InnOVATIONS:

Recognizing Advances in Health Care

An Issue Brief from the St. Louis Area Business Health Coalition

Consumer-directed health plans: the past, present and future

Abstract *Rising health benefits costs and the need for employees to have more control over how their health benefit dollars are spent spurred the creation of Consumer-Directed Health Plans (CDHP). This trend of placing economic purchasing power in the hands of employees and fostering more active decision-making began in the late 1990's.*

CDHP enrollment has increased steadily and currently covers approximately one in six employees with employer-sponsored health insurance. Interestingly, St. Louis employers tend to offer CDHPs as a plan option at a higher rate than the national average. This issue brief tells the story of how Edward Jones, a leading St. Louis employer, made this transition and how their employees have made CDHPs work to their benefit.

Premium costs for most CDHPs are considerably less than traditional health plans and cover certain preventive care services before the deductible is met. These incentives appear to be effective as studies have shown enrollees use wellness and preventive services at a higher rate than members of PPO plans. In the future, more employers are expected to offer CDHPs as a plan option, a national survey found. The Affordable Care Act is also likely to spur growth in CDHP adoption due to its promotion of preventive care and lower cost.

The Past

Consumer-Directed Health Plans (CDHP) emerged in the late 1990's to stem rising health care costs and encourage employees to become more active in their health care choices. Typical plan design features of CDHPs are a high deductible, a health reimbursement arrangement (HRA) or health savings account (HSA) to pay qualified medical expenses, and information tools for consumers to make more cost-conscious treatment decisions. Membership has increased steadily in the last decade. In 2011, 17% of people with employer-sponsored health insurance were enrolled in a CDHP, up from 4% in 2006.[1]

The Present

While 18% of firms offered CDHP/HSA plans in 2011; only 7% offered CDHP/HRA plans.[2] The account funding mechanism of CDHP/HRA plans are potential reasons for this difference. HSA contributions can be made by both employers and employees, and are owned by the individual, not the employer. In addition, funds not used for medical expenses may accumulate over time in an HSA and contributions and earnings are tax-exempt to the employee. Contributions to an HRA can be made only by the employer and the employee cannot take accumulated funds with them if they leave the firm. Thus, HRAs may be less appealing to employees and hinder participation.

[1] Kaiser Family Foundation/Health Research and Educational Trust, Employer Health Benefits 2011 Survey.

[2] MK Bundorf, "Consumer-Directed Health Plans: Do they deliver?" *The Robert Wood Johnson Foundation, Research Synthesis Report* No. 24.

Cost of CDHPs

The employee is responsible for paying the initial annual cost of health services, referred to as a deductible. After satisfying the deductible, medical expenses are covered by the plan and the enrollee pays a set dollar amount (copay) or a percent of the cost of care (coinsurance), up to an out-of-pocket maximum. In some CDHPs, the deductible amount is the same as the out-of-pocket maximum.[3] Plans with higher deductibles and less generous HRAs have been found to generate larger health benefit cost reductions for plan sponsors.[4] The Internal Revenue Service (IRS) regulations establish minimum amounts for deductibles, and maximums for out-of-pocket costs, and HSA contributions. Yet these amounts vary by employer. For example, the table below lists IRS regulations compared to the range of deductible, out-of-pocket and HSA contributions for 12 St. Louis employers that offered CDHP/HSA as a plan option in 2011:

Consumer-Directed Health Plans
St. Louis Employers Compared to Federal Limits 2011

	2011 St. Louis Employers (range)	2011 Federal CDHP/HSA Reg. (IRS)
Annual Deductible		
Individual	$1,200 to $3,050	$1,200 (minimum)
Family	$2,400 to $6,150	$2,400 (minimum)
Out-of-Pocket		
Individual	$1,000 to $5,500	$5,950 (maximum)
Family	$2,000 to $11,000	$11,900 (maximum)
HSA Contribution		
Individual	$0 to $800	$3,050 (maximum)
Family	$0 to $1,750	$6,150 (maximum)

Source: St. Louis employer health benefits information: *St. Louis Area Business Health Coalition*, 360º View, Health Valued Reports, 2011. IRS information obtained from "fyi, for your information" report, *Buck Consultants*, Volume 34, Issue 42, May 20, 2011.

What encourages employees to participate?

Premium costs are considerably less for most CDHP plans as compared to traditional health plans. Even before the Affordable Care Act, CDHP benefits covered some preventive care before the deductible was met. Employees and their families received annual well-care visits, immunizations, screenings and, at times, treatment for chronic illness with no-to-low cost sharing.[5] An Aetna analysis found these incentives appear to be working as CDHP enrollees used 12% more preventive care and accessed screening for breast and cervical cancer at a higher rate than PPO members. Wellness programs are also used at a higher rate by CDHP enrollees.[6]

Consumer tools growing with the rise of CDHP

As more employers offer CDHP, consumer transparency tools such as Compass Health and Castlight Health, are growing in importance to help employees make treatment decisions based on provider quality and cost. The Employee Benefit Research Institute (EBRI) found that CDHP enrollees were more likely than those in other plans to use information on quality and cost. If workers get accurate information and take advantage of incentives, such as preventive services and wellness, CDHPs can work to their benefit.

[3] B Shebel, "Consumer-Directed Health Care: The Employer Perspective," *Critical Issue, National Business Group on Health*, March 2012.

[4] MK Bundorf, "Consumer-Directed Health Plans: Do they deliver?" *The Robert Wood Johnson Foundation, Research Synthesis Report* No. 24.

[5] B Shebel, "Consumer-Directed Health Care: The Employer Perspective," *Critical Issue, National Business Group on Health*, March 2012.

[6] Ibid.

The St. Louis Experience A survey of 43 St. Louis employers found that 28% offered a CDHP/HSA plan in 2011, higher than the national average.[7] Edward Jones introduced a CDHP in 2006. The CDHP aligns with its corporate values of being informed of opportunities; managing risk and understanding the unique needs of individuals. We thank them for sharing their story below.

> ***"CDHP enrollees used 12% more preventive care and accessed screening for breast and cervical cancer at a higher rate than PPO members."***
>
> **– Aetna found in a 2011 analysis.**

CASE STUDY: **Edward Jones**

Edward Jones is a full-service investment firm with a diverse employee population. The firm offered a CDHP/HSA plan to employees alongside their traditional PPO plan in 2006. By 2008, 80% of employees had selected a CDHP over the PPO option. Participation increased quickly for two reasons. First, Edward Jones' fiscally literate Financial Advisors are experienced at assessing opportunities and managing risk and easily saw the advantages of CDHP/HSAs. They had requested it as a plan option. Second, the PPO plan already had a fairly high $2,500 individual and $5,000 family deductible so the change was not so drastic for employees. In 2009, Edward Jones moved to full replacement CDHP. The CDHP plan also fit well with Edward Jones' culture of health. The company provides a robust wellness program that encourages employees to learn about and manage their health risk. The program offers financial incentives for participation and improved health.

Making the Transition

Online calculation tools and communication messaging helped employees understand the differences in premium, deductible and out-of-pocket costs between the existing PPO plan and the CDHP/HSA. Through the tools, employees are able to assess their individual financial situation in relation to the CDHP offering. On average, employees have lower costs with a CDHP/HSA plan which, like the PPO offering, has a defined maximum out of pocket expense for enrollees. HSA implementation was complex and required significantly more employer oversight than initially thought. Yet, the accounts have been popular with their employees. To date, Edward Jones employees have accumulated $66 million in their HSA accounts, making it a worthwhile investment for the company.

Lessons Learned Not all HSA administrators do a good job with claims, account reconciliation, and tax reporting. Also, health plan consumer tools with information on provider quality and cost are sparse, hindering employees' ability to make cost-conscious treatment decisions. The plan has been a success; Edward Jones' medical cost per employee is 19% lower than national norms.[8]

Edward Jones' St. Louis Headquarters

[7] *St. Louis Area Business Health Coalition*, 360º view, Health Valued Reports, 2011.

[8] Towers Watson 2012 "Performance in an Era of Uncertainty," a joint study with NBGH

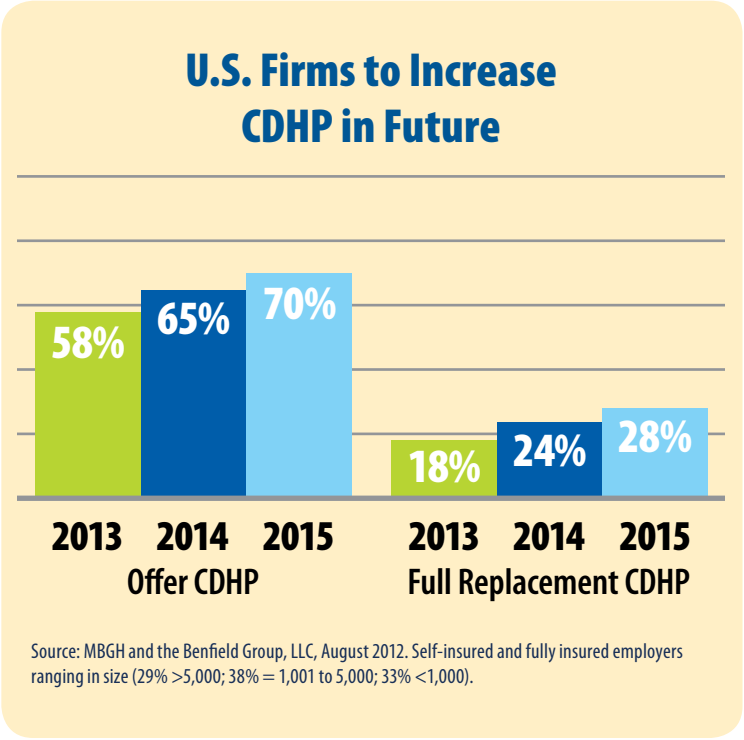
Consumer Habits Under CDHP The evidence is inconclusive that consumer habits change under CDHP, a 2012 Robert Wood Johnson Foundation report found. CDHPs generate modest to no reductions in the use of preventive services when they are exempt from the deductible. However, some studies show reductions in utilization of physician visits for acute and chronic conditions. Reductions in less clinically appropriate care, such as emergency department visits for low severity conditions, were also found.

CDHPs In An Exchange World These plans will likely increase in popularity when they are offered to consumers participating in the health insurance exchanges in 2014. CDHPs provide some relief for rising health care costs while promoting preventive services and the use of quality and cost tools to help consumers make cost-effective health care decisions. In the exchange world, consumers and their families will need more communication, education and decision support tools to help them maximize their benefits.

The Future

CDHP Adoption Expected to Grow In 2012, more than 57% of employers offered CDHPs with an HRA or HSA as a plan option, a survey by the Midwest Business Group on Health and the Benfield Group found. By 2015, that number will increase to 70% and more than one in four will offer CDHPs as their only plan, as shown in the graph at right. Large firms are more likely to offer CDHPs and by 2018, 42% will make it the only plan option.

The Affordable Care Act (ACA) is likely to spur the growth of CDHPs, employee-benefit experts say. CDHPs are both lower cost than traditional health plans and meet the minimum benefit requirements of the ACA. Because of their potentially lower cost, CDHPs are also less likely to be subject to the "Cadillac tax" that will be levied on high-cost plans under the ACA. Beginning in 2018, a 40% tax will be assessed on plan costs that exceed $10,200 for individual coverage and $27,500 for family coverage. The threshold will be indexed to the CPI plus 1% in 2019.[9]



Source: MBGH and the Benfield Group, LLC, August 2012. Self-insured and fully insured employers ranging in size (29% >5,000; 38% = 1,001 to 5,000; 33% <1,000).

[9] J Wojcik "High deductible CDHPs likely to gain popularity," *Business Insurance*, August 21, 2011.

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