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EMBARGOED FOR RELEASE:

12:01 a.m. EDT, Aug. 12, 2008

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****Embargoed For Release at 12:01 a.m. EDT Aug 12, 2008****

New Research from EBRI:

401(k) Participant Experience May Hold Lessons for Consumer Engagement in Health Plans

WASHINGTON—The development of 401(k) plans over the last quarter century, and the recent legislation to overcome worker inertia with default enrollment, diversification and contributions, may offer lessons that can be applied to the design of “consumer-driven” health benefit plans, especially since both depend upon the need for individuals to become good decision makers, according to a study published today by the nonpartisan Employee Benefit Research Institute (EBRI).

“Defined contribution retirement plans have evolved from the employer making all decisions to workers making most of the decisions through their own initiative,” says the study in the August 2008 *EBRI Issue Brief*. “Health plan design is following a similar path as the focus on consumerism grows.” 401(k)s are a form of defined contribution retirement plans that have grown rapidly since the mid-1980s.

The continually rising cost of employment-based health benefits has caused many employers to search for new ways to control these expenses. The most recent efforts have focused on consumer-driven health plans (CDHPs) as a way to help control total health care spending through increased consumer engagement. First introduced in 2001, CDHPs feature a high-deductible plan that is often combined with tax-preferred savings accounts to help participants pay out-of-pocket medical costs.

According to the study, efforts to make workers more involved in and responsible for their health benefits and health care have run into the same problems that surrounded the growth of 401(k) plans: workers tend to delay or be disengaged from both retirement and health care decisions, these issues require long-term planning, and workers see both retirement and health care decisions as complex and difficult.

The study looks specifically at lessons learned in the retirement realm with respect to offering workers choice, financial incentives, and more information, as opposed to defaults. Those lessons are compared with the early evolution of consumer-driven health plans.

The report, published in the August 2008 *EBRI Issue Brief* and online at www.ebri.org, is titled “Lessons From the Evolution of 401(k) Retirement Plans for Increased Consumerism in Health Care: An Application of Behavioral Research.”

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Some of the lessons from the retirement realm that may apply to health care, according to behavioral research cited in the study:

- Increased choice can have negative consequences, particularly with 401(k) retirement plans. More is not always better and may be worse in some cases. Many workers find it too difficult to make appropriate retirement planning or health care choices.
- When faced with making complex decisions, individuals often resort to oversimplifying the decision by reducing it to one important factor they can understand—short-term out-of-pocket costs, even when it results in much higher long-term costs.
- Education has resulted in little or no improvement in workers' knowledge of retirement saving and investing. In addition, empirical evidence suggests that even when workers are “educated,” most fail to act on their knowledge. The heavy investment that many employers have made in retirement education and information programs often fails to produce the desired results.
- Financial incentives, such as an employer match in a 401(k) plan and tax breaks, also fall short of motivating optimal behaviors. Despite the tax-favored status of contributions and the existence of employer matching contributions, a significant portion of eligible workers still do not contribute to 401(k) plans.
- Many individuals remain disengaged from matters they do not have to address immediately, and when they do act it is often too late.

Employers can effectively overcome many of these challenges with effective retirement and health plan design, the study says. It notes that research has shown how default choices, simplification, and requiring active decisions in 401(k) plans can go a long way toward improving the decisions that workers make. Similar design factors can be applied to employment-based health plans, and plan sponsors are well advised to determine these potential effects ahead of time, the study says.

The study was written by Jodi DiCenzo, founder of Behavioral Research Associates, and Paul Fronstin, director of the EBRI health research and education program. Behavioral Research Associates, of Evanston, IL, focuses on applied behavioral research and consulting. EBRI is a private, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions. www.ebri.org

Note: The August 2008 EBRI Issue Brief will be posted early Aug. 12 on the EBRI Web site, www.ebri.org. Embargoed copies are available in advance upon request.