



# Consumer Driven Health Care: Is the Public Sector Ready?

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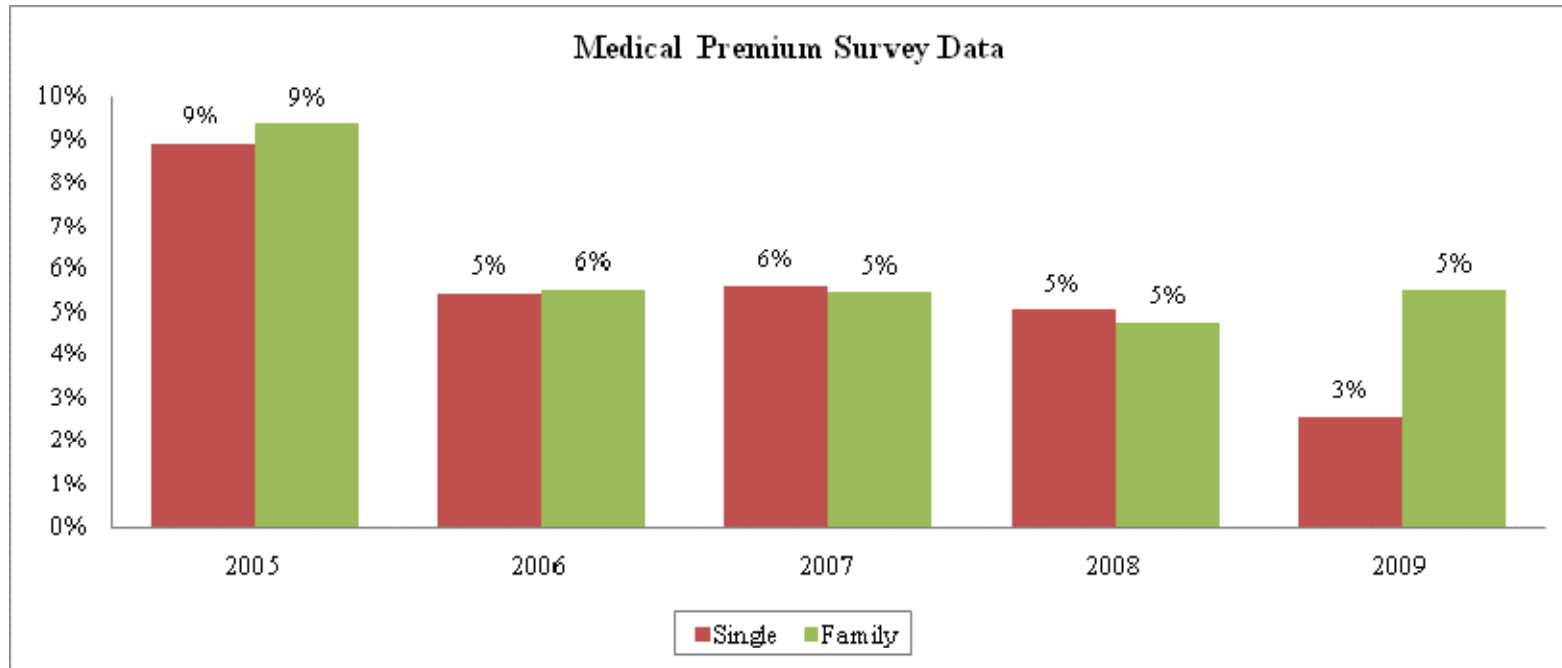
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# Consumer Driven Health Care

## Medical Premiums Increase History



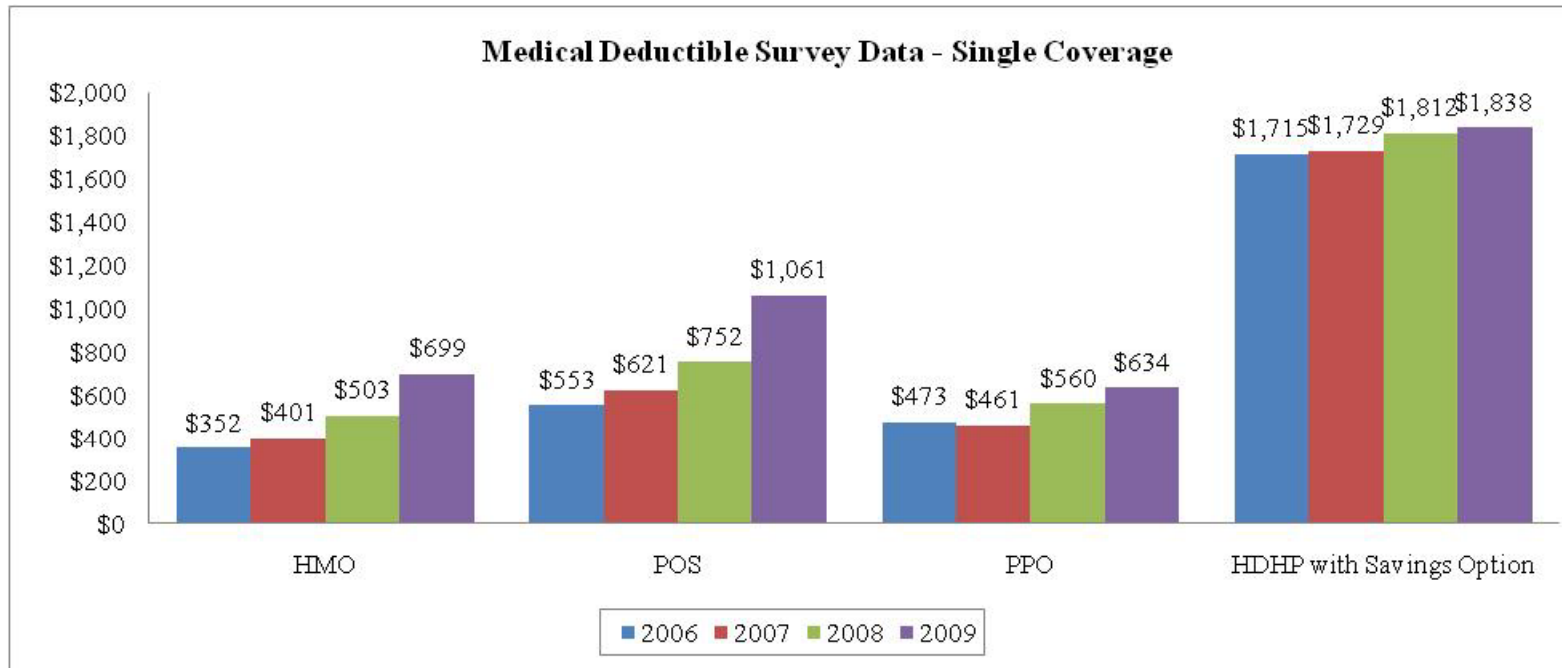
Premium increases are after plan design changes made by employers.  
Actual premium dollars have doubled from 2000 to 2009.

Source:

Kaiser 2009 Employer Health Benefits Annual Survey.

# Consumer Driven Health Care

## Medical Deductible History

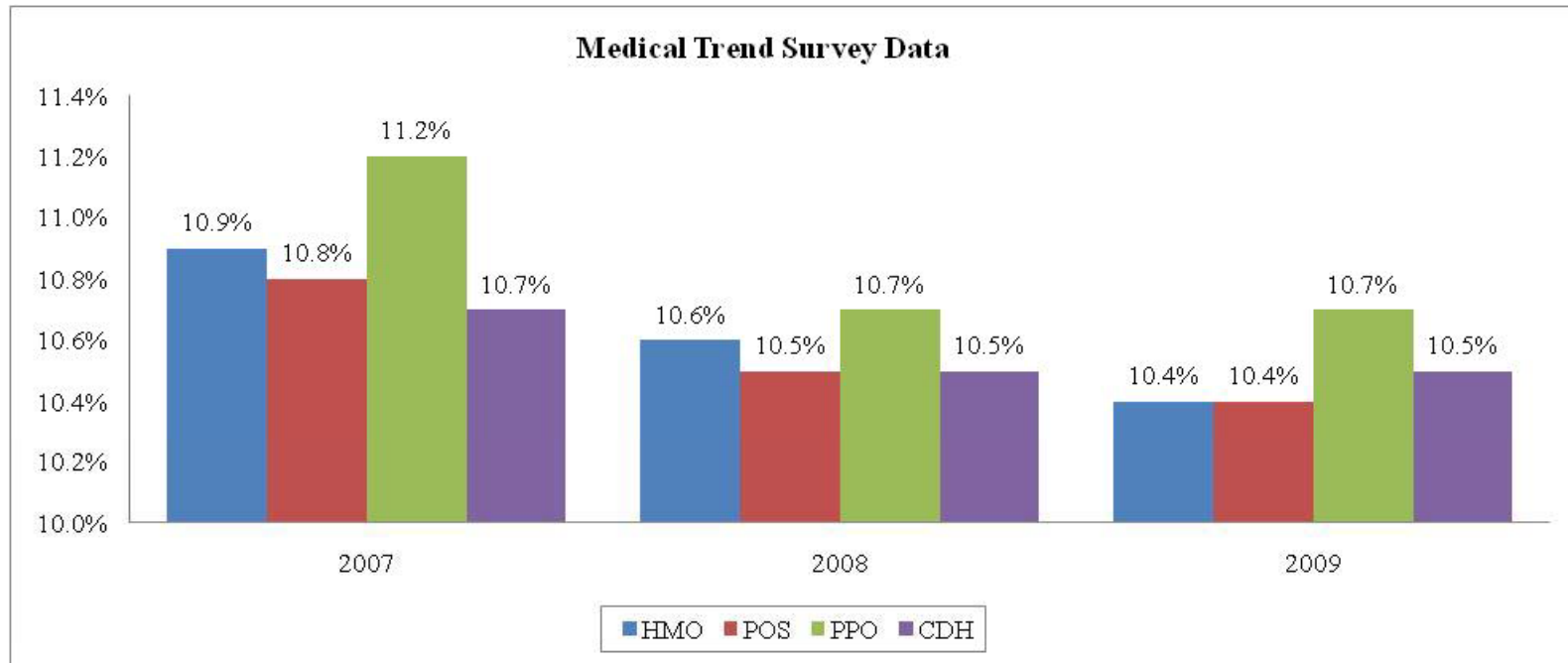


Average annual deductible for 2009 is \$1,040 for small firms (<200 employees) and \$478 for large firms (>200 employees). Average annual deductible has doubled from 2006 to 2009.

**Source:**

Kaiser 2009 Employer Health Benefits Annual Survey.

# Consumer Driven Health Care Medical Trends



Source:

AON Spring 2009 Healthcare Trend Survey. Medical/Rx actives & retirees < 65. Survey of 12 medical vendors, and 19 pharmacy vendors.



# Consumer Driven Health Care

## National Health Care Reform

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- Employer system is maintained, play or pay.
  - \$2,000 penalty for not offering health insurance. It is non-deductible, and no part of the \$2,000 is used for your employees to purchase health insurance.
  
- Substantial employer requirements
  - Dependent definition to age 26.
  - Prohibition for lifetime and annual caps on benefits.
  - Pre-existing conditions exclusions will be prohibited.
  - New excise taxes on manufacturers of medical devices, pharmaceutical, and health insurance companies.
  - Automatic enrollment in health insurance for employers with greater than 200 employees (employees can opt out).
  - Free voucher system allowing lower paid employees to receive a credit voucher from employer based on the highest cost plan and to buy insurance on the individual market under the newly established health exchanges.
  - In 2018, an employer excise tax will begin for high-cost, employer-sponsored health plans (\$10,000 for single coverage, and \$27,500 for families).



# Consumer Driven Health Care Plan Design Change Options

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## **Moderate Changes (estimated pricing impact of a 2 to 8% decrease)**

- Increase physician and outpatient services copayments.
- Increase annual deductible or implement for the first time.
- Increase out-of-pocket maximums.
- Have specialist office visits be subject to deductible and coinsurance.
- Add an annual deductible on prescription drug expenses.
- Transition to coinsurance for prescription drugs, from flat copayments.

## **Aggressive Changes (estimated 10 to 15% decrease)**

- Consumer driven health plans
  - High deductible health plan (\$3,000/\$6,000) offered with a Health Savings Account (HSA) and/or Health Reimbursement Account (HRA).
  - All expenses, except preventive care, are subject to the annual deductible.



# Consumer Driven Health Plans

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## **What is a Consumer Driven Health Plan (CDHP)?**

A health insurance policy that replaces a significant portion of the out-of-pocket expenses for a member with a tax-favored insurance account such as a:

- Health savings accounts (HSA).
- Health reimbursement accounts (HRA).

## **Why Employers are Offering CDHPs?**

- Cost savings.
- Two recent studies from Cigna and United Healthcare demonstrate cost savings for these plans, although the effect of long-term savings has not been demonstrated.



# Consumer Driven Health Plan Studies

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## **Cigna Study – 230,000 members in HSA/HRA plans (Choice Fund) in 2007 and 2008**

### Medical

- Medical costs trended 14% less than traditional plan costs. (Consistent trend reduction results for the last four years.)
- There were significant reductions in cost trend among high risk individuals.
- Persons with diabetes and hypertension had the largest cost reductions (15 to 27%).
- Choice Fund members had higher use of preventive care than individuals in traditional plans.

### Pharmacy

- Pharmacy trend was half the amount of traditional plans.
- Generic usage was 6% higher for Choice Fund individuals.
- Members with chronic conditions maintain similar usage levels for maintenance medications.

### Other

- Choice Fund members are more likely to use on-line tools, complete a Health Risk Assessment, and participate in Disease Management Programs.



# Consumer Driven Health Plan Studies

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## **United Healthcare Study – 266,000 members from 26 large employers**

### Medical

- Claims costs were 4-8% lower than traditional plans.
- Savings were the result of utilization decreases from lower hospital admissions and office visits.
- Emergency room and lab visits were higher by 18% and 14%, respectively.
- Preventive care was slightly lower for the CDHP population versus traditional plans, although slightly higher for adults.

### Pharmacy

- Pharmacy costs were 18-23% lower than traditional plans.



# Consumer Driven Health Plans

## Case Study

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### **Virginia Local Government and Schools**

- 600 active employee participants.
- 100 early retiree participants.
- July 1, 2009 transition to a CDHP plan as the only plan option for actives and retirees.
- Replaced two traditional POS and PPO copayment plans with a CDHP with a \$3,000/\$6,000 deductible.
- Employer contributes \$720/\$1,200 up front via the HSA.
- Employer established an HRA to fund the last \$1,000/\$2,000 of the deductible.

### **Claim Facts (based on eight months of claims data)**

- CDHP plan (including HRA/HSA administrative costs and funding) was 12% savings from the existing renewal (\$400,000).
- Estimated 14% reduction in medical/drug claims (after applying maturation factor).
- 57% reduction in prescription drug claims (estimated to be mature).
- Prescription drug claims make up 9% of total claims (versus 14% prior) and generic utilization increased to 77.5%.
- 63% utilization of HSA funding, 9% utilization of HRA funding.

# Consumer Driven Health Plans

## Health Savings Account (HSA)

- An HSA is a tax-exempt trust or custodial account established to pay for current and future medical expenses. Maximum contributions\* into an HSA are indexed each year and are \$3,050 for single and \$6,150 for employee plus dependent(s) in 2010.
- To be eligible to open or contribute to an HSA, an individual must have a qualified *high deductible health insurance plan*. The HSA account can be used to pay for eligible expenses not paid by the insurance plan – including the deductible.

### Health Savings Account

**Employee and  
County/Schools Funded  
(Employee owns account)**

**Subject to annual contribution  
limits, but, with unlimited  
growth potential.**

### High Deductible Health Plan

**Deductible (\$3,000/\$6000)  
(Preventive services are  
not subject to the deductible)**

**100% coverage after  
out-of-pocket maximum**

\* Maximum contributions are combined for employer and employee.



# Consumer Driven Health Plans

## What is a Health Savings Account (HSA)?

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- Reimbursements from the HSA are tax-free if used for qualified medical expenses for the employee, their spouse or dependents. Qualified medical expenses (under Section 213 of the IRC) include:
  - Amounts paid for the diagnosis, cure, mitigation, treatment or prevention of disease, or for the purpose of affecting any structure or function of the body.
  - Prescription drugs and over-the-counter drugs. \*
  - Qualified long-term care services and long-term care insurance.
  - COBRA premiums during a period of unemployment.
  - Retiree health expenses for individuals age 65 or older and Medicare expenses (*excluding* Medicare supplement policies).

\* Over-the-counter drugs without a prescription will be excluded under the health reform legislation.



# Consumer Driven Health Plans

## Who Can Establish an HSA?

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Any individual who is:

- Covered by a qualified high deductible health plan.
- Not covered by any other health plan which is *not* a high deductible health plan. There are exceptions for certain plans providing limited coverage:
  - Specific disease coverage, hospital indemnity coverage, and auto insurance do not count as “other coverage”
  - Vision, dental, accident, and disability do not count as “other coverage”.  
Note: In some cases having an FSA or HRA will disqualify an individual. To be offered with a qualified high deductible plan, FSA/HRA plans must only offer limited coverage for preventive care or other “permitted insurance” (such as dental or vision coverage), or, allow reimbursement only *after* the minimum annual deductible has been met.
- Not eligible for Medicare (generally under age 65) or Tricare.
- Not claimed as a dependent on another person’s tax return.
- Owners, partners, and 2% Subchapter S owners are eligible to establish an HSA plan. Contributions for these individuals cannot be done through a pre-tax FSA plan. These individuals would claim the deduction on their individual tax return.



# Consumer Driven Health Plans

## What is a High Deductible Health Plan?

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A Qualified High Deductible Health Plan is one which has:

- Minimum deductible for 2010: \$1,200 for single, \$2,400 for family policies.
- Out-of-pocket maximum: no higher than \$5,950 for single, or \$11,900 for family coverage (including the deductible) in 2010. These maximums are adjusted each year. The limits apply to in-network benefits; out-of-network limits can be higher.
- All services are subject to the deductible, except preventive care.
  - Office visits with “copays” are not permitted. They are subject to deductible.
  - With the exception of medications which are considered to be preventive care, no prescription drug benefits can be paid until the minimum annual deductible has been satisfied.

# Consumer Driven Health Plans

## What is a High Deductible Health Plan (HDHP)?

### Sample Plan Design Strategy

#### Part 1.

#### High Deductible Health Plan (HDHP)

<b>Preventive care* covered at 100%, not subject to deductible</b>	<b>In-network Deductible: \$3,000 Single/\$6,000 Family (applies also to prescription drugs)</b>
	<b>In-network Insurance: Plan pays 100%, You pay 0% (100% coverage after in-network deductible)</b>

\* Well baby, routine physicals, cancer screenings, mammograms, and pap smears.

#### Part 2.

#### Health Savings Account (HSA)

<b>Employee and County/Schools Funded – Employee Owns Account</b>
County/Schools contribute <b>\$720</b> /year for single, and <b>\$1,200</b> for family. \$3,050 total (including County/Schools) individual contribution limit for 2010. \$6,150 total family (including employer) contribution limit for 2010. Employee contributions are pre-tax. Unlimited growth potential.

#### Part 3.

#### Health Reimbursement Account (HRA)

<b>County/Schools Funded – County/Schools Own Account</b>
County/Schools reimburse last <b>\$1,000</b> of single deductible, and last <b>\$2,000</b> of family deductible. County/Schools keep unused funding.



# Consumer Driven Health Plans

## Why Would Employers Consider HSAs?

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- Lower premium costs for the high deductible plan.
- A large upfront deductible provides catastrophic protection, but also gives an incentive for the patient to consider costs and conserve resources when using more common, routine care.
- HSAs will enable employers to make needed changes to reduce their medical insurance premium rates, but still make some contributions to an HSA account to help employees with out-of-pocket expenses.
- Incentives members to be better consumers of healthcare services.



# Consumer Driven Health Plans

## Why Would Employees Consider HSAs?

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- HSAs provide a tax deferred investment vehicle for individuals. And, employees will be able to contribute on a tax deductible basis to the same HSA account.
- Unused balances carry forward from year to year and grow tax deferred.
- An HSA is portable – it is owned by the employee, not the employer.
- Employees have control of how and where the HSA dollars are spent.
- Funds from an HSA can be used not only for reimbursement of qualified medical expenses but also for COBRA premiums, qualified long term care insurance and long term care expenses.



# Consumer Driven Health Plans

## Issues For Employers to Consider

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- The HSA is owned by the account beneficiary (the employee).
  - Any contributions made to an HSA, whether by the employee or the employer, are controlled by the account beneficiary.
  - Qualified medical expenses under IRC Section 213(b) may include services not covered under the medical plan.
  - Dollars must be in the account for an employee to be reimbursed?
  - Additional employer administration requirements (HSA and HRA administration vendors).
- Educational requirements for employees are more complex.
- Will taxpayers accept the status quo for medical care inflation in local governments' budgets?
- This a fairly new alternative.
  - Vendors are refining their products and their pricing.
  - No proven results over the long term.
  - Will care be deferred if there are no dollars in the HSA account?
  - Additional employer administration requirements (HSA and HRA administration vendors).



# Consumer Driven Health Plans

## What is a Health Reimbursement Account (HRA)?

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- An HRA is a tax-favored account to reimburse out-of-pocket expenses for medical expenses.
- Plan is typically has a high deductible, but has flexibility on the deductible amount, coinsurance percentages, and out-of-pocket maximums. The medical plan can include:
  - Preventive care coverage.
  - Prescription drugs can be a separate plan, or, integrated with the medical plan.
  - Network choice.



# Consumer Driven Health Plans

## What is a Health Reimbursement Account (HRA)?

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- The employer only funds the account, determines whether to allow rollover of balances, caps, and vesting options on fund balances.
- Employer decides when funds are available (i.e., meet second half of deductible, only for expenses covered under the medical plan).
- Forfeitures can be returned to the employer.
- Employers utilize an HRA deductible plan to self-insure part of the medical benefit with a small exposure.



# Consumer Driven Health Plans

## Discussion Questions

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- What is the maximum increase you can budget without changing the plan?
- Do you make moderate or aggressive plan changes; what will your out-of-pocket maximum be?
- What impact will the health reform legislation have on your plan?
- Is your workforce ready for a CDHP plan?
- Can you integrate wellness incentives into a CDHP plan?
- How do you implement a CDHP plan?
  - Total replacement.
  - Option to existing plans.
  - Two- to three-year strategy, preparing employees as the only option down the road.