

Reden & Anders

an **INGENIX**.company

Southeastern Actuaries Conference Atlanta, GA

November 20, 2008

Consumer Driven Health Plans
Jim Drennan, FCA, FSA, MAAA
Principal
Reden & Anders



Where Are We Now? 2008 versus 2001 Perspective

- 2001 Perspective:
 - CDH carrier market dominated by start-ups
 - Will CDH work? Theoretical/actuarial justification vs. evidence
 - Will mainstream employers buy it? Some early adopters identified
 - Will IRS allow it? Legal arguments vs. safe harbor
 - Will it lead to poor health outcomes (or how will consumers react)?
 - Cost shifting, risk selection, issues/concerns
 - Infrastructure/capabilities under development, but not fully operational

Where Are We Now?

2008 versus 2001 Perspective

- 2008 Perspective:
 - Emerging CDH data is positive
 - First year costs lower
 - Some evidence of lower ongoing trends
 - Quality is similar
 - Widespread/rapid employer adoption
 - Limited product evolution (HRA/HSA)
 - Total market penetration – critical mass?
 - Regulatory status clear/expanded
 - Politically sensitive

Where Are We Now? 2008 versus 2001 Perspective

- 2008 Perspective (continued):
 - Market maturation
 - Surviving start-ups acquired/integrated by major carriers
 - Product/capability innovation slower? Or temporarily slowed by acquisition/integration?
 - CDH concepts/capabilities migrated to other products
 - Incentives/wellness/other initiatives
 - Expansion of CDH or substitution?
 - Transparency
 - Price/quality information is more available, but remains limited – may not be usable
 - Provider payment largely unchanged – still negotiated FFS networks

(Some) Principles of CDH Evolution

- Fund (ownership) can be a substitute for member cost-sharing
- Fund-based products were never the full solution – but a critical element (necessary)
- Healthcare market versus healthcare system
 - We have a healthcare market now (for better or worse)
 - We do not have (nor necessarily want) a healthcare system
 - We generally know what the characteristics of an efficient healthcare market would look like

(Some) Principles of CDH Evolution (cont'd)

- Elements of a consumer healthcare market (necessary, but not sufficient)
 - Consumer financial engagement (ownership)
 - Price/quality transparency (provider financial/clinical engagement) and competition
 - Supply/demand balance/adjustment
 - Price elasticity
 - Inter-related factors – significant change in any one **could be** sufficient to move the market

Key Questions for CDH Evolution

- Does it build on what we have learned?
- Is there a value proposition for employers? For consumers?
- Can it be demonstrated/modeled/justified?

Why: All health care product and delivery innovations are ultimately focused on cost and trend because that is the core problem.

Foundational Improvements – Identifying what works and where to focus

- Necessary/unnecessary care models
- Health Risk Assessment Evaluation
- Incentive Program Evaluation (P4P)
- EBM and Pharmacy Adherence Modeling
- Member Messaging Effectiveness
- Common Consumer Tool Effectiveness

Plan Design Evolution

- HRA/HSA is the beginning rather than the end
- There are other possible extensions of fund/ownership concept
- CDH remains politically sensitive
 - Do we need to find another vehicle for mainstream adoption?
 - HMO => POS => PPO transition model
 - What will be the PPO equivalent for CDH?

Plan Design Evolution

- Examples:
 - Value-based benefit designs
 - Episode-driven cost-share designs
 - Non-Fund/HDHP designs
 - Variable contribution/cost-share models
 - Evolution of fund/HDHP models (increasing the scope of consumer control of benefit dollars)
 - Higher deductible/higher fund designs
 - Multi-year plan/fund
 - Alternate funding mechanisms/structures

Wellness/Incentives/Other Initiatives

- Wellness alone may not have ROI
 - Without systemic changes population healthcare use may not change (shifted to other conditions)
- Incentives are unlikely to be focused without foundational improvements
- Defined contribution/employer exit strategies have limited life-span without fundamental trend changes

Provider Payment/Delivery System Evolution

- Effective transparency initiatives must:
 - Reflect how consumers actually purchase care
 - Create incentives for efficiency improvements
 - Address price elasticity and allow for price discovery
 - Allow for supply/demand adjustment
 - Achieve a critical mass of membership sufficient to overcome the significant inertia of status quo and public sector payment volume
 - Include effective demand-side components (supply side probably not sufficient by itself)

AAA CDHP Emerging Experience Workgroup

- Consumer Driven Health Plan Emerging Data Report (expected November/December 2008)
 - Logical next topic to consider given prior publications from CDHP workgroup
 - Experience on CDH performance largely unpublished (presentations versus reports or journal articles)
 - Frequent citation of out-dated AAA Monograph on MSAs as the “actuarial opinion” on CDH plans
 - Perception among policy-makers that CDH plans are “new” and that data is unavailable
 - Lack of a comprehensive actuarial assessment of multiple CDH experience studies and results

Approach

- Not able to obtain or analyze study data directly
- Identified actuarial considerations and barriers to evaluation of CDH results
- Reviewed multiple studies of CDH results
- Identified “credible” study designs and methodologies
- Synthesized results for consistent directional results and findings

Characteristics of Studies Included

- Available by early April 2008
- Based on actual experience and claim data
- Credible methodology
- Results detailed and relevant
- Studies meeting criteria:
 - Making an Impact – Aetna health Fund (2008)
 - CIGNA Choice Fund: Two Year Experience Study, 2005 to 2006 (March 2008)
 - Reden & Anders – Consumer Directed Health Care: A Look at Current Experience (November 2006)\
 - Uniprise – 2008 CDHP Results Discussion (March 2008)