

The Growth of Consumer Driven Healthcare



A Strategic Cost Reduction Tool

In a slowing economy, the implementation of CDHPs is an important tool in cost reduction. The benefits to the employers in terms of cost control make successful introduction of CDHP imperative.

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The Growth of Consumer Driven Healthcare

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Introduction

Consumer driven health plans (CDHP) were first introduced in 2000, and have been widely adopted by employers since then. The basic premise of the plans is to shift responsibility for healthcare management to the employee. CDHPs combine a high-deductible insurance plan with either a health spending account (HSA) or health reimbursement account (HRA). The employer deposits money into the account, which the employee can then use when health care expenses are incurred. Once the funds are used, the employee would then pay out of pocket. The HSA is transferable between employers while the HRA is not¹.

Initial adoption of CDHPs was rapid, but has since slowed. Employers like them, because they lower the cost of health care coverage and in theory retain the same degree of coverage as before for the employee. Employees, however, have tended to balk at CDHPs. More money continues to flow into them, but adoption has been slower than most employers had hoped.

Part of the reason for the slow adoption is that CDHPs require the employee to make more choices about their health care. This requires the employee to become more educated about their options, and the costs of health care. Surveys have indicated a high degree of health care illiteracy amongst the general public. To be fair, there is very little consumer information that can help consumers evaluate the costs and benefits of different health care providers and regimes.

¹ Anam, Ariful. (2008). Consumer Driven Health Plans (CDHP). *EZine*

In an age when you can find reliable consumer and professional evaluations of everything from movies to espresso machines to microbrews on the Internet, the paucity of information on health care is of significant concern.

How do CDHPs Work?

The consumer is at the core of CDHPs. The consumer is able to make their own choices with regards to health care providers, and is thus able to exert more control over the cost of their healthcare. The benefits to the consumer are that monies build up in the HSA or HRA until the consumer needs them. This encourages prevention and healthy lifestyle choices. Additionally, the consumer may be able to find for themselves a better standard of care than would otherwise be provided.

The benefits for the employer are that it costs less, and more importantly the costs are known. The amount contributed to the HSA is stable, which allows the company to manage its health care costs better as well. This has had noticeable benefits for small businesses, who are now able to offer health care coverage to their employees in the form of a CDHP, something many of them were not able to offer before.

Further benefits are expected to accrue in the long run, as consumers demand better health care at lower costs. The imposition of a truly free market on health care providers is expected to increase competitiveness in that industry, driving down costs.

There are drawbacks, however. The system demands a significant amount of knowledge on the part of the consumer. Consumers are generally illiterate about health care, unaware of costs, treatments options, and provider options. Moreover, reliable information is not available. The industry does not historically discuss quality, and has

few measures for it. Fewer still are available to the public. Moreover, consumers would be expected to have this knowledge sometimes on demand, as health care situations emerge. Given the amount of time consumers have to dedicate to traversing the steep learning curve, it is no surprise that few of them are willing to do it.

Another drawback is that CDHPs place new burdens on human resource departments. Some of the cost reductions associated with these plans are eaten by the high cost of implementation. Training and communication costs are higher than with other plans, as employees need help with the learning curve. There are also risks associated with making major changes to health care coverage. The ignorance of employees leads to distrust of changes, and correspondingly a reluctance to accept greater responsibility over their health care fates.

In terms of the impact on the health care industry, the book is out on CDHPs. One of the main benefits they are supposed to confer is a reduction in the cost of health care. As of yet, this has not been shown² and that may be in part to the fact that CDHPs have not yet hit critical mass. Another contributing factor is the lack of information that consumers need to make educated decisions. The industry is reticent to produce this information for several reasons. One, quality is assumed in the health care industry. The connotation that a health care provider may be somehow less than another is worrisome for the industry and downright scary for the consumer. Another reason is that such information would have the effect of driving down costs and therefore profits in the health care industry. For the health care industry to make valuable consumer information available would be shooting itself in the foot. One other aspect the CDHPs do not address is the fact

² Walker, Tracey. (2008). CDHP Savings Modest, Enrollment Low. *Managed Health Care Executive*.

that 20% of users spend 80% of health care dollars. High deductibles are less likely to change the habits of these chronic users, which means that competition-driven cost reductions are unlikely to materialize.

In a slowing economy, however, the implementation of CDHPs is an important tool in cost reduction. The benefits to the employers in terms of cost control make successful introduction of CDHP imperative. Therefore, companies who wish to introduce CDHP to their health care menu must be aware of some of the major implementation issues.

Communication

From the employee side, the most significant obstacle to the implementation of CDHPs is the lack of information. There are two major types of information that are lacking. The first is an understanding of how CDHP works, and what the benefits are. There are two key aspects to this problem. One is that the CDHP is a new approach. Workers are accustomed to a system where the choices are made for them. This has resulted in a high degree of ignorance about the way the health system works and what its cost structure is. Part of the education process involves enlightening employees about the fundamental concepts of CDHP. This will require a significant amount of communication. Moreover, for many firms this will also involve coordination with unions, as they are the main communication organ for many American workers.

Another aspect is that accurate and unbiased information is not available about health care providers. Most of them have websites and compete with a degree of marketing, but no independent body vets their claims or their track records. Consumers need a viable, independent source of information about the health care industry and its practitioners. Additionally, they need it before a health care

crisis presents itself. The cost of health care is high, in the range of automobiles or home electronics. Yet consumers' knowledge of the health care market lags most other markets in the same dollar class.

This lack of knowledge amongst workers highlights the importance of communication. It is imperative that any company seeking to implement CDHP must communicate with employees every step of the way. The company should provide the following information. First, it should outline how the plan works, and what its benefits are. Second, the company should be able to walk employees through their first transactions on the plan. Employees' fear of the unknown may prohibit them from choosing a CDHP plan if they feel that they are going to lose as a result of uncertainty regarding the process.

The last aspect of communication for companies is that they will need to communicate to their employees how to work the CDHP to achieve its maximum benefits. This may involve helping the employees gather information about different health care providers in the area. This will help to alleviate one of the major risks, which is that employee will feel abandoned by their company and their insurance provider if they are forced to make their own health care decisions. Information about drugs is more readily available, so HSA/CDHP is more easily implementable for prescription drug plans.

Success Factors in Implementing Health Savings Accounts (HSAs)

There are several key success factors in implementing health spending accounts and CDHP. Communication, as outlined above, is the most important. A new concept is being introduced and to achieve buy-in requires intensive communication efforts to outline

how the system works and what its benefits are. This includes both marketing (website, emails, mailings) and face-to-face or town hall meetings³. Specific examples have proven crucial to the process.

Another key success factor is guiding employees towards the CDHP. Most companies offer CDHP alongside another plan. However, a study by Watson Wyatt indicates that companies who have been successful in implementing CDHPs have done so by eliminating a more popular option. Other devices used have been to offer direct financial incentives. In the beginning stages, this can involve a reduced rate deductible. One of the major points of trepidation is the high deductible, which is difficult to accept for workers accustomed to low deductibles. The Watson Wyatt study showed that deductibles below \$1000 have an adoption rate of 49%, whereas at \$1500 the adoption rate was just 26%.

In terms of HSAs specifically, they have a distinct advantage over HRAs in that they are portable. One of the failings of HR departments of late has been to tailor their plans primarily for lifelong employees, under the belief that they are building some sort of loyalty. The modern career path, however, is to work several jobs for several companies. For this reason alone, the portability of HSAs is a distinct structural advantage over HRAs.

Another implementation success factor has been to offer incentives to receive health appraisals. In general, HSAs benefit those in good health, who are thus unlikely to visit a doctor for anything other than a routine checkup. By offering an incentive for such an appraisal – the Watson Wyatt survey indicated even \$100 was sufficient incentive – more employees are willing to take that step.

Once they find out they are in good health, they can see better the value of an HSA, as opposed to an HRA, which is valueless should they move on. They can also see the benefit of a CDHP, which works best for the healthy.

Conclusion

Most employers who offer CDHPs expect them to grow in the coming years. The programs have proven popular with employees, once they have had the chance to experience them for a time. While CDHPs may not have reduced health care costs as much as predicted, they do offer value for employers and employees alike. With an all-encompassing communications program in place, employers should be able to remove employee apprehensions regarding CDHPs and increase enrollment in them.

The communication gap must be bridged by the company in order to increase enrollment in CDHPs. There is an immediate benefit to the company in terms of health care cost reduction, but if CDHPs can achieve a greater market penetration, then health care costs will see a further reduction as workers leverage their power in the free market.

For Further Contact

If you would like to discuss our finding in greater detail, please contact the author.

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³ McDevitt, Ronald; Lore, Ryan; Buntin, Melinda; Beeuwkes; Damberg, Cheryl; Park, Hayoung. (2007). The CDHP Implementation Experience with Large Employers. *Watson WyattRand Corporation*.

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