

# BENEFIT

## *Plan Developments*



A monthly report covering plan design and legislative changes

Volume 49, Number 1

## Employers Consider The Consumer-Directed Health Plan Alternative

Growing numbers of employers are responding to double-digit annual increases in health insurance costs by offering consumer-directed health plans (CDHPs) as alternatives to more expensive managed care plans, but most employees prefer to remain with their existing medical coverage unless they are given incentives to change, according to two recently published studies.

A study by University of Minnesota researchers Stephen Parente and Roger Feldman, published in the November/December 2005 issue of *Health Affairs*, looked at employee take-up rates of Health Savings Accounts (HSAs)—tax-advantaged accounts coupled with high-deductible insurance plans—since they first became available on January 1, 2004.

The authors observed that workers with existing employer-provided coverage are unlikely to be

attracted to CDHPs in large numbers because the employer's premium subsidy reduces the cost of more comprehensive coverage. However, they asserted, CDHPs could serve to decrease the number of uninsured individuals.

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Parente and Feldman estimated that 3.2 million Americans who lack insurance would obtain coverage through HSAs. Those most likely to benefit from this new plan type, they noted, would be people between the ages of 19 and 64 who are not students, not participants in public health insurance plans, or not eligible for group coverage as dependents.

The authors also speculated that the number of consumers entering into HSA contracts could be substantially higher if tax incentives and quality controls were to improve. Parente and Feldman conducted several simulations of how certain tax subsidies could influence consumer take-up of HSAs.

Results of the simulations showed that, if the Bush Administration's proposals for refundable tax credits granted to small businesses were approved by Congress, HSA adoption



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could more than double, from 3.2 million to almost seven million. This scenario could reduce the number of uninsured by 2.9 million, at an estimated annual cost of \$8.1 billion.

In a second simulation, researchers found that a proposed HSA buy-in subsidy for low-income Americans could reduce the number of uninsured by 4.5 million, at a cost of \$12.2 billion annually.

A third scenario, in which two types of free individual HSAs were offered, was found to nearly eliminate uninsurance, but at a much higher cost per capita. A further problem with this option, researchers said, was that offering free HSAs would likely erode employer-sponsored health insurance coverage, reducing the number of employees insured by their employers by almost 5.7 million, if a less generous free HSA became available, or by 31.6 million, if a more generous no-cost plan were adopted.

Deloitte Consulting, in its third annual survey of employers' attitudes regarding consumer-driven health care, found that CDHPs are entering the mainstream of American business practices. The survey of 316 companies showed that 43% are now offering a CDHP or will be offering one within two years, compared with just 19% in 2003.

When asked whether CDHPs are proving effective in changing employee purchasing patterns and reducing costs, 77% of respondents agreed, while only 8% disagreed. Among employers with a CDHP, 83% agreed the plans influence behavior, compared with 7% who disagreed.

More than half of respondents (56%) said CDHPs would result in immediate employer cost savings, compared with 27% who said they would not. When asked if CDHPs would reduce health care costs over the long term, 43% of respondents agreed, while 24% disagreed.

Deloitte researchers noted that some employers expressed reservations about adopting a consumer-driven approach. A minority of respondents questioned whether CDHPs really promote long-term

cost reductions through consumerism or whether they are simply another short-term means of shifting costs to employees. Concerns were raised by some employers about whether complex plan designs work and whether they would be accepted by employees. Some respondents also worried about the effect of CDHPs on less healthy employees, especially those with chronic illnesses.

Most of the respondents, researchers added, did not share these doubts, with many believing consumer-driven plans work well and would be well-received by employees.

The survey looked specifically at the experiences of early adopters of consumer-driven plans, representing 22% of the sample. Among this group of employers with a CDHP already in place, nearly one-half indicated they had first introduced the plan as of January 1, 2005, while the remaining respondents had adopted the CDHP prior to or during 2004. Around 70% of early adopters said they offered the plan to all benefit-eligible employees, while 30% reported piloting the plan with a select group. Most respondents said the CDHP was only one of several options offered, with just 19% indicating the plan replaced all health benefits.

When asked what types of plans they offer, 63% of early adopters said they provide a Health Reimbursement Account (HRA) plan, while 31% indicated they offer a high-deductible plan in conjunction with an HSA.

The survey showed that more than half (51%) of the early adopters provided the CDHP as the lowest-price health benefit option for employees, 42% set the plan's cost in the middle of other options, and 7% priced the plan at the same level as the other plans offered. Researchers noted that, in 2005, none of the respondents made the CDHP the most expensive benefit option, compared with 14% who did so in 2003.

When asked whether various constituencies within the company are satisfied with the CDHP, 51% of respondents

replied that employees and their dependents are satisfied, 71% said senior management is satisfied, 59% indicated middle management is satisfied, and 69% said the HR department is satisfied.

In analyzing the findings, Deloitte researchers commented that the key to the success of consumer-driven models is for employers to aggressively expand enrollment in CDHPs, as failure to recruit at least 20% of the workforce to join a CDHP soon after its introduction could prevent the company from reaping the cost and quality benefits of consumerism. The survey showed, however, that only about one-third of early adopters were able to enroll more than 20% of employees in a CDHP.

To encourage more employees to join, researchers suggested employers take several steps, including making the CDHP the lowest-price employee option, assessing management and workforce readiness for health care consumerism, and gaining in-depth knowledge of the new delivery models and marketplace acceptance.

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## Fewer Workers Covered By Employer-Provided Health Insurance In 2004

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The percentage of Americans receiving employment-based health benefits fell in 2004, and the percentage of the population covered by any type of health insurance also declined, according to a study released by the Employee Benefit Research Institute (EBRI).

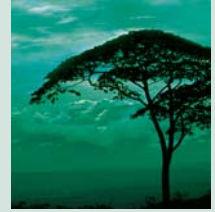
EBRI researchers analyzed data on rates of health insurance coverage among non-elderly individuals in 2004 from the U.S. Census Bureau's March 2005 Current Population Survey, and they examined trends in insurance coverage between 1994 and 2004.

Results of the analysis showed the percentage of this population with health insurance coverage fell in 2004 to 82.2%—the lowest level recorded in the 10-year period. The total number of uninsured in 2004 amounted to 45.5 million, the study found, up from 44.7 million in 2003 and 36.5 million in 1994.

The study further indicated that the percentage of the population receiving coverage through an employment-based health plan declined in 2004 to 62.4%, down from 63% in 2003 and the 10-year peak of 66.8% in 2000. Meanwhile, the percentage of individuals who were covered by public programs rose to 17.5% in 2004, up from 16.8% in 2003 and a low for the period of 14.3% in 1999. Researchers observed that, while growth in employment-based coverage exceeded that of public programs between 1994 and 2000, the trend was reversed between 2000 and 2004, largely due to the weaker economy and the rising cost of providing health benefits.

Generally, the study found, the types of individuals most likely to have had employment-based health benefits in 2004 were full-time, full-year employees; public sector employees; workers in the manufacturing, managerial, and professional sectors; and individuals living in high-income families. The categories of workers least likely to have received health benefits from their employers included those working in service occupations and part-time or seasonal employees.

While nearly 71% of workers were shown to have employment-based health benefits in 2004, just 39.8% of non-workers had employer-provided coverage. Results further indicated that 72.7% of individuals in families headed by full-year, full-time workers had employment-based health benefits, compared with 39.2% of those in families headed by other types of workers and 20.8% of individuals in families headed by non-workers.



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## Major Health Insurance Reform Underway In Massachusetts

Massachusetts state lawmakers are working on sweeping legislation that could mandate health insurance coverage for all state residents and require all but the smallest employers to provide health benefits or contribute to a pool that would be used to cover the uninsured.

Legislators are weighing three separate proposals that would lead to a restructuring of state laws governing health insurance and provide coverage for the approximately 500,000 Massachusetts residents who currently lack insurance. The basic elements of all the proposals are an expansion of the state's Medicaid program (MassHealth) to cover a larger group of low-income workers and a requirement that most employers contribute to the cost of insurance. The House and Senate passed two separate versions of the bill in November. Lawmakers are expected to meet in January to reconcile the differences in the bills and consider proposals put forward by Governor Mitt Romney.

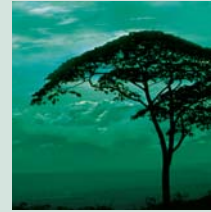
The House bill would establish a choice for businesses with more than 10 employees: either provide health benefits to all employees or contribute a portion of business revenue to a newly created "Commonwealth Care Fund." Under the proposal, businesses with 11–100 employees would be required to contribute 5% of payroll each quarter to the fund, while larger businesses would have to contribute 7% of payroll each quarter. Part-time workers would be counted as employees, as would seasonal workers for the quarter in which they worked. Temporary employees or independent contractors would not be counted as employees.

Under the House plan, employers who provide health benefits to workers would receive a credit for their health care expenses, which typically exceed 5% or 7% of payroll. Only the first \$94,200 of an employee's wages would be used to calculate an employer's payroll.

The House bill further proposes the establishment of a "Commonwealth Health Insurance Connector," a state-operated agency that would certify and offer health insurance products to companies with 50 or fewer employees. The agency would also provide affordable insurance products to individuals who earn less than 300% of the federal poverty level, but too much to qualify for MassHealth. Businesses employing workers who participate in this program would be required to contribute toward their premiums. More than one employer would be permitted to contribute to an employee's health coverage, and insurance would be portable for the employee when changing jobs.

The House bill and the governor's proposal would require individuals to obtain some form of health coverage, but the Senate bill would not. Both the Senate and the House bills call for an expansion of MassHealth to cover more low-income parents, children, and childless adults, while the governor's plan does not. The Senate proposal does not include mandated contributions by businesses that do not provide insurance, but it would require companies in this group with 50 or more employees to pay the full cost of care if their employees seek health care services from a hospital or community clinic.

Advocates of the reform argue that the 70% of Massachusetts businesses currently providing health benefits to their employees would no longer be made to subsidize, in the form of higher premiums, those companies that do not offer insurance. Some business groups have argued, however, that a new payroll tax could make Massachusetts businesses less competitive, and it could drive some companies from the state.



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