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 long-term health.

Latest industry surveys indicate that about two-thirds of employers either currently offer consumer-driven healthcare plans to their employees or expect to within the next several years.

Furthermore, employees are "ready" to be healthcare consumers. Results from Deloitte's annual consumer survey of over 3,000 individuals indicate that surveyed employees want to learn more about health problems and treatment options, want to compare providers based on price and quality, and see a need for better value, better service, increased transparency and 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.

Deloitte Case Studies

Auto Parts Manufacturer
- **11% annual savings over the first 2 years of the program**
- Decreases in hospital utilization and modest increases in physician services and prescriptions
- No change in preventive care
- No cost shifting to employees
- Improved employee satisfaction scores

Consumer Products Company
- **First year savings of approximately 14%**
- Decreases in hospital utilization and increases in office visits
- Significant increases in immunizations
- No cost shifting to employees
- Improved employee satisfaction scores

Healthcare Company
- 35% enrollment in consumer-driven healthcare plans
- **CDH plan trend 11% lower than PPO plans**
- Award winning healthcare communications campaign

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.

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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:

Major Change Component	Description
Strategic Planning	Develop a multi-year strategic plan
Plan Design	Install or augment consumer-focused healthcare plan designs
Care Management	Install or augment care management programs
Health Improvement	Install or augment corporate wellness programs
Select External "Change" Vendors	Analyze and select best-fit vendors to help integrate all the programs and achieve change goals
Communications	Develop and implement a branding and communications campaign that includes education and change management

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:

Illustrative High Level Savings Estimate
ABC Company - Healthcare Transformation
($millions)

	Plan Year						Total
	2008	2009	2010	2011	2012	2013	2009-2013
Continuation of current plans:							
Total Cost	$ 129.2	$ 143.7	$ 160.0	$ 177.9	$ 197.8	$ 219.8	$ 899.2
EE Contributions (Payroll Deductions)	$ (32.0)	$ (35.6)	$ (39.6)	$ (43.9)	$ (48.8)	$ (54.1)	$ (222.0)
Company Costs	$ 97.2	$ 108.1	$ 120.4	$ 134.0	$ 149.0	$ 165.7	$ 677.2
CDH Transformation Beginning 2009:							
Total Cost (Cash Costs)		$ 131.0	$ 140.2	$ 149.5	$ 159.6	$ 169.9	$ 750.1
EE Contributions (Payroll Deductions)		$ (33.6)	$ (35.0)	$ (36.4)	$ (37.8)	$ (38.8)	$ (181.5)
Net Employer "Cash" Costs		$ 97.4	$ 105.2	$ 113.2	$ 121.7	$ 131.1	$ 568.6
Increase/(Decrease):							
Total Cost		$ (12.8)	$ (19.8)	$ (28.4)	$ (38.2)	$ (49.9)	$ (149.0)
EE Contributions (Payroll Deductions)		$ 2.0	$ 4.6	$ 7.6	$ 10.9	$ 15.4	$ 40.5
Net Employer "Cash" Costs		$ (10.7)	$ (15.2)	$ (20.8)	$ (27.3)	$ (34.6)	$ (108.6)
% change		*-10%*	*-13%*	*-16%*	*-18%*	*-21%*	*-16%*

Assumptions:
- 20,000 covered active employees expected in 2009, no change in future years
- Total projected plan claims costs of $129.2 million for 2008 (includes medical & drug claims cost and administrative fees)
- Total EE contributions of $32. million for 2008 (24.8% of total plan cost)
- Full Replacement to CDH plan effective 1/1/09, including effective Care Management and Wellness programs

	Continuation of current plans:	Healthcare Transformation beginning 2009:
- Utilization	N/A	11% Net utilization reduction
- Cost shifting	None	None on average
- Annual Medical Cost Trend	12%	8%
- EE Contributions	Future years maintain same % of total costs	Maintain same % of total EE cost sharing as current plans
- Network Discount	Discount percent stays the same in future years	Maintain discount percent
- Administrative fees	$38.00 PEPM in 2008, increasing 4.0% per year	$42.00 PEPM in 2009, increasing 4.0% per year

It's not too late

Even if you already have looked at healthcare consumerism or have implemented a consumer-driven healthcare plan, you should consider Deloitte's unique approach in your efforts to achieve additional savings. We are so confident that our Healthcare Transformation approach will help you in your efforts to reduce your healthcare program costs (without shifting costs to employees), based on the results we've seen with other organizations, that we're willing to put up to 80% of our fees at risk.

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