

# Annual Consumer-Driven Health Care Survey:

Survey Results, Insights into  
Best Practices, and Developing Trends

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## Our Presenters

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## Agenda

- ▶ Introduction and Background
- ▶ Highlights of Survey Findings
- ▶ Practical Experience with HSAs
  - HDHP/HSA Growth
  - HSA Account Characteristics
- ▶ Observations for Successfully Implementing HDHP/HSAs and HRAs
  - Plan Design
  - Employee Engagement and Communication
- ▶ Questions: Email [elizabeth.rullo@buckconsultants.com](mailto:elizabeth.rullo@buckconsultants.com)

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# Introduction and Background

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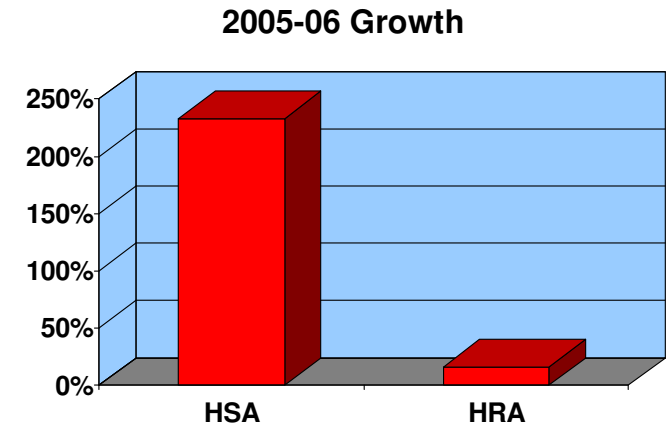
## Unmatched Experience in the HSA Market



- ▶ Over 3,000 employer clients worldwide
  - ▶ Experts in consumer-driven plan design and communications; have assisted with the first employer total replacements with HRAs and HSAs
  - ▶ Developed original consumer-driven pricing model for Definity Health's first CDHC/HRA package
  - ▶ Helped launch the marketing and education for ACS-Mellon HSA Solution; ongoing consulting advice
  - ▶ Helped over 200 clients evaluate and implement CDHC plans
- ▶ Buck Consultants' parent, ACS, is a leader in the HSA market through ACS' partnership with Mellon Financial Corporation to administer HSA product
  - ▶ Approaching 100,000 accounts; fourfold growth year-over-year
  - ▶ Over 2,300 employer groups, from 2 accounts to 1+ million
  - ▶ Over 50 distribution partners; several channel partners
  - ▶ Chosen by large employers to represent employees participating in multiple health plans

## GAO Report: HSA Plan Market Size\*

- ▶ “Small but growing enrollment fueled by rising cost of health care coverage”
- ▶ Estimated 5-6 million CDHC members of 177 million with private health insurance
- ▶ Estimated **3+** million HSA plan members
- ▶ Unclear how many HSA accounts are actually open
- ▶ Continued expectation of rapid growth as healthcare costs continue to rise
- ▶ 100% growth in 12 months; now **>3%** of the private insurance market



\* GAO April 2006 Report

## AHIP Study: Enrollment by Group Size\*

### Small Group Market

- ▶ **45%** of individuals (including dependents) covered are 40 years of age or older
- ▶ **33%** of policies were purchased by companies that previously did not offer any coverage
- ▶ Of all new health plan purchases, **11%** purchased HSA/HDHP plans

### Large Group Market

- ▶ **44%** of individuals (including dependents) covered are 40 years of age or older
- ▶ Of all new health plan purchases, **7%** purchased HSA/HDHP plans

### Individual Market

- ▶ **31%** of new enrollees were previously uninsured
- ▶ Of all new health plan purchases, **23%** purchased HSA/HDHP plans

***HSA/HDHP covered 3,168,000 as of January 2006, more than triple the AHIP reported March 2005 figure of 1,031,000***

\* From 96 AHIP member companies, representing nearly all the health insurance plans offering HSA-eligible policies. [www.emaxhealth.com](http://www.emaxhealth.com)

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# Highlights of Survey Findings

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## Profile of Our Respondents

- ▶ Early adopters
- ▶ Current/future
- ▶ Wait and see

Status as Adopters	Future Adopters
▶ 20% offer HSAs	▶ 47% will offer both
▶ 19% offer HRAs	▶ 39% will add HSAs
▶ 2.9% offer both	▶ 14% will add HRAs
▶ 64% offer neither	

## Executive Summary of Our Findings

- ▶ CDHC's credibility is rising
  - Employers favor CDHC less for cost-shifting than for the ability to drive smarter purchasing behaviors and thus cost management
  - Most endorse CDHC; less than one-fourth remain neutral
- ▶ While HRAs have been around longer, employer HSA adoption will rise faster
  - By 4:1, employers believe HSAs can better control costs
  - By 2:1, employers believe HSAs are more attractive to employees
- ▶ Preferred success characteristics for HSAs include claims integration, seeding accounts early in the year, investment fund choices and aggressive education
- ▶ Some HSA plan design features are still evolving
  - Employers are subsidizing 12-15% less of the cost per employee than traditional medical options
  - Employer account seeding is not yet strong
  - Few are yet carving out preventive drugs from the deductible

## Will Employers Replace HRAs with HSAs?

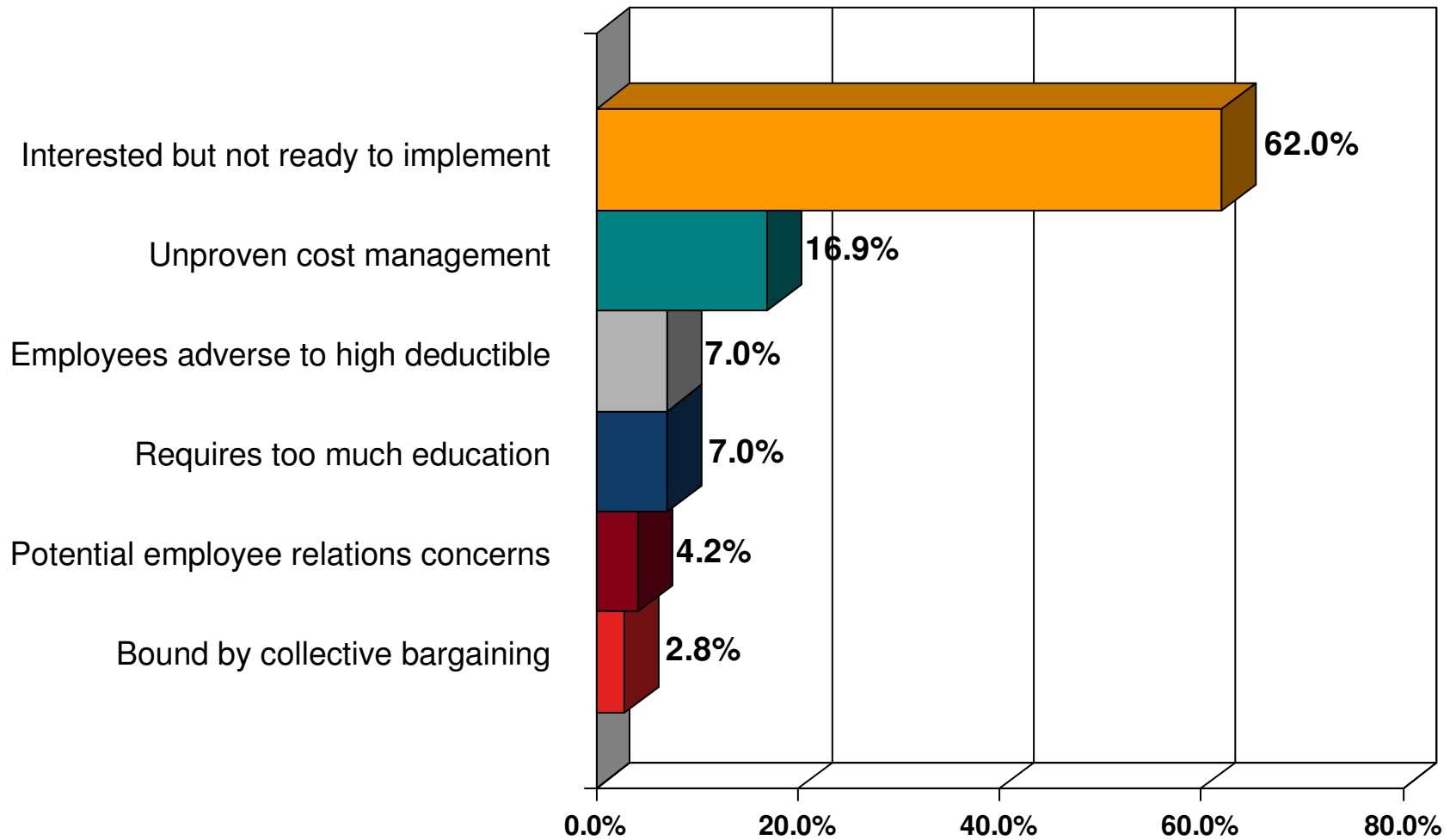
### *Of those already offering HRAs:*

- ▶ 55% have no plans to replace
- ▶ 30% will offer both HRAs and HSAs
- ▶ 15% will replace HRAs with HSAs

### *Yet HSAs are rapidly gaining:*

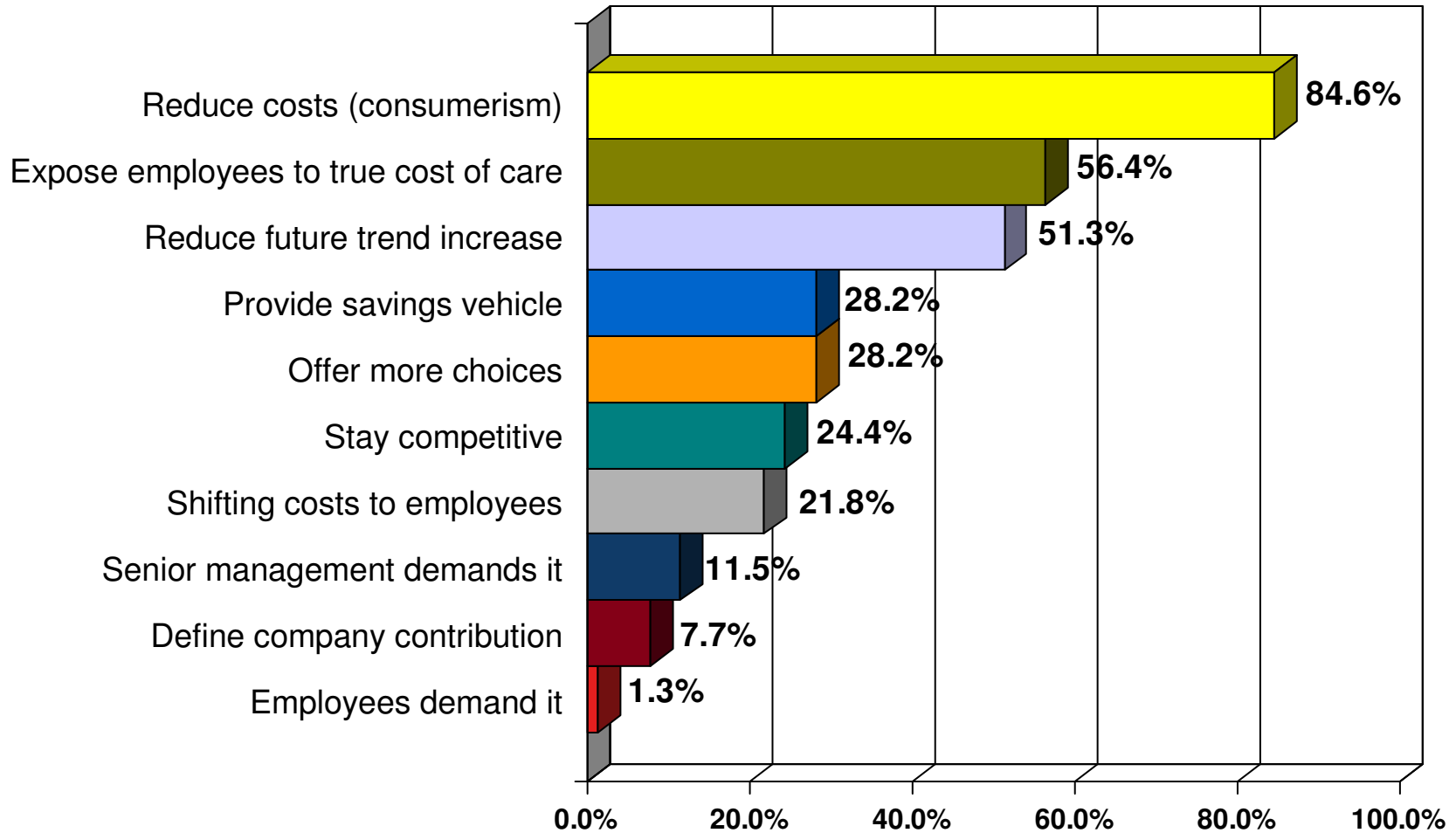
- ▶ Of those planning to introduce, HSAs are favored 3:1
- ▶ By 4:1, employers believe HSAs can better control costs

## Rationale to “Wait and See” on CDHC



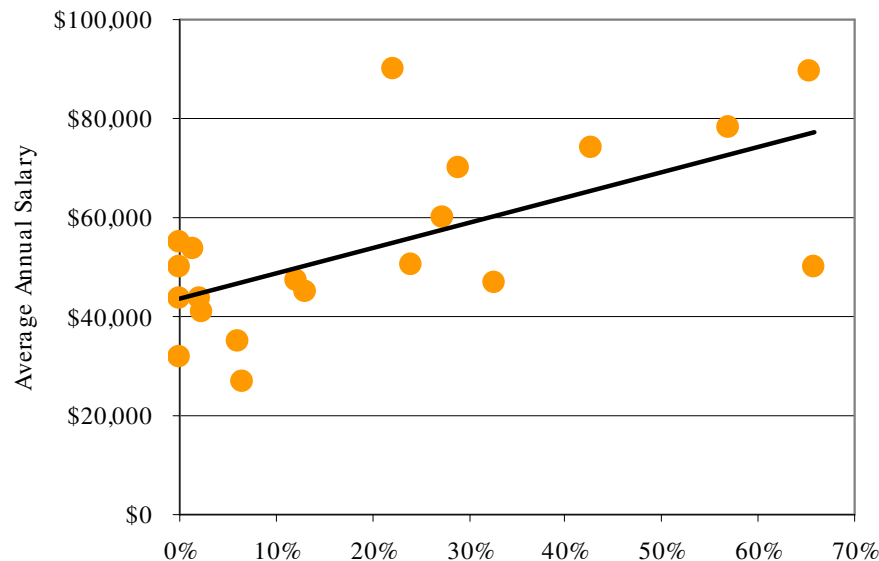
N=71

## Reasons for Offering CDHC in 2007 (HSA or HRA)



## Factors Correlating with Higher Enrollment

### Based on Average Annual Salary

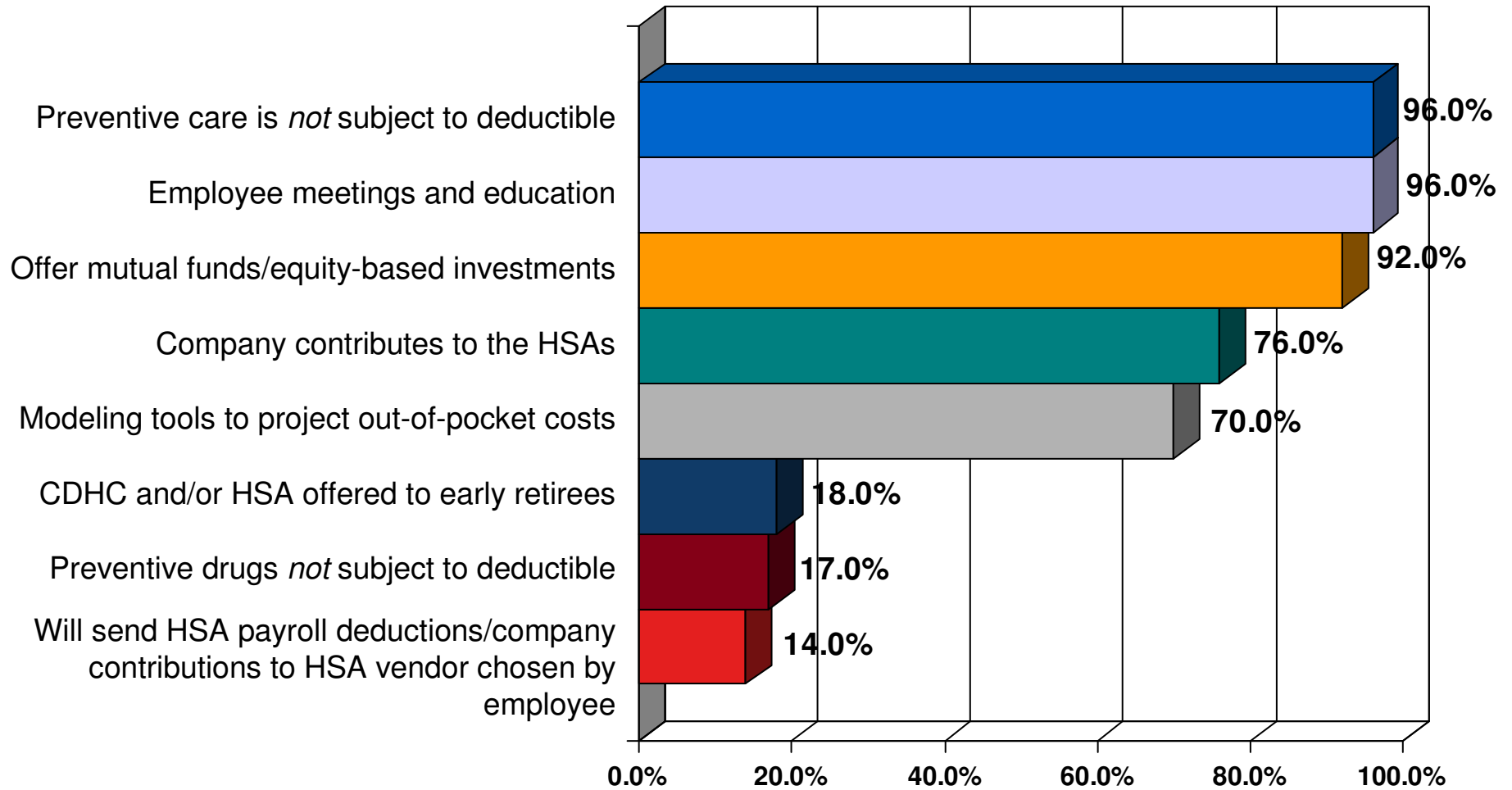


Average Participation Rate: 14.4%

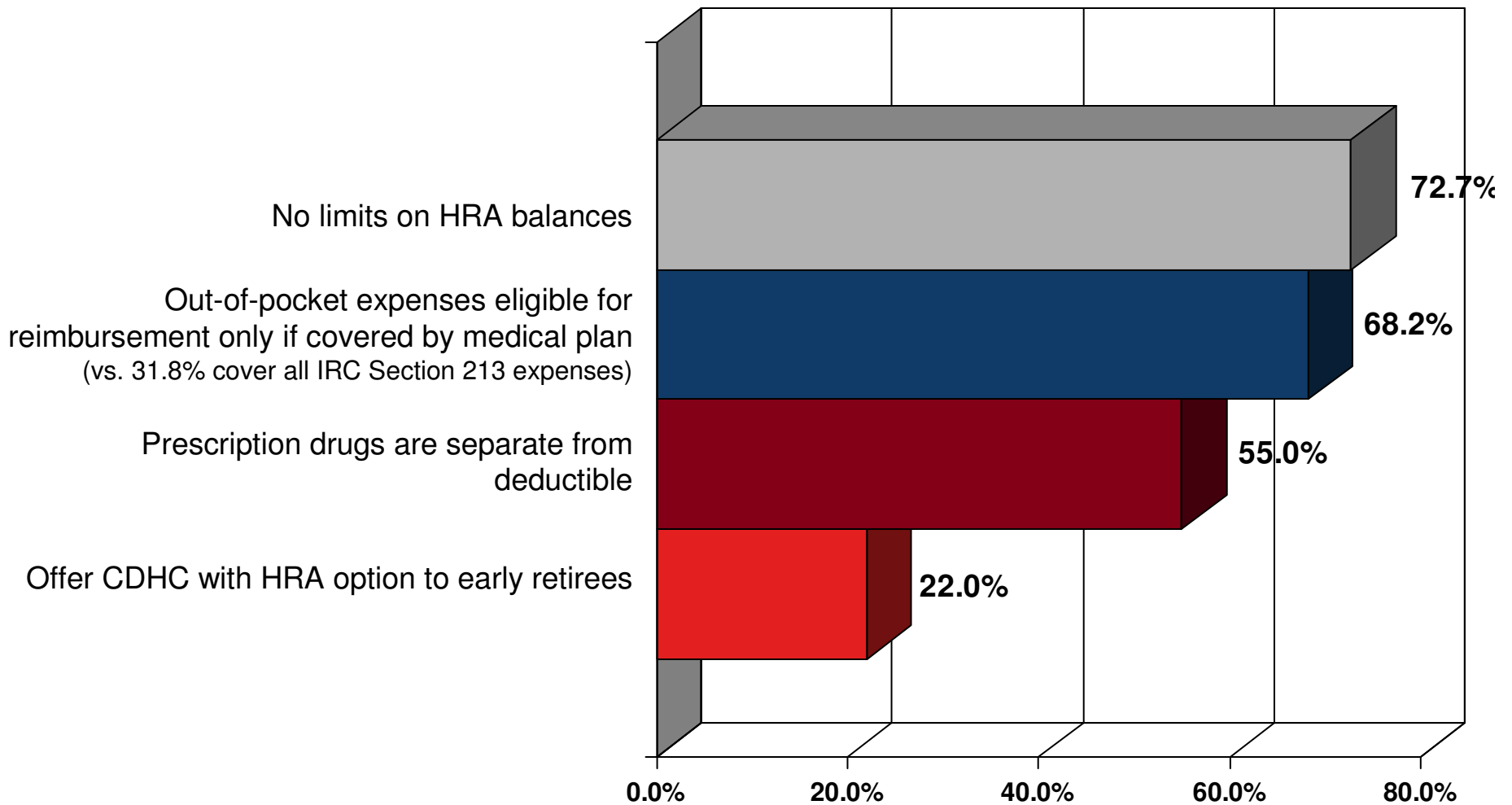
N=20

- ▶ We correlated the following factors against employee enrollment in HSAs and HRAs
  - Average age
  - Average years of service
  - Average annual salary
  - Percentage of field employees
  - 401(k) participation rate
- ▶ Only *average annual salary* correlated statistically, with enrollment increasing as salary increased
- ▶ Consistent with industry data, factors such as age, service, etc. *do not predict* employee interest and enrollment

# HSA Characteristics



# HRA Characteristics



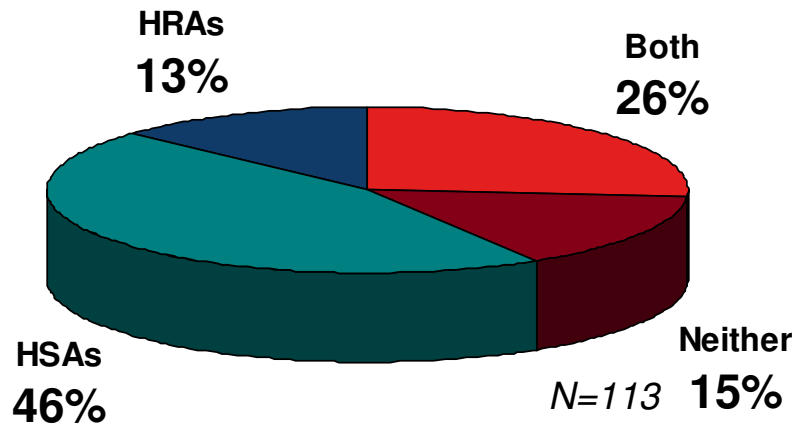
## The Long-Term View: HRA Portability

*Can you take it with you?*

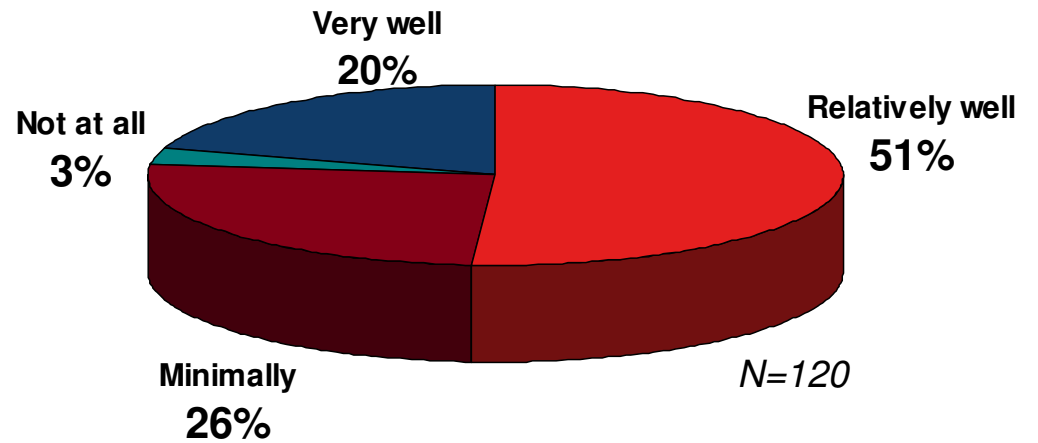
	At Termination	At Retirement
Forfeited	81.8%	59.1%
Rolled over	N/A	36.4%
Applied to COBRA	13.6%	0%
Cashed out	4.5%	4.5%

# Understanding, Cost Management and Attractiveness

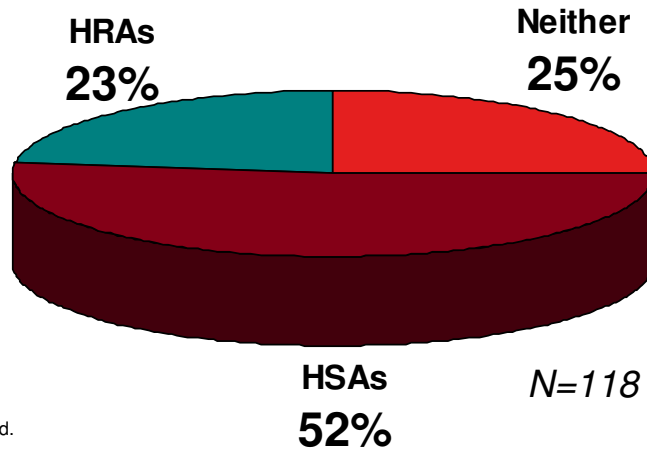
Which Approach Has the Most Impact on Containing Health Care Costs?



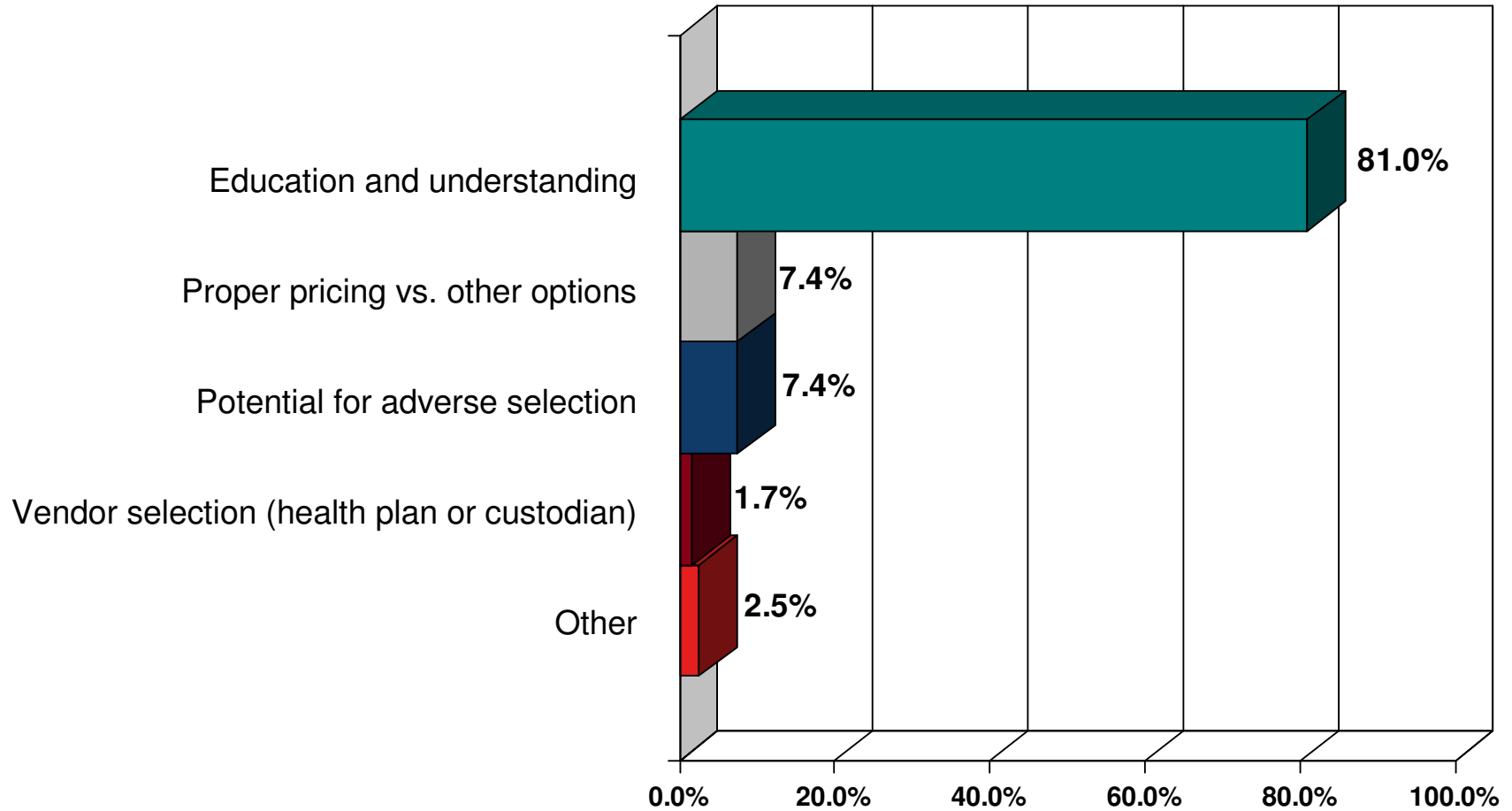
How Well Benefits and HR Decision Makers Understand HSAs and/or HRAs



Which Is More Attractive to Employees?



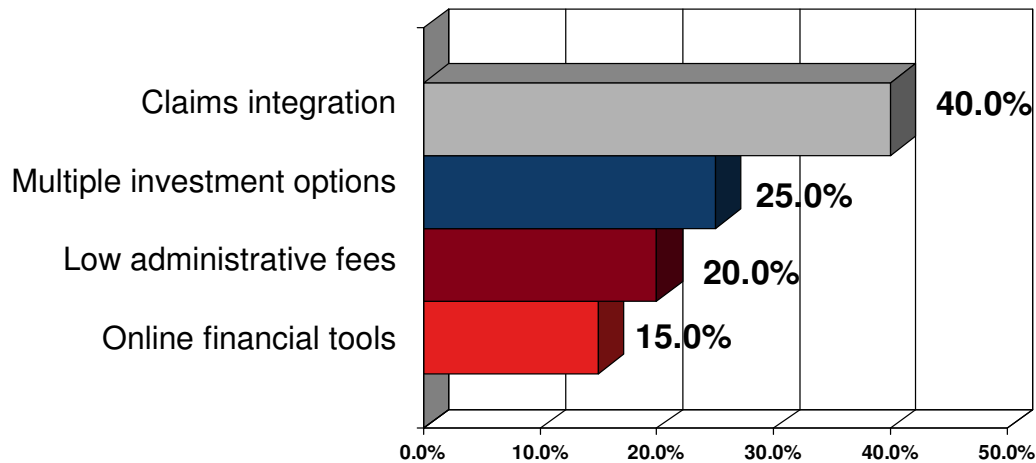
# Challenges in Implementing CDHC



N=121

# HSA Offerings

## What Employees Want



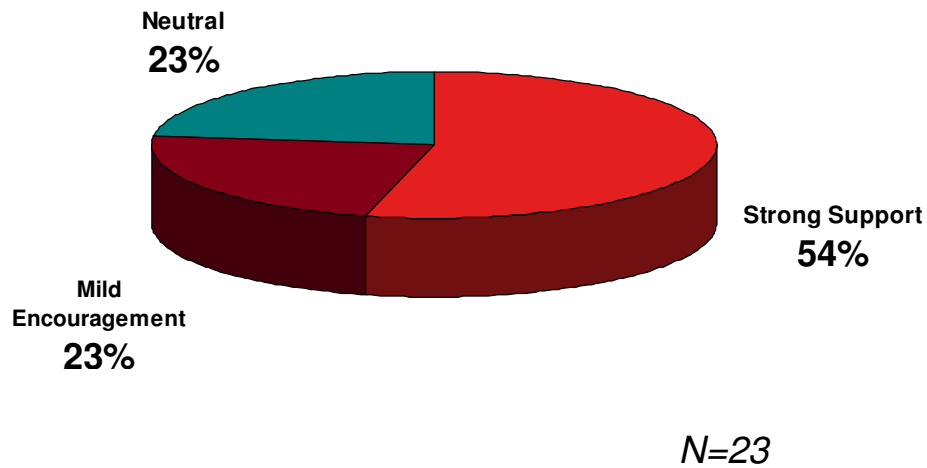
*\*N=20 employers*

## What Employees Get

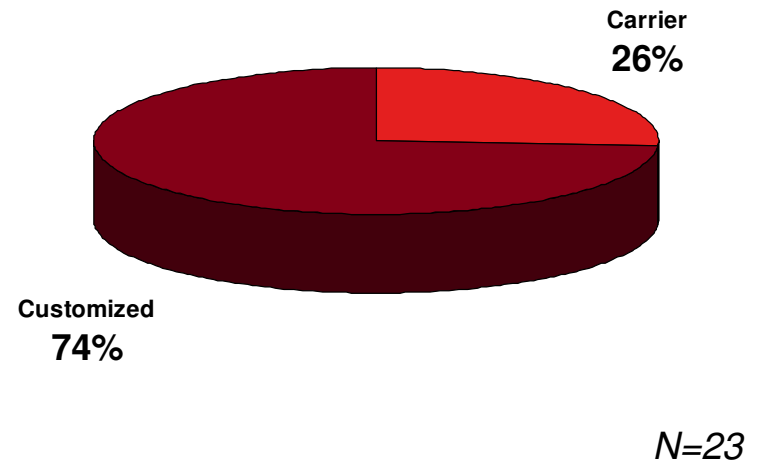
- ▶ 29% can elect auto-claim integration; 71% must submit claims
- ▶ 55% of employers pay the monthly HSA administrative fees
- ▶ 67% of employers' HSA custodians are affiliated with medical carrier
- ▶ 73% make contributions at beginning of the year vs. 27% are monthly

# HSA Advocacy is Key to Buy-in

Level of Support for CDHC with HSA Option



Type of Communication Used to Explain HSA Options



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## Practical Experience with HSAs

- ▶ HDHP/HSA Growth
- ▶ HSA Account Characteristics

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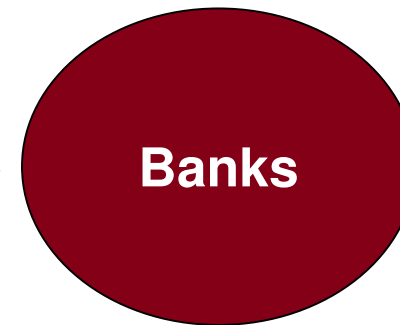
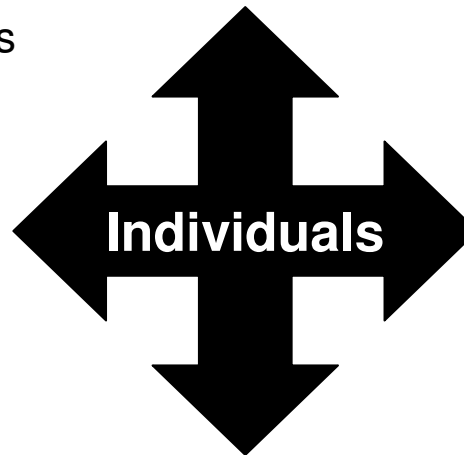
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## How is the Market Reacting to CDHC Growth?

- HDHP/HSA — ideal for self and staff
- Concern regarding administration costs and A/R
- Re-evaluating HP relationships



- Large group — HRA/HSA
- Small group — HDHP/HSA only
- Individual — HDHPs = affordable coverage



- Large retail
- Healthplan owned
- Financial services organizations
- Local and regional

- HDHP product available
- Re-define product offerings
- Partnering with custodian



## HSA Administrator Business Models for Employers

- ▶ Integrated health plan and HSA offering with HSA services provided by a bank who has contract with health plan
- ▶ Integrated health plan HSA offering with ownership of bank by a health plan
- ▶ Retail offering direct to consumer — not integrated with health plan or employer
- ▶ Integrated retail and commercial banking — offering both to employers and consumers

## HSA Experience: ACS/Mellon HSA Solution

- ▶ Average account balances — \$681.86 (April 06)
- ▶ Savers vs. spenders — average employee contribution is greater than the average withdrawal
- ▶ Fees paid by employers — 40%
- ▶ Contributions by employers — 20%
  - Pre-funding vs. over time vs. payroll
- ▶ Investments — 7 mutual funds, low percent of accountholders investing
- ▶ Use of debit card and checkbook — debit card transactions average over \$82 and checks average over \$760 (2006 YTD)
- ▶ Use of auto claims adjudication — over 1,400 transactions with an average dollar value of nearly \$153 have processed YTD
- ▶ Use of on-line tools and calculators — more demand for consumer support tools

## Developing Trends

- ▶ General adoption of HDHPs and HSAs including labor and government
- ▶ Adoption of HDHPs and HSAs by those previously uninsured, who are not able to afford premiums for low deductible or HMO plans
- ▶ Tax changes and government incentives
- ▶ Blurred differences between banks and health insurers
- ▶ Increase in M&A activity
- ▶ Possible nationalization of certain insurance regulations
- ▶ Re-skinned managed-care companies and movement away from HMOs
- ▶ Increased financial pressure on providers as A/R rises

## Five-Year Prospects

- ▶ Strong enrollment growth for HDHPs and HSAs
- ▶ New era of cash-paying patients
- ▶ Vastly improved patient support, information
- ▶ Need for deregulation of providers, insurers
- ▶ Tax credits = less reliance on employers
- ▶ Continued weakening of retiree health

**“A transformation is underway in health care that will displace the entrenched giants among the ranks of America's HMOs and pharmacy benefit managers. In their place will be millions of consumers linked by their financial services companies to accounts.” *Forbes 4/1/2005***

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# Observations for Successfully Implementing HDHP/HSAs and HRAS

- ▶ Plan Design
- ▶ Employee Engagement and Communication

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## Typical Employer Benefit Objectives with CDHC

- ▶ Reduce or slow the employer's financial exposure to rising medical costs
  - Short-term (one-time savings)
  - Long-term trend
- ▶ Create incentives for employees to better manage their own health and costs of care, and to reduce unnecessary expense
- ▶ Mitigate an employee's risk of catastrophic claims
- ▶ Create a system that is not too administratively complex
- ▶ Offer long-term savings and investing solutions to pay for medical expenses later in life and after retirement

## HRA vs. HSA

### *HRA Advantages*

- ▶ Plan design and Rx flexibility
- ▶ Employer money only used for medical expenses
- ▶ Lower contribution and administration cost
- ▶ TPAs have more experience with HRAs
- ▶ Post-65 availability
- ▶ Funds available on January 1
- ▶ Limited rules on employer contributions

### *HSA Advantages*

- ▶ Tax-free contributions, growth, withdrawals
- ▶ Portable
- ▶ Investment flexibility
- ▶ Employee contributions
- ▶ Non-medical uses
- ▶ FICA savings to employer and employees
- ▶ No requirement to substantiate that expenses are medical
- ▶ Family members can participate

## HDHP/HSA Plan Design Issues

- ▶ Estimated enrollments in each plan option
  - Average enrollment is 10% when offered as an option; range is from <1% to 70%
  - Small groups are offering HDHPs as a full replacement
  - Three factors tend to drive penetration success
    - Early and frequent communication
    - Buy-in from management and senior leaders
    - Amount and timing of employer contributions
- ▶ Number of HDHP/HSA or HRA plan options
- ▶ How to help lower-paid employees (e.g., premiums, deductibles, HSA/HRA contributions)
- ▶ Ways to incent/reward healthy behaviors (e.g., health risk assessments, disease management participation)
- ▶ Appropriate deductibles, plan coverage, and out-of-pocket limits in HDHPs
  - Average deductibles in HDHPs are roughly \$1,650/\$3,300
- ▶ Employee price tags
  - Monthly contributions are roughly \$40/\$140
  - Possible free option

## HDHP/HSA Plan Design Issues

- ▶ Employer contributions to HSA/HRAs
  - 77% of surveyed employers contribute to employee HSAs
  - Average pre-funding is \$428 single, \$836 family
  - 73% of employers front-load their contributions
- ▶ Coverage of preventive services and medications
  - 96% of employers cover preventive services with no deductible
  - Only 17% of employers cover preventive medications separately from acute drugs
- ▶ Payment of HSA expenses
  - 55% of employers are paying the monthly HSA administrative fees
- ▶ Conversions from HRA to HSA
- ▶ Treatment of FSA

## Employee Engagement: What Works/What Doesn't?

- ▶ Consider health status, age and income levels of workforce in both the plan design and communication strategy
- ▶ Reduce the administrative hassle required (including fees, claims)
- ▶ Provide initial decision support via cost calculators and comparison tools
- ▶ Develop aggressive education and change management support
  - The case for consumerism (“skin in the game”)
  - How the plan works and how to use it
  - How health plan and spending/savings accounts fit into employees’ long-term planning (“Should I save via 401k or HSA?”)
- ▶ Provide ongoing care management and support
  - Provide preventive care benefits to encourage access
  - Encourage use of cost and quality tools

## Communication: What Works & What Doesn't

### What Does Work (Do's)

- ▶ *Brand it* — make the message YOURS
- ▶ *Involve leadership* — change advocates
- ▶ *Mix up your media* — people learn differently
- ▶ *Customize* — complement vendor offerings; adapt to culture/audiences
- ▶ *Include face-to-face* — meetings/WebEx; invite spouses
- ▶ *Invest* — do it right or do it over
- ▶ *Keep it up* — give ongoing help with consumer decision-making skills
- ▶ *Measure* — understanding, enrollment, use of tools, cost indicators (correlated to desired behaviors), satisfaction
- ▶ *Report back* — reinforce success/issues; share “Here’s how WE are doing...”

### What Doesn't Work (Don'ts)

- ▶ *Tack it on* — add as “just another plan” (inertia)
- ▶ *Offer low HSA contributions* — conservative cost calculations when setting plan design
- ▶ *Bury it* — give it equal educational weight to other options
- ▶ *Ignore the deductible hurdle* — allow fear/disbelief in ability to handle cost
- ▶ *Stay “low touch”* — rely on mass communication
- ▶ *Be ambivalent* — avoid endorsing the option as potentially superior
- ▶ *Leave it up to your vendors* — and your story will be incomplete
- ▶ *Forget about that outstanding HRA balance* — and migration will be reduced

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