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Impact of Consumer-driven Benefits on Healthcare Organizations

Part 1: Defining Consumer-driven Healthcare

Healthcare futurists promise that consumer-driven healthcare plans (CDHPs) will enable consumers to make wiser healthcare decisions, reduce administrative headaches, and provide an antidote for runaway healthcare costs. At the same time, it is difficult to find agreement on what a CDHP will look like. Different approaches to consumer-directed healthcare have fostered a wide array of designs that rely on decision support tools and benefit administration processes. While many early adopters already offer CDHPs, analysts are just beginning to determine the impact of these plans on cost-containment, outcomes, and their impact on healthcare organizations.

Defining Consumer-driven Healthcare

New technologies provide healthcare organizations with valuable tools to create new products and services. Automated systems streamline processing. Electronic medical records allow Internet-based support for consumer decision-making information. And next generation software offers the flexibility to create custom plans. These



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technologies have made it possible for consumers to select their own custom health plans, track and manage their bills, improve their health with useful information and preventive services, and more. This paper will examine the distinguishing features of consumer-driven healthcare, including examples that are available today, emerging CDHP models, and the next generation of consumer-driven healthcare.

For many years, healthcare benefits in the United States were employer directed. That is, employers offered a selected health plan as part of an employee's compensation package. As healthcare costs rose, the employer's insurance burden also grew. The consumer-driven healthcare approach is appealing to employers, payors and consumers because it addresses skyrocketing medical and administrative costs. At their most basic level, CDHPs include an employer making a contribution to a health insurance plan and/or an account, like a personal health account, and consumers are able to choose how the money is spent. However, there is no single consumer-driven healthcare model. Instead, there are a variety of flavors that depend on new technologies.

Flexible Technology and Web Access Are Keys to CDHP Success

CDHPs resulted from a need for more cost-effective benefit options and advances in technology. Technological breakthroughs in processing and electronic data transmission allowed for the creation of new health care plans that can be tailored to individual businesses and consumers. Advances in .NET, XML, and Form technologies made it possible to administer these plans across a wide range of platforms, including the Internet. Flexible technology resulted in the availability of products like healthcare flexible spending accounts, which allow consumers to select their own plan based on employer contributions to the account.



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The emergence of web-enabled tools made it easy for plan administrators to offer more choices to consumers while reducing administrative costs. That is, consumers can access plan information via the Internet, select the plan that best fits them, and make independent, informed decisions about healthcare coverage.

Examples of Current CDHP Models

There are four main types of CDHPs currently offered by many employers and insurers. These include 1) multi-plan option; 2) Supermarket option including a Personal Health Account (PHA) and/or Flexible Spending Account (FSA); 3) high deductible plan plus a PHA and/or FSA; and 4) PHA and FSA.

The Multi-Plan option offers consumers a choice of health insurers or plan designs (HMO, PPO, POS) offered by an insurer, with a fixed contribution to the plan. In this model, the employer selects the health plans to be offered and sets the company contribution. Consumers select which plan they want and pay the difference in cost.

The supermarket model with health account(s) differs from the multi-plan option in two ways. First, a third party provides a menu of health insurance, plans, and administrative services. Second, the addition of health accounts makes the consumer a direct participant in the cost/benefit choices. The Flexible Spending Account is an arrangement in which consumers set aside pre-tax money to pay for healthcare expenses not covered by their primary plan. While provisions that do not allow consumers to purchase additional insurance or carry over unused funds from one year to the next limit FSAs, PHAs overcome these limitations.

High deductible plans plus PHA and/or FSA is similar to the supermarket model, except that only a limited number of high-deductible plans are offered. The high-



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deductible plan protects consumers from catastrophic medical events and often includes coverage for preventive practices, such as immunizations and screenings.

Unlike the examples above, the PHA plus FSA model does not require that consumers purchase insurance with their employers' contribution. This approach reduces the healthcare burden on employers and gives consumers the ability to select a plan from a menu of health plans, build a personal benefit plan by selecting a level of managed care and provider network features, and choose a plan that fits their budget.

Next Generation CDHPs Require Next Generation Technology

A March, 2004 survey of large employers in the U.S. noted that 21% have CDHP in place, while another 32% said they intended to offer a consumer-directed plan this year. The survey also reported that current enrollment in CDHPs among employers range from a low of 1% to a high of 33%, with CDHPs expected to double in 2005. With a continuing demand for new models that address growing healthcare and administrative costs, new consumer-directed benefit models will continue to emerge.

For example, many analysts believe the next generation of spending accounts will expand consumer-driven healthcare by simplifying funding requirements for employers and eliminating the obstacles between employer-only funds and employee-funded accounts. This approach allows multiple wage earner families to their healthcare funds in a joint Personal Health Account. The funds in this joint account could be used for healthcare expenses as well as for health and long term care insurance. These next generation PHAs increase consumer's stake in their healthcare decisions and costs, and allow employers to provide a level of benefit funding they can afford with minimal administrative costs.



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The administration of various health accounts, additional information needs of consumers, and administration of healthcare and plan choices offered to consumers all require flexible technology solutions. Next generation health data solutions must be able to do more than process claims or administer benefits. They must provide access for consumers to make their own choices, combine benefits, medical records, medical advice and health accounts in a system that allows for constant change and a wide range of individual choices. The Internet will play a large role in decision support as well as enabling consumers to make more choices with less administrative complexity. In many respects, the success of CDHPs depends upon the ability of next generation technologies to support changing plans, policies and products.

COMING NEXT MONTH:

Part 2: Consumer-driven Healthcare and Next Generation Technology

Plexis Healthcare Systems provides industry-leading benefits administration software for the healthcare industry. Built with the very latest Microsoft technology, Plexis software ranked #1 in functionality in an independent industry study. Customers have been reducing their costs, streamlining their claims payment operations, and enhancing customer satisfaction with Plexis solutions since 1996.



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