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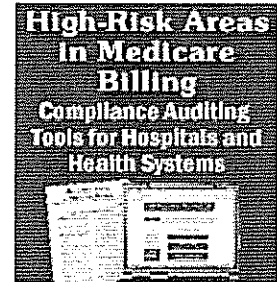
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Featured Story October 23, 2008

Premium Hikes May Hit Small Firms That Adopt Consumer-Directed Health Plans for the Wrong Reason

Reprinted from *INSIDE CONSUMER-DIRECTED CARE*, a biweekly newsletter with timely news and insightful analysis of benefit design, contracts, market strategies and financial results.

By Mike Carbine, Editor, (mcarbine@aispub.com)

Several employee benefit studies released this fall report that small employers, like their large-employer counterparts, are turning to CDH plans because of their cost-savings potential. Yet several small employers tell ICDC that they have turned down CDH plans because premiums are not competitive with more traditional PPOs and, in some instances, HMO products. And some are dropping their CDH plans after reporting consistent hefty premium increases.

A variety of factors are behind the conflicting reports, health insurers and consultants tell ICDC. Chief among them: a lack of understanding of the differences between the self-insured and the small-group markets, and unrealistic expectations about how CDH plans are supposed to work. These factors will come together to make CDH plans an unattractive cost-savings strategy for any small business that adopts them with its eyes wide shut.

"People are buying these [CDH] plans for two reasons," Jerry Ripperger, national practice lead for consumer health at Principal Financial Services, Inc., tells *ICDC*. "Some believe in them and take a thoughtful, long-term strategic approach. Others adopt them without a carefully thought-out long-term strategy. They want the least expensive option, are looking for short-term savings, and they don't invest in anything that

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will change their employees' health behaviors. So at renewal time, their premiums look just like they did before."

While it may be difficult to discern the precise reasons behind a small company's disappointing experience with a CDH plan, Ripperger and others point to a host of small-group market factors that influence the competitiveness of CDH plan premiums and may be behind reports of double-digit premium increases.

"A lot of companies cited in the surveys coming from consultants are large companies," Roy Ramthun, president of HSA Consulting Services, tells *ICDC*. Ramthun, a former White House health policy advisor, co-wrote much of the early HSA guidance while working at the Treasury Dept. "Because most are self-insured and directly control everything from benefit design to pricing, they are more likely to report savings," he says. "Small employers, on the other hand, buy these products on the commercial market, and this creates an entirely different dynamic."

Small-group markets often are heavily regulated by the states and include mandated guaranteed issue and little rate-setting flexibility. The result is a low-margin business line for insurers. And this, Ramthun says, removes the incentive for some insurers to offer these products at competitive rates. "If you can sell a traditional PPO plan with a \$9,000 premium or an HSA-qualified plan with a \$6,000 premium, and if you're more concerned about your revenues stream, you're less apt to offer these [CDH] plans at competitive rates."

Ripperger also notes that local market competition often will keep premiums for CDH plans at the same level or just a fraction below those for traditional plans. "If you have a carrier that dominates the local market and can offer a solid HMO with an attractive discount, the rates [for both products] will end up being about the same."

Some Underwriters Use Risk Pooling

Ramthun says that some underwriters are more conservative when it comes to pricing CDH plans, and Ripperger agrees, adding that "they will be cautious because they don't know how these plans will perform over time." As a result, underwriters use risk pooling to set premiums, and those with CDH plans will see the same and, in some cases, higher premium hikes compared with those reported by those with traditional plans.

Minnesota is a case in point. After seeing premiums jump 16.8% in 2008 following a 17% hike in 2007, Meeker County, in rural Minnesota, dropped its Blue Cross and Blue Shield of Minnesota-administered HSA-based plan. The Blues Plan declined to be interviewed by *ICDC* on the reasons behind the consistent premium hikes for Meeker County and others with CDH plans. But in April 2008, Shawn Patterson, the plan's marketing vice president, was quoted in a Minneapolis *Star Tribune* article as saying that HSA enrollees are pooled with those in traditional plans to fix next year's premiums. "It's not intuitive," he said, adding that the more people who sign on, the greater the likely impact on spending.

Small employers that adopt CDH plans without fully

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understanding both the market dynamics and how CDH plans are designed to work are in for a disappointment, Ripperger says. He adds that too many small employers offer CDH plans without educating their employees or providing access to health promotion or wellness programs designed to change employee behavior. "I don't believe that a \$1,500 deductible HSA-qualified plan with an employer contribution alone will perform any better than a traditional plan with a \$1,500 deductible. We said the same thing about health reimbursement arrangements (HRAs) when they first came out. How you communicate with and educate your employees will tell you more about how the plan will perform than the plan structure itself."

According to Ripperger, if you position CDH plans simply as a different way to fund health care, they will perform the way traditional health plans perform. To ultimately save money, CDH plans must include strong education and wellness components. "You can't be successful without comprehensive education. We have several generations in the work force who know very little about purchasing health care beyond their \$10 copayments and deductibles," he says.

So the critical question to ask, according to Ripperger, is whether a small employer is taking a short- or long-term view when it adopts a CDH plan. "These plans are not a 12-month purchasing decision," he says. "Small employers need to view these products as a long-term savings strategy. You can't change people's health behavior in 15 minutes. You might be able to shift costs, but you don't need a CDH plan to do this. These plans are not about saving money in the first year. They save money over time by improving the health of your covered population."

Admittedly, many small businesses skimp on employee education and wellness programs because they lack the resources to do so. The answer, Ripperger says, is for the company to invest time and effort in selecting a vendor that can help the company create a solid, realistic renewal philosophy. "CDH plans are investments, not revenue-savings devices. So you have to invest in employee education, and you have to put some time and effort into selecting the right vendor."

Ripperger's bottom-line advice for the small employer: Make sure you're pursuing a realistic cost-saving strategy, educate your employees, and persevere. "It's a long-term investment, not a 12-month purchasing or cost-shifting strategy. Devote resources to it. Educate, educate, educate, and then educate some more. And don't expect first-year savings. We didn't create our bad health habits in a year."

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