

Three new health plan trends that make a difference

Chronicling innovations in consumer-driven health plans, self-funding and private exchanges



The changing face of employer-sponsored health care

The pivotal role that employers like you play in financing health care is critical for our nation's health care system. As we've seen over the past few years with national health care reform, the delivery of health insurance through the workplace has a major effect that goes far beyond just helping people pay for care. There are three trends that currently drive the evolution of employer-sponsored health care in America. And, knowing about them and anticipating them will help you participate more effectively in conversations with vendors and senior management. The three trends are consumer-driven health plans (CDHP), self-funding and private exchanges, which can all help you gain:

- Employees who make smarter, cost-conscious health care decisions
- Tax deduction for employer contributions
- More choice of health insurance plans
- Innovation of benefits design and health care delivery

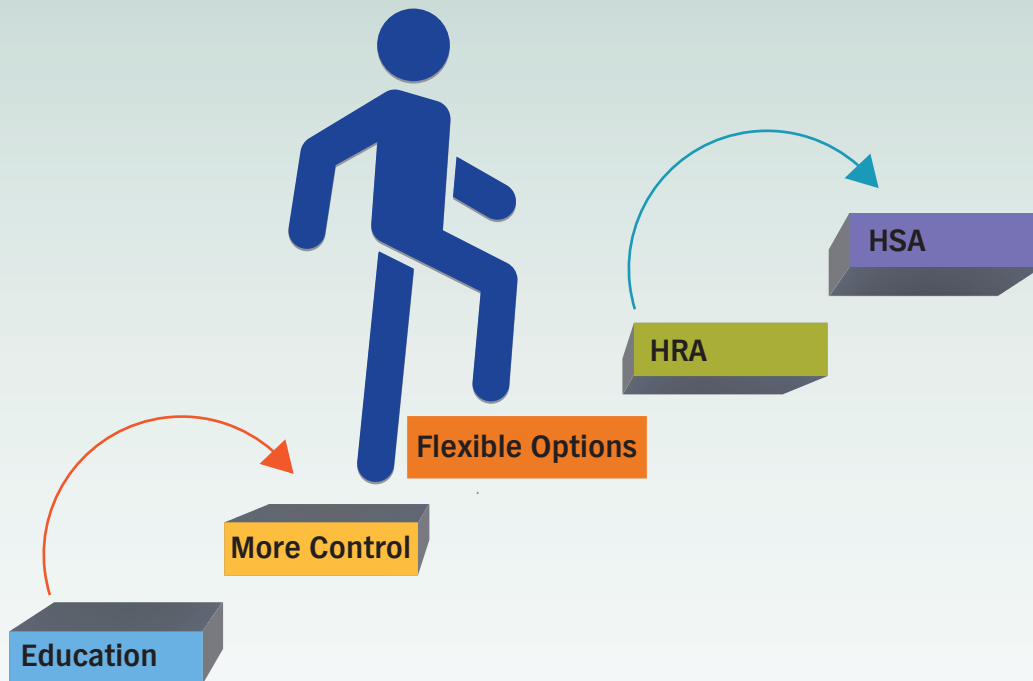
CDHP gives consumers more control over their health care when it comes to making decisions and helps employers provide more cost-efficient health care. With self-funding, you can offer traditional benefit plans to your employees, but you can avoid certain fees associated with fully insured plans. Also, you can potentially save money during years when your employees have fewer medical expenses. Private exchanges offer a new model for providing health insurance to employees allowing you to have more financial predictability over their health care expenses, while also allowing your employees to have more flexibility to choose a plan that best meets their unique needs. Let's learn more about all three.

“Employers have had more success controlling costs in large part because they’ve adopted consumerist and market-friendly approaches to health insurance. Consider health savings accounts, which combine low-premium, high-deductible insurance policies with tax-free, interest-bearing savings accounts for out-of-pocket expenses. Individual employees can save up to \$3,300 – or \$6,550 for a family – per year. In many cases, employers help their employees work toward that savings goal. Any money left in an HSA rolls over from year to year, giving workers both more control over their health care and a strong incentive to be prudent shoppers.”

Sally C. Pipes,

CEO and Taube Fellow in Health Care Studies at the Pacific Research Institute

Trend #1 Consumer-driven health plans



Creating a member base that's informed, invested and in charge

CDHPs have grown out of a need for employers to rein in costs in an era of rapidly increasing health care expenses. The CDHP allows members to use health savings accounts (HSAs), health reimbursement accounts (HRAs) or similar medical payment products to pay routine health care costs directly, while a high-deductible plan protects them from devastating medical expenses. The CDHP model thrives on:

- Transitioning the third-party reimbursement system into one that gives consumers economic purchasing power and the ability to make decisions on their own.
- Providing the education and decision support tools along with rewards, financial incentives and other benefits that drive personal responsibility in changing health and health care purchasing behaviors.
- Giving consumers – rather than health plans – control over health care decisions.

What the numbers say

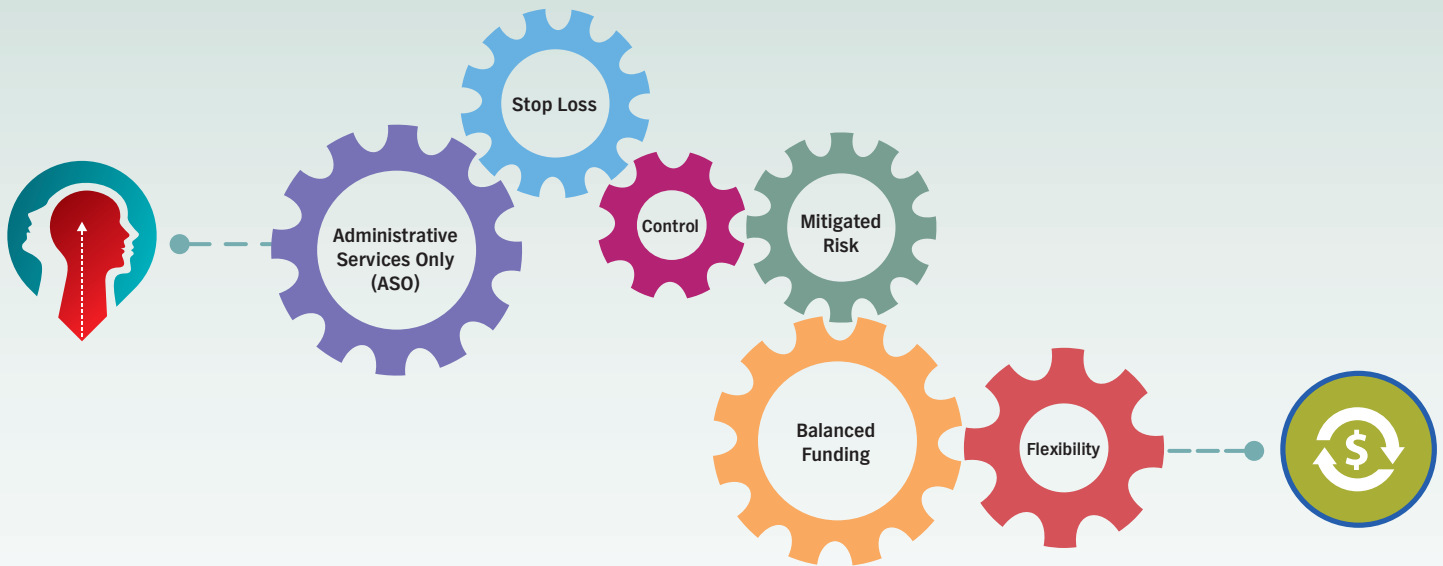
CDHPs have increased at an accelerated pace in recent years as evidenced by these statistics² provided by America's Health Insurance Plans (AHIP), the trade association for the health insurance industry:

- Enrollment in CDHPs with an HSA
 1. 2005: 1 million Americans
 2. 2009: 8 million Americans
 3. 2013: 15.5 million Americans

Successful consumer-driven health plans must satisfy two overarching objectives:

1. Be effective for the healthiest AND the most ill.
2. Appeal to those who want to make all health decisions AND those who want to make none.¹

Trend #2 Self-funding



Delivering flexibility in benefit investments with self-funding

With the self-funding health plan option, you pay for actual claims and not anticipated claims. This means you only have to pay costs when an employee gets medical care and files a claim. Many employers use this form of health insurance as a way to control rising health costs.

The two types of self-funding options are Administrative Services Only (ASO) and balanced funding.

An ASO is an alternative funding arrangement for medical, pharmacy, vision and dental plans. The carrier provides administrative services only and charges a fee as compensation. The group is responsible for payment of all claims. To mitigate risk, ASO is typically paired with an excess risk insurance policy called Stop Loss.

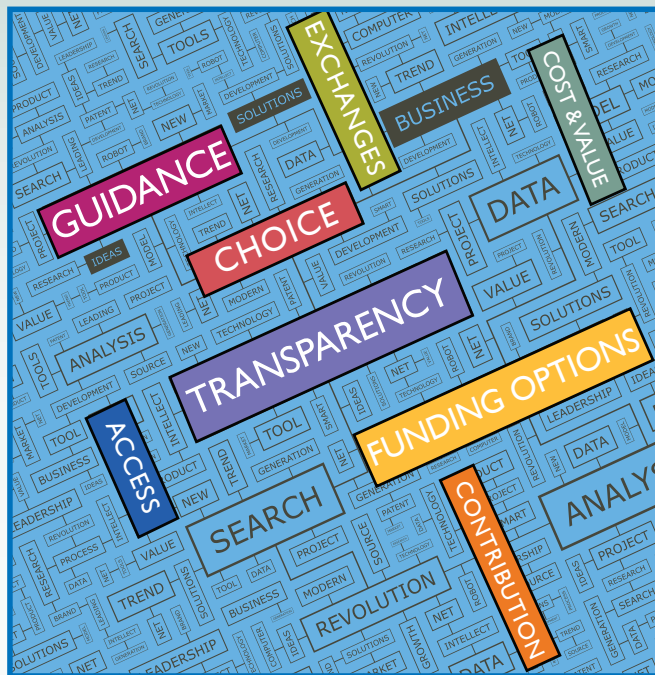
The advantages of ASO are:

- Maximum cash flow benefits
- Flexibility to determine levels of stop loss protection
- State-mandated benefit enhancements do not apply
- Companies in multiple states can offer similar benefits across the country. Benefits can be non-standard.
- No premium tax, except for stop loss premium

Balanced funding is an option that evens out costs from month to month and allows you the benefits of fully insured plans with the cost containment of ASO/self-funding.

It's not surprising that nearly 80 million people – an all-time high – received health benefits through a self-insured plan last year. That means a record 60% of workers under 65 are covered by a self-funded plan – the number in smaller firms (3 to 199 employees) increased to 15% in 2012, up from 10% in 2003, according to Kaiser.³

Trend #3 Private exchanges



Helping employees choose a plan that's right for them

Private exchanges, websites that are separate from state and federal health insurance marketplaces, were created to help employer groups purchase health coverage where they can better predict costs through defined contribution. What makes private exchanges distinct is their ability to allow health care consumers to choose from a wide variety of major health plans as well as supplemental insurance products, such as dental.

Here's how it works for employers:

- You choose how much money you want to contribute toward your employee benefits, including coverage for such things as dental, vision, life and disability.
- Your employees gain guidance on the type of plan that may fit their unique needs, and they select from a group of plans with the amount you have provided for their benefits. If they choose benefits that are more than the amount you contribute, the employee pays the difference. This allows more transparency into the true costs.

The most successful private exchanges use a defined contribution payment approach. This approach is similar to a 401(k) retirement plan where you contribute set amounts of money toward employees' health insurance. Here, you decide how much you want to spend on health insurance each year, and you set aside those amounts in an HRA or some other funding option. A private exchange will facilitate the defined contribution payment system where the only role you have is putting funds toward the purchase of health insurance coverage. In this case, the employer is contributing funds toward the purchase of health insurance.

When reviewing private exchanges, it's important to consider the following factors:

1. The right mix of choices for you employees
2. Access to quality networks
3. Options for specialty benefits (dental, vision, life, disability, workplace voluntary. etc.)
4. Employee plan selection guidance
5. Cost and value that works for you

Accenture, a consulting firm, estimates that total enrollment in private exchanges by active employees will reach about 40 million by 2018, surpassing the number of people enrolling through state and federally funded exchanges.⁴

Maximizing the value of these trends

CDHPs, self-funded options and private exchanges play key roles within the health insurance arena today. As you prepare for re-evaluating your company's health care plan decisions, it's important that you learn as much as you can about these trends and start having discussions with the primary decision-makers in your company. Let your senior management know what you're reading and talk to them about what kind of financial decisions you'll need to make in the future.

Health benefits as a whole help you attract and retain the most qualified employees. So it's critical to be educated about the options available to you in terms of saving money and keeping your employees' best health top of mind.

Appendix

- 1 Robert Wood Johnson Foundation website: Consumer-directed health plans: Do they deliver? (accessed August 2014): rwjf.org.
- 2 Compass Healthcare Consumerism Blog: Stats on CDHP Growth – Up and to the Right (accessed August 2014): compassphs.com.
- 3 Source: CNBC website: Health-Care Solutions: Putting Smaller Employers in the Driver's Seat (accessed August 2014): cnbc.com.
- 4 New York Times website: Private Health Care Exchanges Enroll More Than Predicted (accessed August 2014): nytimes.com.