Consumer-Directed Healthcare

Employee Benefits Research Institute

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Today’s Discussion

Consumer-Directed Healthcare
• Strategic & Conceptual Framework
• Key Issues
• Engaging the “Consumer Mindset”

The CDHC Actuarial Model

Why PwC
“If the healthcare system provided the tools to educate the public and the incentives to stimulate cost effectiveness, the consumer would eventually begin to create a balance of value versus cost.”

- Council for Affordable Health Insurance, 1993
High healthcare costs climbing higher

Patients have lost control of their own healthcare, and are not truly engaged in the process of managing their health

Patients are frustrated with managed care “rules” and the impact on time and productivity

Patients don’t understand healthcare costs – costs are not transparent

Patient participation in healthcare decisions leads to more appropriate and less costly care

“After long relying on managed-care companies as their weapon against health costs, U.S. employers are considering a fundamental change in strategy: turning the fight over to their employees.”

- Wall Street Journal, February 2000
Objectives of Consumer-Directed Design

• Increase transparency of healthcare costs to plan participants
• Give plan participants more control over and “shared responsibility” for managing own healthcare and related costs
• Supply participants with the tools to act as better informed healthcare consumers
• Reduce costs for “discretionary care”
• Avoid barriers to “good health”
• Complement and integrate with overall healthcare, benefits and HR strategy
Strategic & Conceptual Framework
Consumer-Directed Prototype

Cost

Frequency

Insurance

Deductible Gap

Personal Account

Insure

Budget
Strategic & Conceptual Framework
Consumer-Directed Prototype

Insurance
- Employer Funds Only
- Notional Account
- Section 105 Plan
- Balance rolls over year to year
- Employer controls growth %
- Employer controls exit rules
  - Vesting
  - COBRA
  - Retiree medical
  - Qualified long-term care

Deductible Gap
- Participant responsibility
- Can fund thru Section 125 plan
- Ensures good health
- Neutralizes “hoarding”

Personal Account
- Consumer education
- Chronic disease management
- Health Promotion
- Online tools
- Telephonic support

Preventive Care

Education and Decision-Support Tools

Participant responsibility
- Can fund thru Section 125 plan
- Ensures good health
- Neutralizes “hoarding”
Strategic & Conceptual Framework
Consumer-Directed Prototype

- Preventive Care
- Personal Account
- Deductible Gap
- Insurance
Year 1: Employee elects $$$ Option with $500 risk corridor. Employee has $750 in claims, allowing Personal Account to carry over $250.

Year 2: Employee elects $$ Option, maintaining $500 risk corridor. Employee has $750 in claims, allowing Personal Account to carry over $500.

Year 3: Employee elects $ Option, again maintaining $500 risk corridor. Employee no longer has a need for the $$$ Option.
Strategic & Conceptual Framework
The Opportunity

Potential Healthcare Spending (millions)

- Status Quo
- Consumer Driven Model
Key Issues
Design Parameters

- Plans: CDHC & Other
- Deductible / OOP Maximum
- Deductible Gap
- Network Incentives

- Allowable Expenses
- Portability & Continuity
- Limits
- FSA Integration

- Preventive Care
- Disease Management Benefits

- Mindset Change
- Vendors (High Tech, High Touch)

- Existing or Proposed Networks
- Targeted Care Management
- Multi-Tier Networks
Engaging the “Consumer Mindset”
Strategic Segmentation

Consumer-centric segmentation can drive design, messaging and intervention strategies to maximize healthcare benefits ROI

• Different consumer healthcare attitudes & behaviors lead to different value drivers, utilization patterns and overall compliance

• Variation in care needs lead to tiered care management strategies (preventive, acute episodic, chronic, special needs, catastrophic)

• Adopting a change management approach can facilitate consumer engagement
**CDHC Actuarial Model**

**Key Parameters**

- Current plan features and enrollment
- Complete replacement, partial replacement, additional offering
- Numbers opting out of coverage
- Discount rates
- Annual trend
- Levels of managed care control
- Employee contribution rate on insured portion premiums
- Distribution of charges
- “Expected” utilization changes
CDHC Actuarial Model
Program Design Support

- Financial Estimates
  - Funded vs. notional cash flows
  - Multi-year estimates
  - Fund growth

- Risk and tradeoffs
  - Impact of bending demand curve
  - Selection dynamics & changes in opt-outs
  - Eligible expense tradeoffs
  - Assumption sensitivity analysis

- “Winners and Losers”
  - Single vs Family
  - Over Time
Why PwC?

*Experience* … at the forefront of design, development and implementation of CDHC with multiple constituents

*Tax/Accounting Expertise* … helping to shape these complex and emerging CDHC issues

*Actuarial Expertise* … the leading CDHC actuarial modeling tool

*Thought Leadership* … HealthCast 2010, HIAA, NCHPE, Wye River Group

*Healthcare Resources* … Strategy, actuarial, clinical, vendor management, administration and education/communication