

# 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

# The Premise

*“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*

# *Strategic & Conceptual Framework*

## Drivers

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.”*

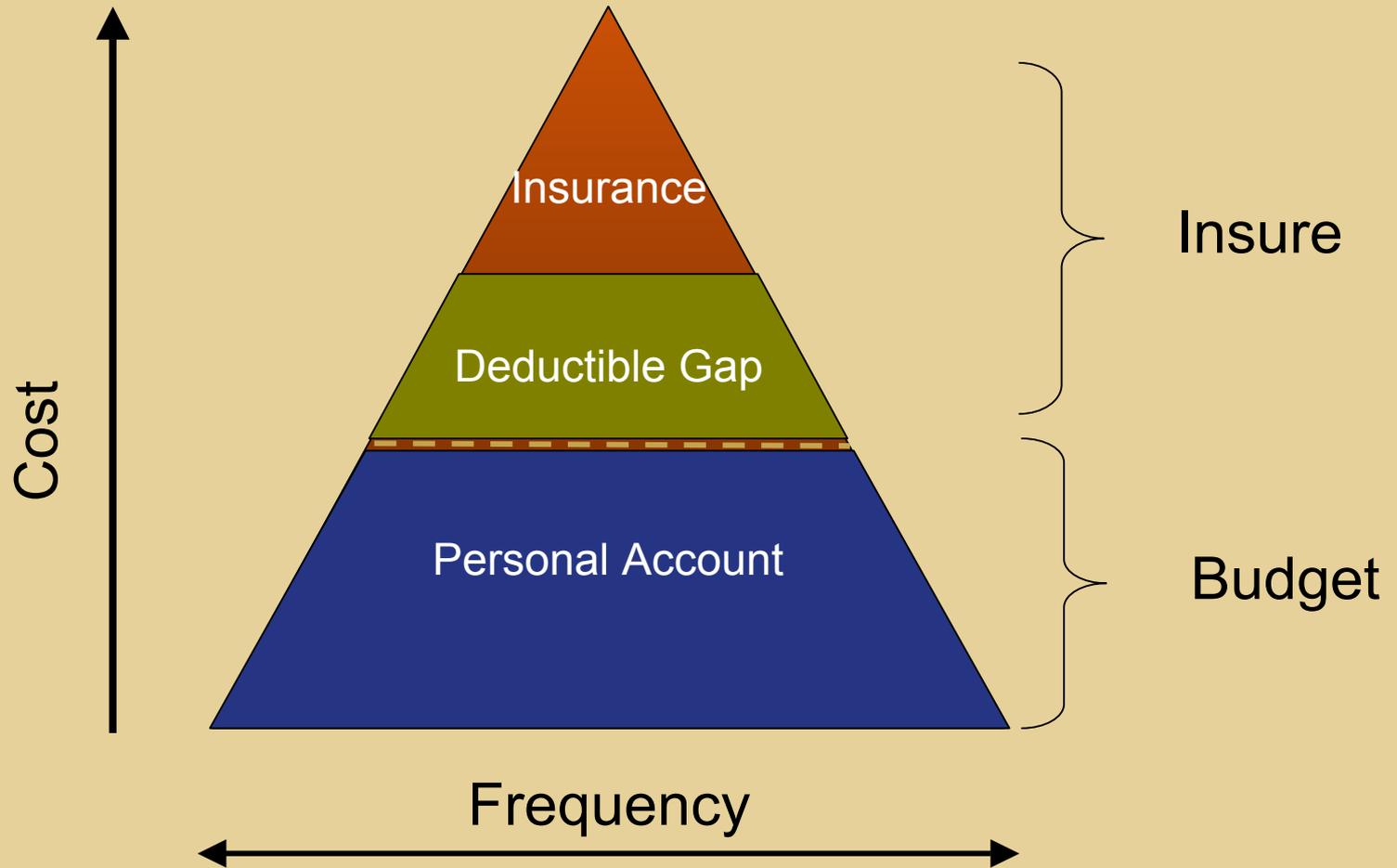
*- Wall Street Journal,  
February 2000*

## *Strategic & Conceptual Framework*

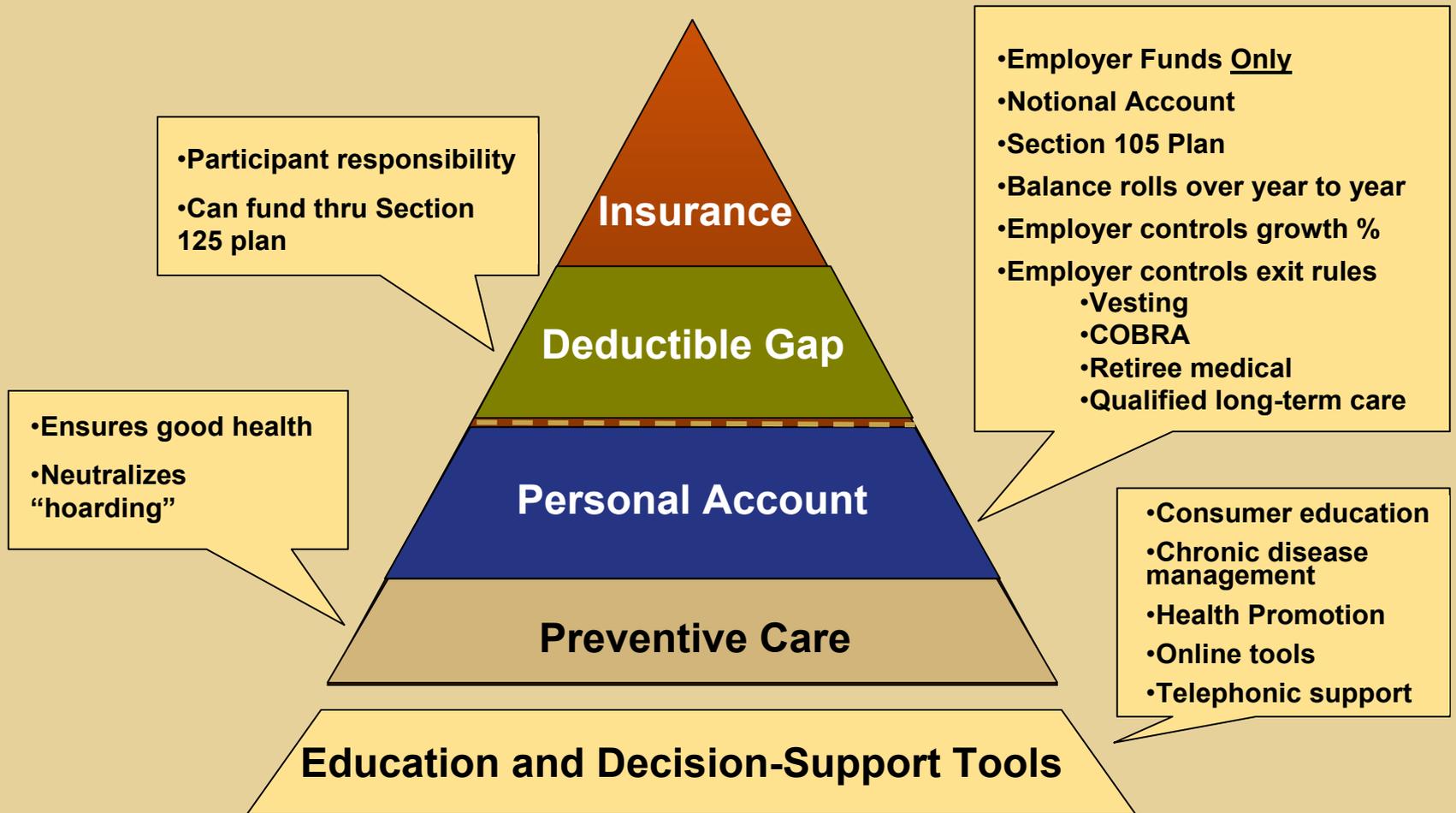
# Objectives of Consumer-Directed Design

- 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

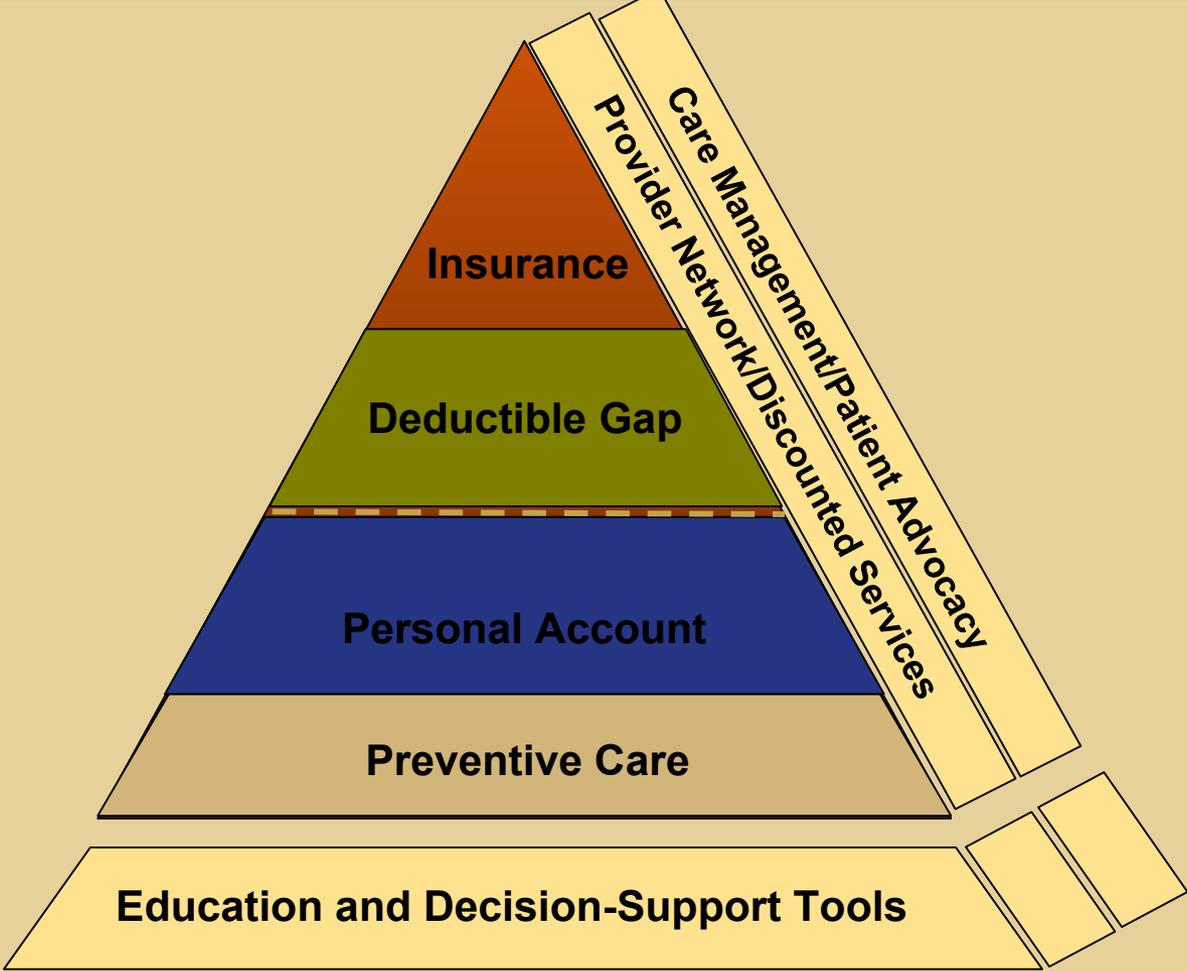
# Strategic & Conceptual Framework Consumer-Directed Prototype



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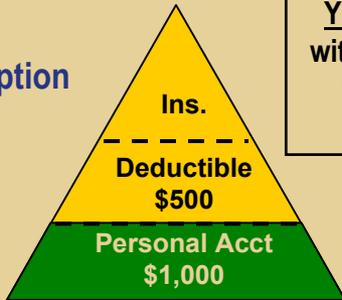


# Strategic & Conceptual Framework Consumer-Directed Prototype



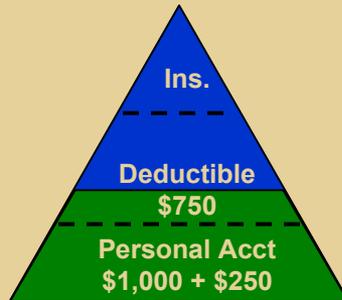
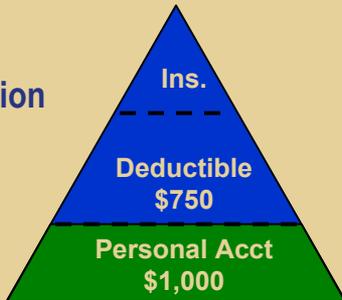
# Strategic & Conceptual Framework Leveraging Multiple Options

\$\$\$ Option



**Year 1:** Employee elects \$\$\$ Option with \$500 risk corridor. Employee has \$750 in claims, allowing Personal Account to carry \$250 over.

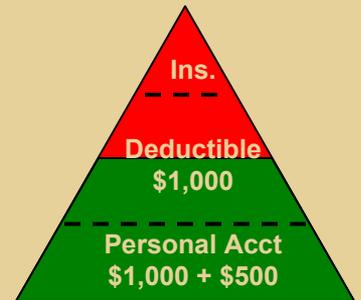
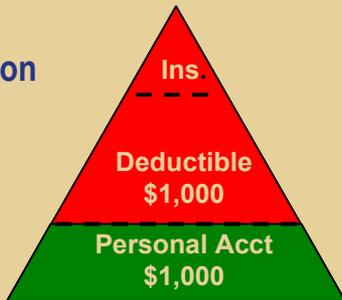
\$\$ Option



**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.

\$ Option



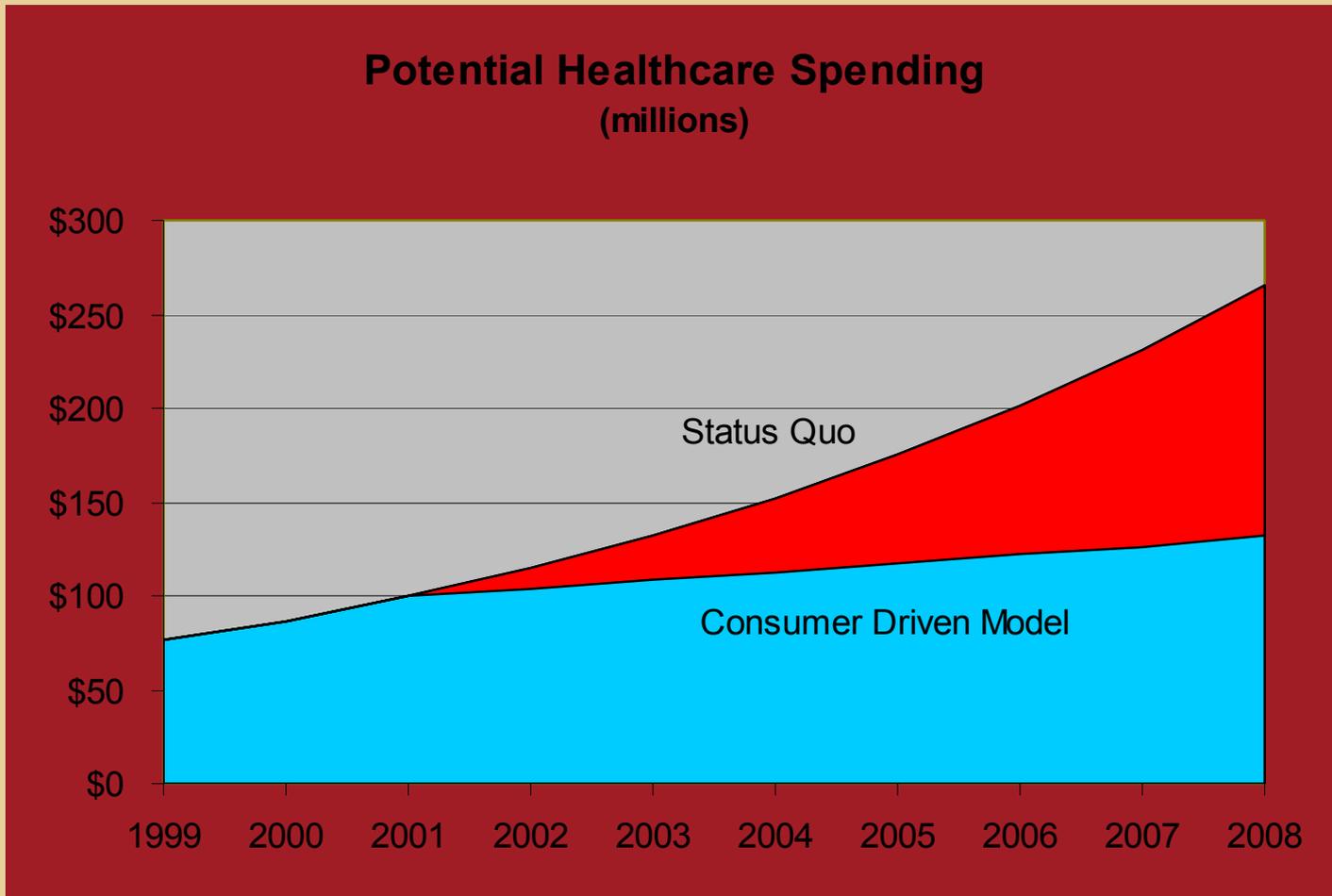
Year 1

Year 2

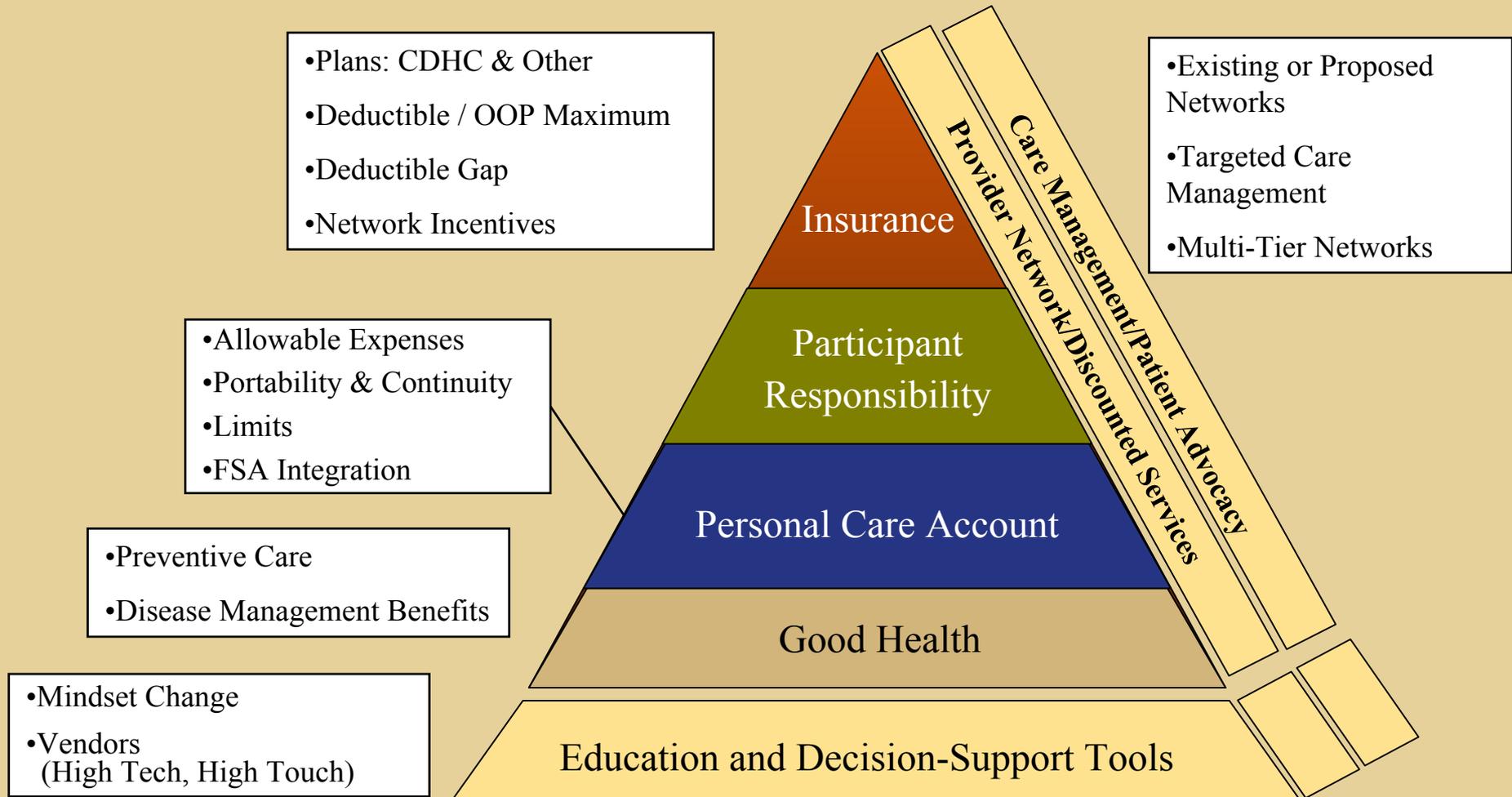
Year 3

# Strategic & Conceptual Framework

## The Opportunity



# Key Issues Design Parameters



# *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

Your worlds



Our people



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