

# How to Make Consumer-Driven Health Care Work for You

## Issue

Today, employers are faced with health insurance costs that are rising much more quickly than inflation or wages.<sup>1</sup> To stem the tide, many employers increase employees' health plan contributions, deductibles, copayments and out-of-pocket limits. But these changes are unpopular and fail to address the underlying problem—health care utilization.

The number of employers adopting a Consumer Driven Health Care (CDHC) approach has increased sevenfold since 2003.<sup>2</sup> However, many employers are finding CDHC to be a mixed blessing, at best.<sup>3</sup> While CDHC is a potential solution, few plan designs include the three elements necessary for changing consumer behavior and decision-making:

- Incentives
- Education
- Involvement<sup>4</sup>

Some employers have offered a qualified High Deductible Health Plan (HDHP)-Health Savings Account (HSA) in addition to a more traditional plan, only to have minimal participation. Other employers have paired a Health Reimbursement Arrangement (HRA) with an HDHP, only to find employees frustrated with increased out-of-pocket expenses.

## Solution

A short-term solution does not exist. Instead, what is needed is a long-term strategy that will likely take at least three years to implement.<sup>5</sup> During each year of the campaign, incentives to participate will change as will direct employee enrollments. Education must be ongoing. Employees must learn new skills, like how to interpret an explanation of benefits and how to shop for value and quality in health care outcomes. Involvement is a must; all participants must become more aware of how their health care dollars are spent.

A transition campaign might take this form:

- **Year 1.** The employer offers the traditional (low deductible) plan with a Health FSA. The employer encourages consumer-driven behavior by seeding the account or providing matching funds up to a certain dollar amount.
- **Year 2.** The employer offers the same options as Year 1, but adds an HDHP and pairs it with an HRA. In Year 2, there should be sufficient incentives to drive participation toward the HDHP-HRA model. Examples might include much lower HDHP premiums, no employer funding of the FSA or enhanced wellness and preventive care benefits for HDHP-HRA participants.
- **Year 3.** The employer offers the HRA once again and replaces the traditional plan and Health FSA with an HDHP and a Health Savings Account (HSA). Incentives (such as premium contributions) should drive participation toward the HSA.

- **Year 4 and beyond.** The employer could then move away from the HRA at some point and offer a HDHP-HSA as the only option. Each year, the employer should reinforce the idea that health care consumerism is a partnership between employer and employee to reduce overall health care costs.

## Explanation

Many American health consumers remain unaware of the true costs of health care. Thus, any changes in health plans which result in more up front out-of-pocket expenses (even if there are long-term savings) are likely to meet resistance. Many employees consider health expenses in terms of co-pays, and not in terms of the entire cost of the service. Immediate replacement of a traditional plan with a HDHP-HSA model is typically not well received.

The purpose of the multi-year plan outlined here is to gradually increase employee familiarity with the true cost of their medical expenses.

## For More Information

HRA plan designs are limitless. However, a thoughtful plan design will be easy for employees to use and will be an incentive for changing health care expense patterns. Infinisource offers plan design assistance for employers. For more information, call our Fringe Benefits Department at 800-300-3838 or see our available resources at [www.infinisource.net](http://www.infinisource.net).

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<sup>1</sup> Alliance for Health Reform, Study: *Health Care Coverage in America: Understanding the Issues and Proposed Solutions*, March 2007.

<sup>2</sup> Watson Wyatt Worldwide, Study: *12<sup>th</sup> Annual National Business Group on Health/Watson Wyatt survey*, March 2007.

<sup>3</sup> Fred Schneyer, *Consumer Health Plans Not Living Up to Full Potential*, Plan Sponsor Magazine, May 2007.

<sup>4</sup> Kelley M. Butler, "What we have is a failure to communicate": *Low employee knowledge, engagement about benefits*. Employee Benefit News, May 2007.

<sup>5</sup> Frank Hone, *Market forces and the new focus on demand-driven health care*, Employee Benefit News, January 2007.