pricing of services, and adapt their practice to include discussion of the relative costs and benefits of procedures.
- **Employees** - The questions facing employees include whether the majority will be able to assume the financial exposure implied by some of these new risk-based models, as well as whether employees are ready to embrace a new approach to health care. Employees may simply want and demand more choice without being willing to take on more responsibility.

What is the future of consumer choice?

The shift towards consumer driven principles will likely not be radical or sudden, although we have seen enrollment in consumer driven products increase each year. The evolution continues as these new models are beginning to be offered alongside traditional benefit plans. As the popularity of consumer choice plans increases and improvements are seen in bottom line health care costs, these relatively new economic models will take on a larger role in the health care system.

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Consumer directed strategies

For more information on why the strategies below are categorized as "consumer directed," read our related [Fact Sheet](#).

Strategy / Description	Examples	Timetable / Likely Employer Adoption
<p>Traditional Health Plans with Cost Incentives Modify traditional HMO, PPO and POS plan designs to incent plan participants to take more interest in how they access health care services.</p>	<ul style="list-style-type: none"> • Higher copays • Higher deductibles • Higher employee coinsurance • Hospital per day copays • Rx coinsurance • Expanded use of Rx formularies • Higher employee premiums 	<p>Most employers continue to increase cost incentives within traditional plans as a response to health care inflation.</p>
<p>Tiered Networks Within a managed care network, differentiate copayment or reimbursement levels based on the price efficiency of providers within the network</p>	<ul style="list-style-type: none"> • New or increased hospital copays for high cost facilities • Higher participant cost for using specialists 	<p>Currently available (Limited geographic areas and vendors)</p> <p>Some employers have adopted, but provider groups' leverage and employee access demands have prevented widespread use.</p>
<p>High Deductible / Health Account Based Plans High deductible HMO or PPO-style plan with a health account (Health Savings Account or Health Reimbursement Account). Plan is designed to provide participant with greater freedom in accessing lower cost primary care services. Yearly rollover of account dollars is expected to influence participant to shop more wisely.</p>	<ul style="list-style-type: none"> • Core preventive benefit • 80%/60% PPO coinsurance after deductible • \$3,000 - \$4,500 out-of-pocket individual plan maximum • HMO-style plans are also available • Rollable personal health account (PHA) of \$1,000+ deductible • HSA-compatible plan benefits are determined by underlying legislation • Health care information support via internet and phone 	<p>Currently available</p> <p>Many employers are offering new plans as option alongside traditional plans. Some employers have fully replaced traditional options.</p>
<p>Customized Health Plans Plan participants build a customized plan that fits their needs. Or, plan participants are allocated health care budgets that they manage based on their health condition and cost of services.</p>	<ul style="list-style-type: none"> • Employee selects from a menu of varying benefit levels for outpatient services, Rx, hospitalization, etc. 	<p>2010+</p> <p>Employers not likely to adopt (administrative complexity and adverse selection concerns)</p>

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Defined contribution strategies

For more information on why the strategies below are categorized as "defined contribution," read our related [Fact Sheet](#).

Strategy/Description	Examples	Timetable / Likely Employer Adoption
<p>Open Market Purchase Employer maintains no health plan and provides employee with allowance to purchase health insurance on the open market.</p>	<ul style="list-style-type: none"> • Employee receives taxable or non-taxable (health reimbursement account) contribution from employer. • Employee applies for and purchases individual insurance on the open market. 	<p>2010+</p> <p>Employers not likely to adopt (tax issues and concerns about employee access to coverage)</p>
<p>True Defined Contribution Health Care Employer contributes a defined dollar amount to an employee's account within a health care exchange, and the employee purchases the plan(s) that make the most sense for him/her. Employer maintains no group health plan, and employee's coverage isn't tied to employment.</p>	<ul style="list-style-type: none"> • Employee joins health care exchange or supermarket. • Employee account is funded by personal contributions, employer contributions, spousal contributions and government subsidy (if applicable). • Employee selects health insurance plans from available menu. • Employee coverage is not affected by changes in employment (other than loss of employer contribution). 	<p>2010+</p> <p>Employers somewhat likely to adopt (longer term target that requires substantive changes to the health care market and employers' benefit philosophies)</p>

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