

It's a Matter of

choice

EBRI-ERF Policy Forum

*Consumer Driven Health Benefits:
A Continuing Evolution?*

Pattie Duca

Pharmacia Corporation

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✦ *Pharmacia & Upjohn and Monsanto merge April 2000*

– Benefit Objectives:

- *Create one set of programs*
- *Support business & HR strategies:*
 - *Deliver \$600 million in merger synergies*
 - *Create one new company, better than sum of its parts*
 - *Win war for talent*
 - *Retain performers*

✦ *It's a Matter of...*

Choice (chois) n. ~ something that is best or preferable above others, based on one's values, bias or predilections

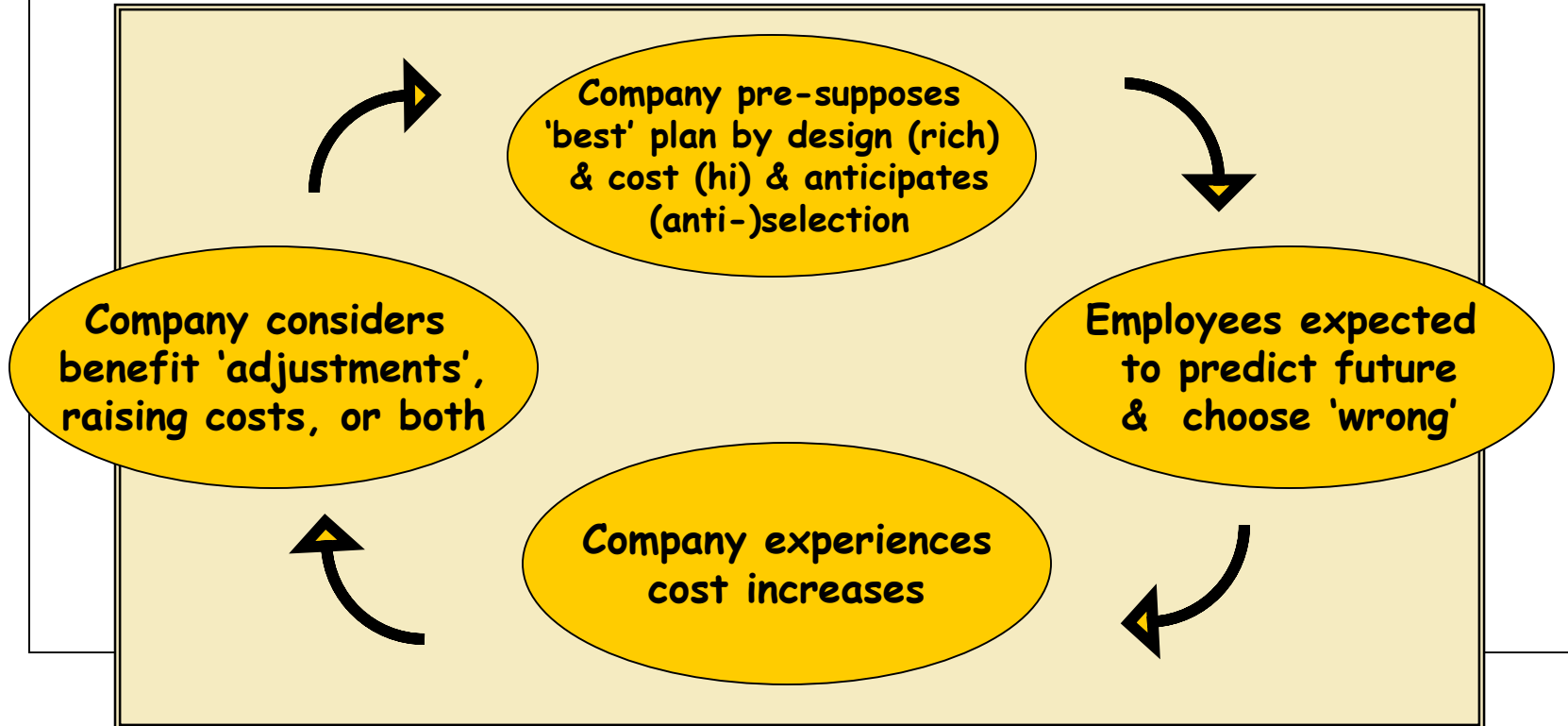
✦ *Why Choice? See above!*

✦ *Challenge:*

- *Demographic: age, gender, marital status, family composition, life and career stage*
- *Geographic: urban/suburban, and everywhere else*
- *Organizational: scientific, manufacturing, sales, professional*
- *Cultural: legacy companies, new company*

☀ Who's Choice?

– *Traditional choice = high, medium, low plans*



- ✦ *True Employee Choice... among plans:*
 - *Equal in:*
 - *Value ~ plan provisions identical*
 - *Cost ~ all plans valued the same*
 - *Company cost actuarially equivalent*
 - *Employee contribution cost identical*
 - *Avoids Section 125*
 - *Sets stage for cost-sharing strategy*
 - *Different in:*
 - *Delivery Model - address diverse employee profiles, markets*
 - *EPO ~ predictable cost, ease of use*
 - *PPO ~ flexibility, security*
 - *Consumer Directed Health ~ non traditional, previously unmet needs*

☀ *Why Consumer Directed Health?*

- In Choice equation, provides equality*
- A bridge between old and new (Pharmacia employees will be ahead of the field)*
- Good compromise between defined benefit and defined contribution*
- Consumer model theoretically sound*

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Why Not?



Performance
at work

New York Times...

“Most working families who have relatively low medical bills could save money...but those with several thousand dollars in medical expense could wind up paying much more.....the effect will be to shift more of the costs into the pockets of the sick...this is taking coverage away from people...”

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	NYT New Plan	NYT Traditional	PPO In Network	PPO Out	EPO	Consumer Directed In Network	Consumer Directed Out
\$5000 Expense	5000	5000	5000	5000	5000	5000	5000
Deductible		900	375	1250		2400	2400
Less Allowance (acct)	3000					1500	1500
Remaining Expense	2000	4100	4625	3750	5000	2600	2600
Co Pay	2000	410	463	750	300	260	520
Net Cost	2000	1310	838	2000	300	1160	1420
Drugs	2484						
Co Pay	2484	660	252	252	252	252	252
Premium	1150	1450	1200	1200	1200	1200	1200
Total Patient Cost	5634	3420	2290	3452	1752	2612	2872



☀ *The Plan:*

- *Health care savings account*
- *High deductible*

☀ *Health Care Account Can:*

- *Provide first dollar coverage*
- *Reverse order of deductible*
- *Reimburse covered or non~covered medical care*
- *Roll over to following year*

Consumer Directed Health Plan Design

Pharmacia-Funded Health Savings Account	
You only	\$600
You plus partner	\$1,000
You plus child(ren)	\$1,000
You plus family	\$1,500
Annual deductible	
You only	\$1,000
You plus partner	\$1,600
You plus child(ren)	\$1,600
You plus family	\$2,400

Enrollment

- *Predictably low in an equilibrium Choice model*
 - *New & different*
 - *Employee becomes the purchaser in an unchanged structure*
 - *New lexicon ~ 'bridges/gaps'*
 - *Confusing concepts ~ HSAs vs FSAs*
 - *FSA participation historically low*
 - *Timing & type of purchases increases financial risk*
- *Unpredicted Profile*
 - *Assumed younger, single, sales, scientists*
 - *All demographics & geographies (except high~paid)*

✦ *A word about cost savings:*

- *Dueling actuaries ~ no data*
- *Consumerism ~ theory*
- *Defined contribution*

✦ *A word about communications:*

- *Transition from familiar concepts*

✦ *Questions . . .*

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Pattie Duca

Senior Director, Global Benefits

Pharmacia Corporation

Peapack, NJ

Office: 908.306.8175

Email: pattie.duca@pharmacia.com

