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:
  - Reden & Anders – Consumer Directed Health Care: A Look at Current Experience (November 2006)
  - Uniprise – 2008 CDHP Results Discussion (March 2008)