Healthcare Consumerism —
For Sustained Cost Reduction

Consumer-driven healthcare plans, if designed and implemented correctly, can result in significant benefit cost savings.

Opportunities for new – and existing – CDH plans

What is it?
“Consumer-Driven Healthcare” or more broadly “Healthcare Consumerism” is a real and significant current force within the U.S. healthcare system. It goes by many names and comes in many forms – acronyms you may have seen include CDH, HDHP, HSA, and many more.

Deloitte’s general definition of consumer-driven healthcare is employer-sponsored health benefit programs that:
• Hold employees more responsible for medical purchase decisions through innovative plan designs with built-in financial incentives,
• Emphasize each individual’s responsibility and accountability for managing and improving his or her health,
• Provide clinical and financial information and tools to enable employees to be true healthcare consumers,
• Provide proactive clinical management and health coaching to optimize provider efficiencies and courses of treatment, and
• Educate employees as to how to better navigate the U.S. healthcare system, work with their physician, and make the best decisions for their personalization of services from doctors, hospitals, and health plans.

Does it work?
When designed and implemented correctly, consumerism has been shown to reduce both healthcare utilization and costs. For example, when CDH is offered on a full-replacement basis, Deloitte actuarial studies have shown that CDH plans reduce discretionary and potentially unnecessary utilization and reduce employer healthcare expenses. We’ve seen significant savings in the first year of implementation – as much as 10%-15% reductions. After the first year, the cost trend is generally 3%-5% lower than the marketplace, but greater reductions are sometimes achieved. Several employers have reported trend rates under 3% per year for the first 3-5 years of the program.

However, when not designed or implemented correctly, financial results may be mixed. For example, when CDH is offered as an option alongside other plan choices, enrollment can vary widely depending on pricing, perceived plan design risk, and communications. When CDH enrollment is low (i.e., under 30%), it is not unusual to see an increase in overall costs. The #1 challenge is making the CDH design attractive to employees with chronic conditions or concerns about a “different” plan and getting them enrolled. Deloitte completed a detailed actuarial study for a large employer who offered a CDH option alongside their traditional plan options. Through risk-adjustment scores, we helped the company determine that primarily only healthy lives are enrolling in their CDH plans across all ages. Risk scores for those who enrolled in the CDH plans were nearly half those who did not. Healthcare costs were 55% lower for CDH enrollees but overall trends were 8%, which is close to market average, demonstrating little, if any, cost savings in total.

How does it work?
There is general consensus among industry researchers that up to a third of healthcare spending in the US is unnecessary or discretionary. For example, a recent study by Thomson Reuters (Robert Kelly, “Where can $700 Billion in Waste be Cut Annually from the U.S. Healthcare System?”, Oct. 26, 2009) reports that the U.S. healthcare system wastes between $600 billion and $850 billion annually, approximately 27%-38% of the $2.26 trillion total, and that the largest contributor is spending on unnecessary care.

Simply stated, healthcare consumerism provides the structure and incentive to reduce discretionary and unnecessary spending.
First, healthcare consumerism lowers the demand for healthcare by changing behavior. The typical plan structure, with increased deductibles and out-of-pocket limits, together with a spending/accumulation account for the employee to manage and “own”, provides financial incentives to change behavior. Education and health information provided through on-line tools and health coaches also provide the motivation and means to change.

In addition, healthcare consumerism promotes better purchasing decisions by patients, including such decisions as the place of service (“do I get my MRI at the hospital or at the free-standing facility down the street?”); the type of provider (“should I see my primary care physician or a specialist for this ailment?”); or treatment alternatives (“is there a cheaper drug available to treat my condition?”).

**Achieving the results**

Our experience clearly indicates that achieving optimal financial results requires real transformational change with clear leadership support and a long-term strategic focus. There needs to be a corporate-wide culture shift to focus on health investment and individual responsibility. All company healthcare programs should be fully integrated, with effective financial incentives in place. Finally, targeted and sustained employee communications and education are key components.

**Deloitte’s Recommended Approach: Healthcare Transformation**

We define Healthcare Transformation as a strategic and comprehensive realignment of an employer’s overall healthcare program, including medical and pharmacy plans, care management and wellness programs, and corporate culture. It is built on a foundation of consumerism, and, effectively implemented, can result in a win-win proposition for employees and the employer, with significant and lasting cost control.

The objectives should include:

- Implement programs and change the corporate culture to focus on healthy lifestyles, health improvement, individual accountability, employee self-service, and effective health management (including evidence-based clinical protocols);
- Provide effective financial incentives through plan designs and other programs to promote good healthcare decisions and healthy behaviors;
- Increase employee engagement through leadership-led culture change, proactive outreach and ongoing communications;
- Enable and equip employees through education and healthcare tools and information; and
- Optimize vendor effectiveness and program value.

To help organizations in their efforts to accomplish these objectives, Deloitte developed an effective process with the following six components:

<table>
<thead>
<tr>
<th>Major Change Component</th>
<th>Description</th>
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<tbody>
<tr>
<td>Strategic Planning</td>
<td>Develop a multi-year strategic plan</td>
</tr>
<tr>
<td>Plan Design</td>
<td>Install or augment consumer-focused healthcare plan designs</td>
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<tr>
<td>Care Management</td>
<td>Install or augment care management programs</td>
</tr>
<tr>
<td>Health Improvement</td>
<td>Install or augment corporate wellness programs</td>
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<tr>
<td>Select External “Change” Vendors</td>
<td>Analyze and select best-fit vendors to help integrate all the programs and achieve change goals</td>
</tr>
<tr>
<td>Communications</td>
<td>Develop and implement a branding and communications campaign that includes education and change management</td>
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We have developed a unique set of actuarial tools as well designed to assist organizations in their efforts to design their programs and in projecting their financial results. The following table illustrates the degree of savings that are achievable for a typical company with 20,000 EEs:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Cost</th>
<th>Net Employer “Cash” Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>97.4$</td>
<td>97.4$</td>
</tr>
<tr>
<td>2009</td>
<td>105.2$</td>
<td>105.2$</td>
</tr>
<tr>
<td>2010</td>
<td>113.2$</td>
<td>113.2$</td>
</tr>
<tr>
<td>2011</td>
<td>121.7$</td>
<td>121.7$</td>
</tr>
<tr>
<td>2012</td>
<td>131.1$</td>
<td>131.1$</td>
</tr>
<tr>
<td>2013</td>
<td>568.6$</td>
<td>568.6$</td>
</tr>
</tbody>
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- **Illustrative High Level Savings Estimate**
  - ABC Company - Healthcare Transformation (Singlions)

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