

CONSUMER-DRIVEN HEALTH PLANS



Celtic Insurance Company
www.celtic-net.com (800) 477-7990

The Emergence of Consumer-Driven Health Plans

In response to consumers' changing needs, health insurance carriers have answered the call of the marketplace with innovative new products that address the rising costs of health care and help insure the growing numbers of Americans in need of health coverage. Carriers have looked to consumers to "steer" development of their products, and these *consumer-driven health plans* (CDHPs) are quickly gaining popularity and sales momentum in the industry.

Many of today's individual health consumers are seeking low-cost, basic benefit and high-deductible plans that engage them in health care decisions and shift more responsibility and cost to users. Providing policyholders with essential coverage and lower monthly premiums, CDHPs help define today's health insurance industry and will impact its future.

Until recently, the typical health plan provided comprehensive coverage for the entire family—lots of first-dollar benefits, low copays, low deductibles—and was most likely funded by an employer. Even the leading individual health plans were benefit-rich with the "look and feel" of a group plan; they tended to offer a standard set of comprehensive benefits that fit the budgets of most consumers.

These plans are still appropriate for some consumers, but with rising premiums and greater demand for more affordable, flexible individual health products, sales trends are shifting towards CDHPs.

Today's consumers are concerned not only with the quality of their medical care but the costs as well. What's influencing this shift?

- The costs of health care are climbing, and premium rates continue to be a driving factor in consumers' selection of health plans. Consumers are now willing to cost-share in exchange for lower monthly premiums.
- Employer-sponsored health coverage continues to decline, so more people have to buy their own coverage.
- There are over 45 million uninsureds in America, many of whom are ages 19-34, price-sensitive, and don't need comprehensive health coverage.
- More consumers are applying for and purchasing insurance coverage over the Internet, where low-cost plans lead sales.

Today there are a variety of health plans with the benefit and price structures consumers are looking to buy. These CDHPs are responsive to today's consumer: what they're willing to pay, how they're willing to cost-share, and what benefits they're looking for. Most importantly, they satisfy consumers' need for affordable health insurance plans and protection from unexpected medical costs.

Consumers are Thinking About Health Costs in New Ways

CDHPs help control health care costs by enabling consumers—not the employer group sponsoring their coverage or their managed care providers—to manage their own health care decisions.

This shows that Americans are learning to think about health coverage in different terms. Paying more out-of-pocket for health services, consumers today are likely to ask themselves:

- "What health plan product features should I select?"
- "What doctor should handle this procedure?"
- "Is there a generic available in place of this brand-name drug?"
- "How much should I save to meet my health care expenses?"
- "Can I find health insurance coverage online?"



CDHP Designs

CDHPs have been available since 1992 but have gained greater attention over the past few years. Premium increases have typically been 30% lower than the insurance industry average for more comprehensive plans.

The most popular consumer-driven health plans are basic benefit health plans, Health Savings Account (HSA)-qualified High Deductible Health Plans (HDHPs), and Mini-Meds.

Basic Benefit Plans The expanding market of young consumers as well as single, self-employed professionals of all ages need a health plan to protect them against unexpected medical costs. They simply don't want to pay for the benefits they don't need (or don't anticipate using) that come with more comprehensive plans. Basic benefit plans are major medical plans offering "essential" benefits at an economical price. These typically fully-steered PPO plans offer:

- Substantial lifetime maximums from \$3-\$6 million
- Built-in cost sharing features such as higher annual and additional deductibles
- Copays for a limited number of non-preventive office visits
- Optional or limited Rx benefit
- Coverage for hospitalization, surgery, transplant, ambulance, inpatient and outpatient care
- Added first-dollar coverage for preventive care and supplemental accident
- Premiums that are typically 30% less than comprehensive plans

HDHPs and HSAs High-Deductible Health Plans with Health Savings Accounts give consumers the security of both major medical health insurance coverage and a savings account to protect them against unexpected medical bills. They give policyholders more control over how they're spending their health care dollars while allowing them to save for future medical expenses. A periodic census by America's Health Insurance Plans (AHIP) of its member companies shows that enrollment in HSA plans tripled between March 2005 and January 2006.

HDHPs can be HMO, PPO or Indemnity plans and do not cover first dollar medical expenses, except for preventive care. The HSA portion of this CDHP option

is a tax exempt trust or custodial account owned by an individual established exclusively for the purpose of paying for qualified medical expenses. Account holders can use the funds in their HSA to pay for current and/or future health expenses—even some that their health plan doesn't cover.

Examples of qualified medical expenses:

- Maternity
- Dental services
- Physician's fees
- Rx and OTC drugs
- Reading glasses
- Band-aids

Mini-Meds Considered "limited benefit" plans, these CDHPs allow insurance carriers to cap claims exposure, but offer much less protection for the insured when compared with major medical plans. In a sense, they can be considered the opposite of basic benefit health plans because they offer very limited benefits; but they have a market because they offer "something that's better than nothing." Mini-Meds can be characterized by:

- Annual payouts capped from \$10,000 or less to \$100,000
- 4 to 10 doctor office visits per year
- Limited Rx and labs
- Medical bills paid at 20% up to \$1,500 outpatient
- Low deductibles (i.e. \$50)
- \$250 per day for inpatient care
- Premiums average as little as \$40 per month (some priced in weekly increments)

Individual health consumers have diverse needs and a wide assortment of plans to choose from. Today's CDHPs give them more flexibility than ever before. As long as consumers seek plans that give them essential health coverage and cost-savings, insurance carriers will continue to develop CDHPs to answer their call.

Sources: www.ahipresearch.org, The Kaiser Foundation 2000-2004; www.ehealthinsurance.com.