



Consumer-Driven Health Plans

A Brief Introduction

Consumer-Driven Health Plans

Introduction to Consumer-Driven Health Plans (CDHPs)

Why Consider CDHPs

- Encourage more employee engagement and cost management
- Give your employees incentive and access to the right information, tools, and support, so they become more involved in their health care decisions.
- Improve the health of your employees
- Reduce unnecessary plan utilization and corresponding costs
- Encourage employee savings to cover future medical expenditures through use of tax-beneficial accounts.

How they compare to tradition plans

Traditional plans and CDHPs can provide access the same networks of providers to offer the same quality of care.

Traditional health plans often disguise the real cost of healthcare with low co-pays, leading participants to give little thought to the cost of healthcare services. Consumer-Driven Health Plans encourage your employees to share more responsibility for how health care dollars are spent resulting in more cost-effective utilization.

As an employer, you can choose one of two funding types to help your employees pay for and manage their healthcare expenses:

- **Health Savings Account (HSA)**, or
- **Health Reimbursement Account (HRA)**.

Depending on your organization's needs, CDHPs could be the best way for it to address the rising cost of healthcare by incenting your employees to become more involved with their healthcare decisions.

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How a Health Savings Account (HSA) works

Employees fund their individual HSAs with pre-tax dollars. As the employer, you can also contribute to this account. Employees then use their HSA to pay for their health care expenses, including deductibles and co-payments. Unused HSA funds belong to the employee.

The HSA works with a High-Deductible Health Plan (HDHP)

The high deductible can be offset by lower premiums and employer contributions.

In 2007, a High-Deductible Health Plan's annual:

- Deductible must be at least \$1,100 for employee-only coverage and \$2,200 for family coverage
- Out-of-Pocket Maximum must be less than \$5,500 for employee-only coverage and \$11,000 for family coverage.

Health Savings Account (HSA)

HSA benefits for employers:

- Lower premium cost because of high-deductible requirement
- Employees become smarter consumers and spenders when it comes to health care services. They share more responsibility for how health care dollars are spent, resulting in more cost-effective utilization of health services.
- Tax-deductible contributions¹
- Improved employee health and reduced absenteeism

HSA benefits for employees:

- More control, self-service
- Provided with health care information and support
- Potentially lower premiums
- Tax-deductible contributions and tax-free withdrawals for eligible expenses
- Tax-free interest earnings and investment options
- Year-to-year rollover of unused funds to pay for future expenses
- Ability to take savings and transfer to another plan or use in retirement when employment ends.

A study of 25,000 HSA enrollees found that a majority of those individuals open the bank account (84%), contribute their own funds (67%) and carry balances over from year to year (86%).

The study also found that 80 percent of eligible low-income individuals (earning less than \$25,000/year) opened an HSA, with 56 percent making their own contributions. The motivation and ability of these consumers to open and fund their accounts is directly related to the employer's decision to fund the account.

Source: UnitedHealth Group DefinitySM Three Year Study of Consumer Driven Health Plans (2003-2005)

¹ A benefit to employers only when they choose to contribute to the account

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HSA Contribution Limits and HDHP Requirements

	<u>2007</u>	<u>2008</u>
■ Annual HSA contribution limits		
— Self-only HDHP coverage	\$2,850	\$2,900
— Family HDHP coverage	\$5,650	\$5,800
— HSA catch-up contribution limit is (for individuals who are 55 or older)	\$800	\$900
■ Required minimum annual HDHP deductible		
— Self-only HDHP coverage	\$1,100	\$1,100
— Family HDHP coverage	\$2,200	\$2,200
■ Maximum HDHP out-of-pocket expense limits		
— Self-only coverage	\$5,500	\$5,600
— Family coverage	\$11,000	\$11,200

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How a Health Reimbursement Account (HRA) works

Employers fund the HRA with pre-tax dollars. Employees then use their HRA account to pay for their health care expenses, including deductibles and co-payments.

Unused HRA funds belong to the employer and remain with you if an employee leaves the company. At your option, they may be rolled over from year to year to benefit the employee.

The HRA may be offered with a variety of medical plans.

The employer has more discretion in designing the underlying medical plan than with an HSA.

Health Reimbursement Account (HRA)

Both the HSA and HRA options put consumers in charge of allocating dollars to pay for health care costs and provide them with a financial incentive to be smart shoppers.

HRA benefits for employers:

- Lower cost when offered with a high-deductible plan
- Tax-deductible contributions
- Maximized cash flow
- Improved employee health and reduced absenteeism
- Unused dollars belong to the employer
- Flexible plan design
- Employees become smarter consumers and spenders when it comes to health care services. They share more responsibility for how health care dollars are spent, resulting in more cost-effective utilization of health services.

HRA benefits for employees:

- More control, self-service
- Provided with health care information and support
- More involvement in medical purchasing decisions and wiser use of health care services
- Potentially lower premiums
- Coverage to help meet deductible provided by employer
- Can be rolled over each year (at the option of the employer).

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HRA/HSA Illustration

— A look at annual expenses for a typical employee²

	Charge	HRA/HSA	HMO	PPO
Preventive Care	\$900	\$0	\$30	\$60
6 Prescriptions	\$410	\$410	\$180	\$240
2 Urgent Care Visits	\$270	\$270	\$50	\$100
2 Doctor Office Visits	\$200	\$200	\$40	\$40
4 Phys Therapy Visits	\$520	\$520	\$100	\$160
Subtotal	\$2,300	\$1,400	\$400	\$600
Employer HRA/HSA Contribution		\$1,800	N/A	N/A
Employer-provided Offset		\$1,400	N/A	N/A
Employee Out of Pocket		\$0	\$400	\$600
HRA/HSA Rollover Amount to next year		\$400	N/A	N/A
Total Employee Cost Before Payroll Contributions		\$0	\$400	\$600
Annual Employee Premium from Payroll Contributions		\$2,400	\$2,500	\$2,600
Total EE Cost with Contributions		\$2,400	\$2,900	\$3,200

² The values shown in the chart are illustrative only and do not represent actual costs or rates.

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Some Survey Results ³

Preventive Care – More CDHP members seek preventive care services than did PPO enrollees (when CDHP plans exclude deductible from preventative care)

Acute Care – CDHP members reduced use of acute health services such as hospitalization (22%), and emergency room visits (14%), while these increased somewhat (except for a small reduction in number of hospital admissions) in the preferred provider organization plan.

Office visits – CDHP enrollees experienced a slight decrease (8%) in office visits, and are somewhat lower than the preferred provider organization.



Chronically Ill – CDHP enrollees (with an HRA) with a chronic illness also used acute services less (8 percent fewer hospital admissions and 12 percent fewer emergency room visits) but continued to visit their primary physician at the same rate as chronically ill members enrolled in traditional plans.

³ Source: UnitedHealth Group DefinitySM Three Year Study of Consumer Driven Health Plans (2003-2005)

Consumer-Driven Health Plans

Definitions

■ **Consumer-Driven Health Plan (CDHP)**

A healthcare benefit plan specifically designed to encourage participants to share more responsibility for how healthcare dollars are spent, creating more cost-effective utilization of healthcare services. When associated with HSAs, these plans have minimum deductibles (which can be waived for preventative care) and maximum out-of-pocket expense requirements. Employer contributions to the HSA can reduce the effective employee deductible, while still encouraging overall cost containment. These plans provide an effective tool for delivering good health maintenance, quality care and cost control.

■ **Health Reimbursement Accounts (HRA)**

A tax-exempt arrangement established and funded by employers for employees and retirees to use for qualified medical expenses such as physical exams, vision care and dental care, including deductibles and co-payments. Money remaining in the account at year-end can roll over and be used to cover future medical costs (“use it or lose it” does not apply), but the account is not portable. An HRA does not need to correspond with a specific health plan. HRAs are a way to encourage patients to shop wisely for health care.

■ **Health Savings Accounts (HSA)**

Introduced by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, these are tax-exempt trusts or custodial accounts created for employees, retirees and the self-employed who are covered under a high-deductible health plan. Funds can be used for medical expenses, including prescription drugs, qualified long-term care and insurance premiums, and COBRA coverage. Contributions can be made by the employer or the employee. Amounts not distributed can be carried forward. Like an IRA, the individual who is the account beneficiary owns the HSA, making the plan portable. An HSA can be offered under a cafeteria plan. These accounts are designed to empower employees to take more responsibility for their own health care and help employers control health care costs. See also Cafeteria Plan; High-Deductible Health Plans

■ **High-Deductible Health Plans (HDHP)**

Health benefit plans that have a minimum deductible of \$1,100 for individuals and \$2,200 for families, which applies to all health care benefits except preventive care. Out-of-pocket expense requirement cannot be more than \$5,500 for single coverage or \$11,000 for family coverage. The amounts described are for 2007; they are indexed each year. These plans can aid in medical cost control for employers while providing preventive care for employees. These plans may be offered in conjunction with an HSA.