EBRI-ERF Policy Forum

Consumer Driven Health Benefits: A Continuing Evolution?

Pattie Duca
Pharmacia Corporation

2 May, 2002
Arnold and Porter Conference Center
Washington, DC
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 everyplace else
– Organizational: scientific, manufacturing, sales, professional
– Cultural: legacy companies, new company
Who’s Choice?

– Traditional choice = high, medium, low plans

- Company pre-supposes 'best' plan by design (rich) & cost (hi) & anticipates (anti-)selection
- Company considers benefit 'adjustments', raising costs, or both
- Employees expected to predict future & choose 'wrong'
- Company experiences cost increases
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
New York Times
December 5 2001
A New Health Plan May Raise Expenses for Sickest Workers
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…”
<table>
<thead>
<tr>
<th></th>
<th>NYT New Plan</th>
<th>NYT Traditional</th>
<th>PPO In Network</th>
<th>PPO Out</th>
<th>EPO</th>
<th>Consumer Directed In Network</th>
<th>Consumer Directed Out</th>
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<tbody>
<tr>
<td>$5000 Expense</td>
<td>5000</td>
<td>5000</td>
<td>5000</td>
<td>5000</td>
<td>5000</td>
<td>5000</td>
<td>5000</td>
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<tr>
<td>Deductible</td>
<td>900</td>
<td>375</td>
<td>1250</td>
<td></td>
<td></td>
<td>2400</td>
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<tr>
<td>Less Allowance (acct)</td>
<td>3000</td>
<td></td>
<td></td>
<td></td>
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<td>1500</td>
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<tr>
<td>Remaining Expense</td>
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<td>4625</td>
<td>3750</td>
<td>5000</td>
<td>2600</td>
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<tr>
<td>Co Pay</td>
<td>2000</td>
<td>410</td>
<td>463</td>
<td>750</td>
<td>300</td>
<td>260</td>
<td>520</td>
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<tr>
<td>Net Cost</td>
<td>2000</td>
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<td>838</td>
<td>2000</td>
<td>300</td>
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<td>1420</td>
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<td>Co Pay</td>
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<tr>
<td>Premium</td>
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<td>1450</td>
<td>1200</td>
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<tr>
<td>Total Patient Cost</td>
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<td>2290</td>
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<td>1752</td>
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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**

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<table>
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<tr>
<td>You only</td>
<td>$600</td>
</tr>
<tr>
<td>You plus partner</td>
<td>$1,000</td>
</tr>
<tr>
<td>You plus child(ren)</td>
<td>$1,000</td>
</tr>
<tr>
<td>You plus family</td>
<td>$1,500</td>
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</table>

**Annual deductible**

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<td>You plus child(ren)</td>
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<td>You plus family</td>
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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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