Ben·E·News
AN ELECTRONIC UPDATE FROM BEN-E-LECT

Employers Should Stop Taking The Back Seat

Why The Industry Should View Employers As The "Consumer" In Consumer Driven Health Plans

By Mark Reynolds

Too often we read about the problems with consumer driven health plans. We've seen reports from providers of patients showing up for expensive procedures with high deductible health plans and no money to pay for the procedures. This is creating an obvious problem for providers as well as patients.

The problem with the consumer driven model is only one thing: who we define as the "consumer." Ask yourself the question: is the employee the consumer, or is it the employer who makes the decision and pays for the largest portion of employee benefits?

The popular view is that the employee or dependant that visits the doctor's office, utilizes the lab or diagnostic tests, and picks up the prescription should be the consumer. However, let's explore why putting employees in the driver's seat has become a perilous ride for the healthcare industry and not the appropriate solution to the current healthcare crisis we are facing.

- A Watson Wyatt study[1] states that 72% of plan participants incur only 11% of total healthcare spending, while 4% with chronic or catastrophic illnesses incur over 50% of all costs.
- Another study from Pacific Business Group on Health[2] cites 50% of employees account for less than 3% of costs; 85% spend less than $1,000 per year.
- According to a study of BEN-E-LECT groups between 1996-2006, less than 4% of its members incur enough charges to exceed the carrier's high deductible.

[1]Source: Watson Wyatt Worldwide, "Financial Incentives Alone Unlikely to Curb Health Care Costs, Watson Wyatt Says," April 24, 2006.

[2]Source: "PBGH Member Benefit Strategies Promoting Quality, Value and Access," February 2005.

Employees At The Wheel

Consumer driven healthcare is founded on the assumption that employees will make better lifestyle choices, become better shoppers and spend less money if they have incentives and control over their healthcare benefits. Let's venture deeper into that approach, starting with the concept of consumerism.

First, the Federal Reserve states credit card debt in the U.S. totals more than $900 billion. Approximately 60 percent of all cardholders carry an average balance of over $15,000, which requires a minimum payment of $250-$300 per month just to cover interest. These are the same consumers many call the "driver" in consumer driven health plans? Expecting consumers to spend their healthcare dollars wisely and budget for their HSAs when many cannot handle their own finances is not feasible.

Second, regardless of group size, 50-70 percent of employees incur very little or nothing on healthcare each year as proven by Watson Wyatt, BEN-E-LECT and Blue Cross of California. How can the majority who spend very little to nothing make an impact on overall healthcare costs? How can they spend their money that they do not currently spend, more wisely? It is the smallest portion of employees who incur the largest portion of healthcare expenses. And, it

is unlikely these employees with catastrophic and/or chronic diseases will be won over by incentives to reduce their health plan spending.

Third, consumer behavior cannot be changed overnight, at least not in time to make a substantial impact on the current healthcare crisis. Since 1974, consumers have been trained to go to the doctor, pay their co-pay or nothing at all, and expect the balance of the bill to be paid by someone else. This process in healthcare access and spending have been ingrained in consumers for over a quarter of a century. Educating consumers to take responsibility for negotiating their way through the access and financing of their healthcare in a short period of time is unreasonable.

We have seen the problems as a result of the "employee" consumer model. Reports from providers of patients showing up for expensive procedures with high deductible health plans and no money to pay for the procedures are on the rise. This is creating an obvious problem for providers as well as patients. But perhaps an even bigger issue is that current conditions give legislators a chance to offer their solutions. If we continue with our current definitions and direction, we will not solve the problem at hand. We will only hear more of these provider reports and see more employees that are displeased. The solution is to take a new approach and redefine the consumer.

Leave The Driving To Employers

While employees can contribute to controlling healthcare costs in the long term, we need to view the *employer* as the "consumer" in today's consumer driven health plans for immediate results. The employer makes the initial decision to create an employer sponsored health plan. The employer decides on the agent or broker, carrier, type of benefits, eligibility, and amount of employee contributions. And, it is the employer that pays the largest portion of the health plan costs. Wouldn't it make sense to view the employer as the consumer?

The primary reason any employer sponsors a health plan is to attract and retain good employees. For this reason alone, we should define the employer as the "consumer" since it is in the best interest of the employer to maintain the most favorable and efficient employee benefits package possible.

Viewing the employer as the consumer and providing alternative, viable options to health plan design and financing may be the solution to containing costs, and a desired alternative to a state-run healthcare system.

The Employer Driven Health Plan™ Model

One cutting-edge approach that has lowered overall plan costs by 30 percent, as proven by BEN-E-LECT, while improving benefits is the "Employer Driven Health Plan™" (EDHP) model. The EDHP model is not a benefit design that shifts costs from employer to employee as it would in a defined contribution model. It is also not a gap plan which would add to premium cost. This model enables the consumer—the employer (small or large)—to leverage the above referenced fact as stated by Watson Wyatt, BEN-E-LECT and Blue Cross of California that 50 to 70 percent of its employees will use little or no healthcare each year. By doing so, the employer can maintain the coverage desired while lowering the overall cost of the plan.

In the EDHP model, employers purchase a fully insured group plan with deductibles from $1,500 to $5,000 or higher, under which the employer can administer co-pays for office visits

and prescriptions as well as co-insurance under a Section 105 HRA (health reimbursement account) or MERP (medical expense reimbursement plan). In certain cases, employers may even implement a limited-use FSA (flexible spending account). Here are just a few results:

1. Lower plan cost by over 30% each year
2. Maintain or improve benefits for all covered members
3. Gain control over future cost increases
4. Increase membership of currently non-covered employees
5. Increase accountability of all members, providers, and carriers
6. Begin training for the next generation of health plans such as "employer driven mix and match" or "multi-plan" offerings using more high deductibles
7. Training, education, and accountability will increase future HSA enrollment
8. Future HSA enrollment leads to savings for future healthcare cost

While driven by the employer, this concept sets into motion a way of re-educating employees on how to access and evaluate their own healthcare needs, ultimately helping to further control the cost of healthcare. Lower cost, improve benefits, re-education, and accountability are influential reasons to define the employer as today's consumer.

By offering employers appropriately priced high deductible plans and the administration of these plans by qualified third party administrators (TPAs), we may be solving the crisis facing every American business today. The solution to this crisis will require perseverance, a focus on what members need, a vision for the future, and cooperation by every party involved. It will require breaking down old paradigms and learning to do things in new ways. Employers are tired of the old ways. They are ready to be the consumer of today's Employer Driven Health Plans™. Let's put them in the driver's seat.

Mark Reynolds is CEO and president of California based BEN-E-LECT, a leading third party administrator (TPA) and innovator of Employer Driven Health Plans™ that has been providing solutions to brokers since 1996. A registered health underwriter (RHU), he has played an active leadership role in the industry for years, serving as a founding member of the Inland Empire Association of Health Underwriters and past president of the Health Care Administrators Association (HCAA).