



National CDH Summit  
Washington, DC  
September 15, 2006

A Step-by-Step Approach to  
Implementing Consumer-  
Driven Health Plans in Small  
to Mid-Sized Companies

J. Michael Vittoria





## Bacou-Dalloz: A Brief Introduction

- World's largest manufacturer of Personal Protective Equipment. Headquartered in Paris, France.
- \$1 billion global sales, \$400m in the United States
- 1600 Employees in 14 Business Units in US
- 10 Major locations in 9 States + National Sales Force
- 2006 US health insurance expense: \$8.6 million





# Today's Agenda

## The Health Care Cost Problem

- Introducing a Simple Wrap CDHP

- Adding Multiple Coverage Tiers

- Adding an HSA Option

- Service After the Sale



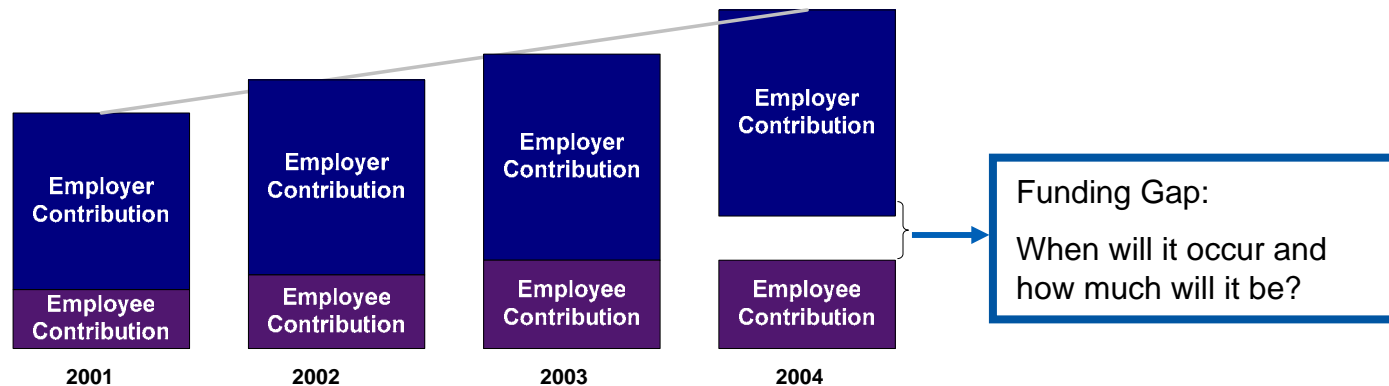


# Bacou-Dalloz: Cost Containment Challenge

- 1600 Employees in 14 Business Units in US
- 10 Major locations in 9 States + National Sales Force
- 5 Health Plans in 2003
- Health Insurance Trend

- 2002 \$6,616,212 (12.3% increase)
- 2003 \$7,132,928 (7.8 % increase)
- 2004 \$9,764,864 (36.9% potential increase)

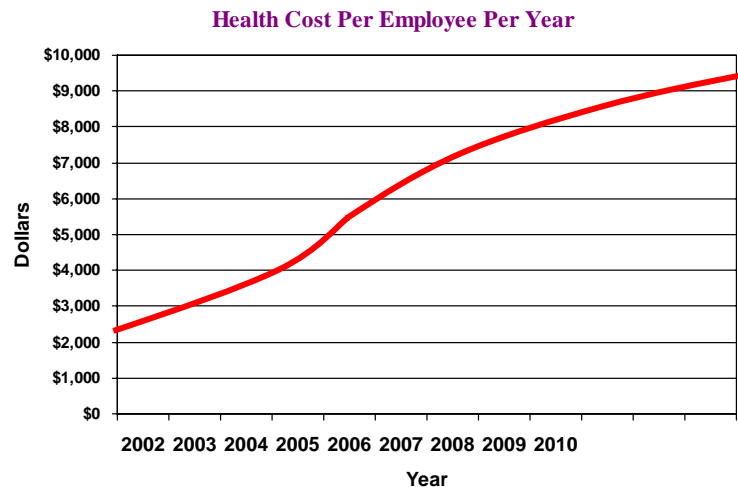
Tried  
Contingent  
Premium





# The Health Care Cost Problem in the Context of Our Business Plan

- Threatening corporate profitability
- Straining employee relations
- No end in sight
- No clear cause or solution to the problem
- No way to accurately forecast health costs into the future





# Achieving Long-Term Cost Containment Required a Strategy

## Key Elements of our strategy:

- Support our overall business plan
- Be consistent with our corporate culture. Understand our benefits relationship with our employees. What is it now and what do we want it to be in the future?
- Be implemented in phases so that employees will be introduced to consumerism gradually, over time



## A Solution Must Address 3 Core Issues

- How much can our company afford to spend on health care as a percentage of revenue?
- How much can our employees afford to spend on health care as a percent of their hourly wage?
- Will our employees see their health plan's features and benefits as desirable, thereby enabling us to attract and retain the best people to our organization?





## Our Solution: Phasing in a CDHP

**Working with Primarily Care, Inc. (“PCI”) Bacou-Dalloz adopted a hybrid funding arrangement in 2004 to reduce health insurance premiums by carving out certain parts of our insured plans to be self-insured.**

- 1 PPO plan plus 2 regional HMOs
- BCBS-RI Covers 1,122 Employees Nationwide
- 3-year plan savings of \$7.69 million
- Payroll deductions have remained stable for 3 years
- A lower health cost trend
  - 2004      \$7,965,538 (11.7% increase)
  - 2005      \$8,320,981 (4.5 % increase)
  - 2006      \$8,622,024 (3.6.% increase)

Increased  
Self-Funding  
Level





## Savings Summary 2004-06: \$7.69 Million

	Traditional Approach	Hybrid Funding
2004 Total Plan Cost	\$ 9,764,864	\$ 7,965,538
2005 Total Plan Cost	\$ 10,838,999	\$ 8,320,981
2006 Total Plan Cost*	\$ 11,992,268	\$ 8,622,024
Total three year cost	<u>\$ 32,596,131</u>	<u>\$24,908,543</u>
Savings		<b>\$ 7,687,588</b>



\*Hybrid includes projected self-insured claims of \$929,504





## Average Cost Per Employee 2005 - 2006

<u>Avg. Cost of PPO Plans</u>	<u>Family</u>	<u>Individual</u>
Kaiser Survey (2005)	\$11,090	\$4,150
Bacou-Dalloz Premier	\$ 9,605	\$3,448
Bacou-Dalloz Value	\$ 7,684	\$2,758

*Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits 2005 as reported in [Employee Benefit News November 2005 Page 52](#)*

### Average Cost Per Employee – All Plan Types

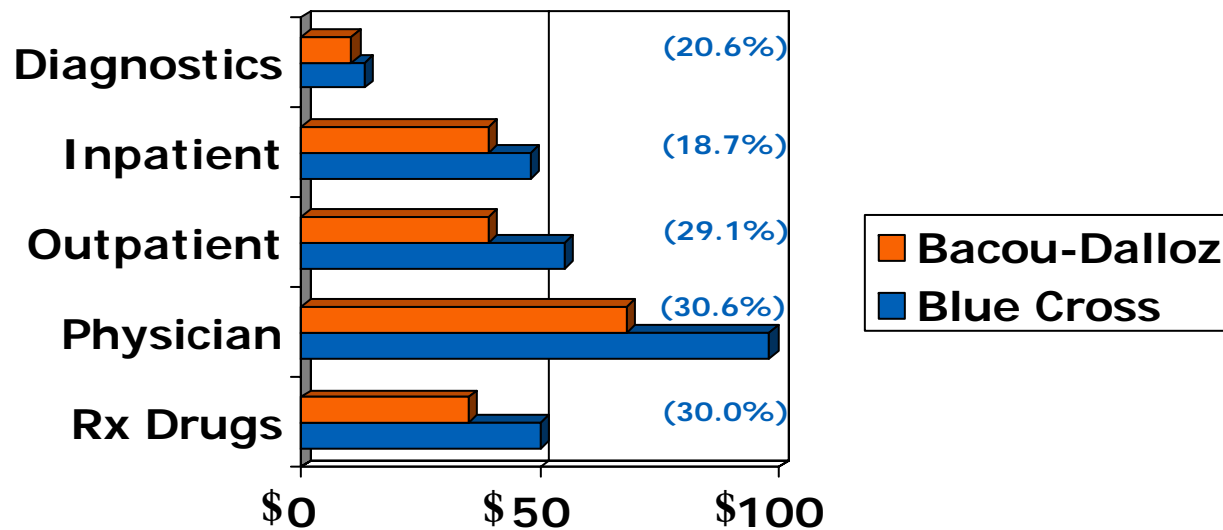
Towers Perrin (2006)	\$8,424
Bacou-Dalloz	\$6,632

*Source: 2006 Towers Perrin Health Care Cost Survey as reported in [BLR Employee Compensation January 2006 Page 1](#)*





# Claims Reduction of 28% Compared with a Traditional PPO Plan Design

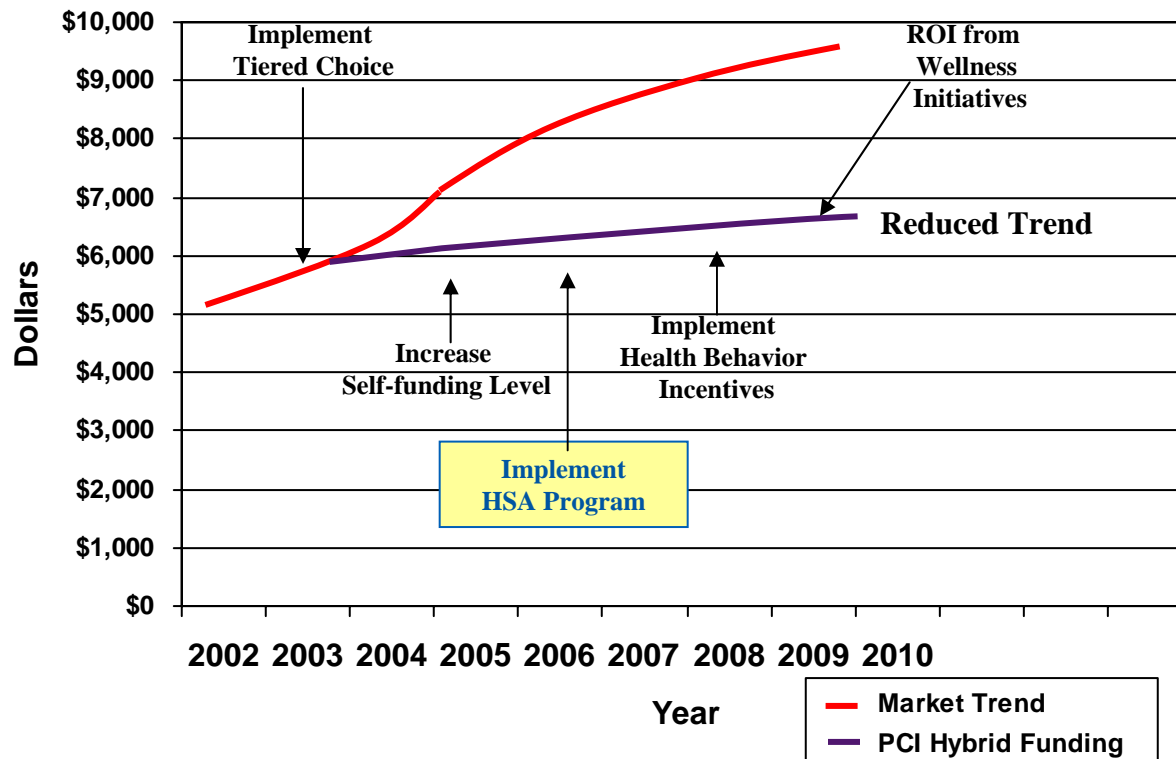


Comparison of B-D Per Member Utilization with BCBS-RI Plan-wide  
Data from October 1, 2004 to September 30, 2005



# Our Roadmap to Containing Health Care Costs Over Time

Health Cost Per Employee Per Year





## Today's Agenda

- **The Health Care Cost Problem**
- **Introducing a Simple Wrap CDHP**
- **Adding Multiple Coverage Tiers**
- **Adding an HSA Option**
- **Service After the Sale**





# Step 1: Introduce a Simple Wrap CDHP

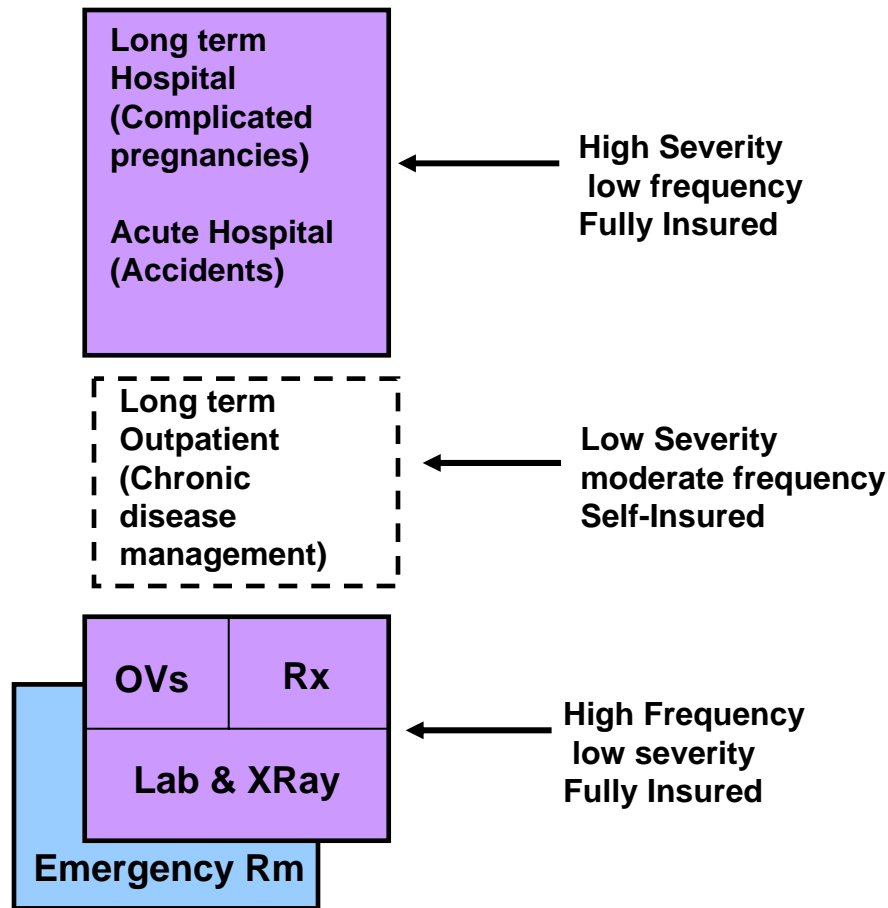
Modifying your current fully-insured plan into a high-deductible plan will generate immediate savings for your organization and your employees.

Simple Wrap Consumer Driven Health Plan			
	Base Plan From Carrier	Employer Pays (Self-funds)	Employee Pays
<u>Deductible</u>			
Individual	\$2,000	\$1,900	\$ 100
Family	\$4,000	\$3,700	\$ 300
<u>Coinsurance</u>	20%	10%	10%
<u>Out-of-Pocket Maximum</u>			
Individual	\$3,000	\$2,250	\$750
Family	\$6,000	\$3,750	\$2,250





# Components to be Self-Funded vs. Insured

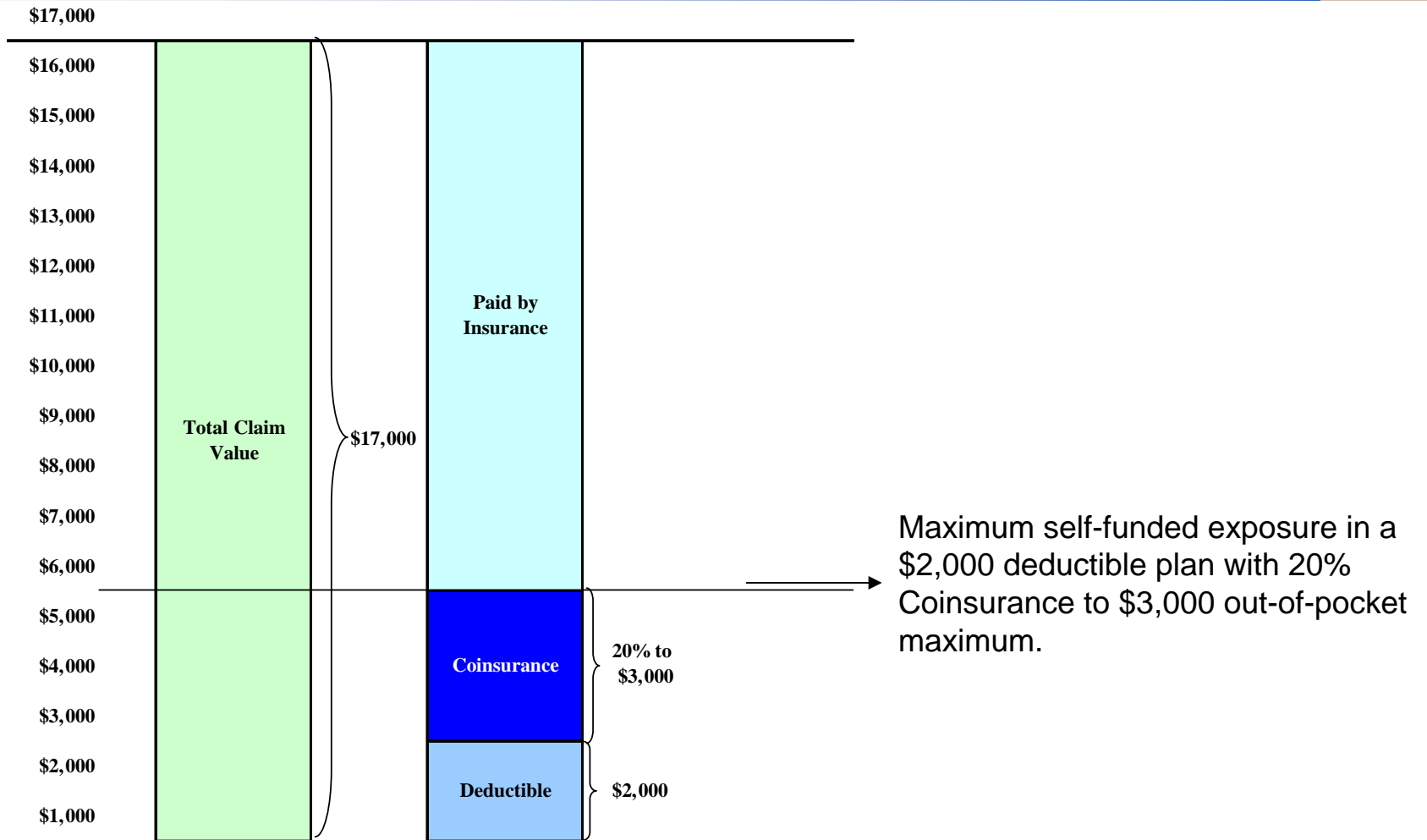


Determining which services are subject to deductible/coinsurance allowed Bacou-Dalloz to limit the range of risks.





# Specific Stop Loss – Maximum Exposure per Covered Member





# Three Components of a Hybrid Funding Plan

- The Primary Insurance Plan



- The Supplemental Plan



- Flex Account with a Debit Card





## Advantages of the Wrap Design

The PCI WRAP plan design permits employers to reduce cost while preserving benefits. By self-funding the deductible & coinsurance expense the employer accomplishes five things:

- Significantly reduces overall health plan costs
- Maintains present level of benefits
- Raises employee awareness as to the value of the benefit they are receiving from the company because the company name is on the E.O.B.
- Raises the level of employee awareness that health costs are increasing rapidly and that change is imminent
- Prepares employees for taking more responsibility for their own health care purchasing and lifestyle





## Actual 2004 Savings: \$1,799,326

	Traditional Approach	Hybrid Funding
2003 Total Plan Cost	\$7,132,928	\$7,132,928
2004 Renewal Premium	\$9,764,864	\$7,075,538
Increase (Decrease)	\$2,631,936	(\$ 57,390)
Amount required to self-fund deductible/coinsurance.	NA	<b>\$ 890,000</b>
Total annual cost	\$9,764,864	\$7,965,538
Savings	NA	\$1,799,326





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## Benefits of the Tiered CDHP Design





The PCI TIER plan design permits employers to reduce cost while requiring employees to take responsibility for designing and selecting their own plan through a menu of differentiated plan designs and corresponding payroll deductions. Tiered plans accomplish the following:

- Significantly reduces overall health plan costs
- Raises employee awareness as to the value of the benefit they are receiving from the company because the company name is on the E.O.B.
- Introduces employees to health consumerism role
- Requires employees to take more responsibility for their own health care purchasing and lifestyle decisions





## Step 2: CDHP with Multiple Coverage Levels

		2006 Bacou-Dalloz/ PCI 3-Tier CDHP					
Individual Weekly Deduction		\$21.00		\$16.00		\$11.00	
Family Weekly Deduction		\$54.00		\$44.00		\$34.00	
		High Option "Premier Plan"		Middle Option "Classic Plan"		Low Option "Value Plan"	
Plan Features			Employee Pays		Employee Pays		Employee Pays
<b><u>Deductible</u></b>							
Individual	\$5,000	\$4,500	\$ 500	\$4,000	\$1,000	\$3,500	\$1,500
Family	\$10,000	\$9,000	\$1,000	\$8,000	\$2,000	\$7,000	\$3,000
<b><u>Coinsurance</u></b>	20%	20%	0%	20%	0%	20%	0%
<b><u>Out-of-Pocket Maximum</u></b>							
Individual	\$6,000	\$5,500	\$ 500	\$5,000	\$1,000	\$4,500	\$1,500
Family	\$12,000	\$11,000	\$1,000	\$10,000	\$2,000	\$9,000	\$3,000





## Actual 2005 Savings: \$2,518,018

	Traditional Approach	Hybrid Funding
2004 Total Plan Cost	\$ 9,764,864	\$7,965,538
2005 Renewal Premium	\$ 10,838,999	\$7,634,747
Increase (Decrease)	\$ 1,074,135	(\$ 330,791)
Amount required to self-fund deductible/coinsurance.	NA	<b>\$ 686,234</b>
Total annual cost	\$ 10,838,999	\$8,320,981
Savings: Deductible & Coinsurance are self-funded	NA	\$2,518,018





## Projected 2006 Savings: \$3,370,244

	Traditional Approach	Hybrid Funding
2005 Total Plan Cost	\$ 10,838,999	\$8,320,981
2006 Renewal Premium	\$ 11,992,268	\$7,692,520
Increase (Decrease)	\$ 1,153,269	(\$ 628,461)
Amount required to self-fund deductible/coinsurance.	NA	<b>\$ 929,504</b>
Total annual cost	\$ 11,992,268	\$8,622,024
Savings: Deductible & Coinsurance are self-funded	NA	\$3,370,244





## Savings Summary 2004-06: \$7.69 Million

	Traditional Approach	Hybrid Funding
2004 Total Plan Cost	\$ 9,764,864	\$ 7,965,538
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2006 Total Plan Cost*	\$ 11,992,268	\$ 8,622,024
Total three year cost	<u>\$ 32,596,131</u>	<u>\$24,908,543</u>
Savings		<b>\$ 7,687,588</b>



\*Hybrid includes projected self-insured claims of \$929,504





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Nothing Protects Like Uvex.



## Our Theme for 2007

### **Increase employee control, involvement and responsibility for their health care by:**

- Redesigning our PPO option to make more services subject to the deductible
- Changing the Pharmacy co-pay to increase employee awareness of the true cost of their prescriptions
- Introducing the next phase of Consumer Driven Health through an HSA compatible health plan with an up-front deductible
- Making Health Savings Accounts available to employees to allow them to save for their current and future health care needs



## 2007 Health Plan Options

Bacou-Dalloz purchased an HSA-compatible base plan from BCBS with a comprehensive \$3,000/\$6,000 deductible. This base plan was repackaged into two options:

- A PPO plan that will offer employees coverage that is very similar to our current Blue Cross plan options
- An HSA plan that will allow employees to open a Health Savings Account with a company contribution





Primarily Care will administer all claims under the deductible for employees enrolled in either plan.

Both cover the same services and provide access to the same doctors, hospitals and other providers nationwide.





## Step 3: Add the HSA Component

Example of 2007 Bacou-Dalloz/ PCI HSA Compatible Plan							
Individual Weekly Deduction		\$23.00		\$13.00		\$3.00	
Family Weekly Deduction		\$59.00		\$39.00		\$19.00	
		PPO Option		HSA Option 1		HSA Option 2	
Plan Features			Employee Pays		Employee Pays		Employee Pays
<b><u>Deductible</u></b>							
Individual	\$3,000	\$2,500	\$ 500	\$1,900	\$1,100	\$1,000	\$2,000
Family	\$6,000	\$5,000	\$1,000	\$3,750	\$2,250	\$2,000	\$4,000
<b><u>HSA Contribution</u></b>							
		\$0		\$250		\$250	
<b><u>Out-of-Pocket Maximum</u></b>							
Individual	\$3,000	\$2,500	\$ 500	\$2,150	\$1,100	\$1,250	\$2,000
Family	\$6,000	\$5,000	\$1,000	\$4,000	\$2,250	\$2,250	\$4,000





## Benefits of the HSA Compatible Design

The PCI HSA-TIER plan design incorporates all of the benefits of the multiple tier design described in the previous slides. Additionally, the HSA compatible plan permits employees to establish health savings accounts. HSA-Tiered plans accomplish the following:

- Significantly reduces overall health plan costs
- Raises employee awareness as to the value of the benefit they are receiving from the company because the company name is on the E.O.B.
- Actively involves employees as health consumers
- Requires employees to take more responsibility for their own health care purchasing and lifestyle decisions
- Permits employees to establish Health Savings Accounts





## 2007 PPO Option Summary

Co-payments for Office Visits (\$15/\$25) and Pharmacy

- Preventative Services (physicals, well baby, etc.) are FREE
- Pharmacy co-pay now 25% (\$50 max per prescription)

Deductible of \$500 Single/ \$1,000 Family applies to most other services

- Lab, X-Ray, MRIs, etc. are now part of the deductible

Employee must show PCI and BCBS Cards for all services. Co-pay and Pharmacy information and the Bacou-Dalloz logo will be printed on the PCI Card.

Employee can use a Flex Account to pay for their out-of-pocket expenses.





## 2007 HSA Option Summary

Up-front deductible of \$1,100 Single/ \$2,250 Family applies to ALL covered services except:

- Preventative Services (physicals, well baby, etc.) are FREE

Deductible is cumulative for all family members - but

- ALL services are FREE once the deductible is met.

Participants can use a Health Savings Account to pay for their out-of-pocket expenses.

Bacou-Dalloz will deposit \$250 into each employee's HSA on January 1, 2007.





## Explaining the Plan to Employees

- Use multiple communication vehicles to get your message across:
  - Employee Meetings
  - Webcasts
  - Print
  - Intranet
- Clearly explain what is changing – and what isn't
- Health insurance is a family decision – plan your communication for ease of use at home
- Communication needs to be adaptable for bilingual/bicultural audiences



## 2007 Plan Comparison

### PPO Option

Weekly Payroll Deduction:

- \$23 Single
- \$46 2-Person
- \$59 Family

Deductible \$500/\$1,000

- Everything but OVs & Rx

Co-pays \$15/\$25 OV  
25% Rx

Use with Flex Account



Both Plans Use



### HSA Option

Weekly Payroll Deduction:

- \$13 Single
- \$26 2-Person
- \$39 Family

Deductible \$1,100/\$2,250

- Up-front, cumulative

OVs & Rx are FREE after deductible is met

Use with HSA Account



# FSA – HSA Comparison

## FSA Account

It's a Spending Account

- \$3,000 max/yr.
- Available Jan. 1 to use
- Use it or lose it

Tax Advantages

- Pretax payroll deduction
- Earns no interest
- Tax-free withdrawals

Leave your unused \$\$ behind if you leave the company



## HSA Account

It's a Savings Account

- \$1,100/ \$2,250 max/yr.
- \$250 B-D contribution
- Save it and keep it

Tax Advantages

- Pretax payroll deduction
- Savings can be invested
- Tax-free withdrawals

It's YOUR money – take it with you if you leave the company





BACOU-DALLOZ USA, INC.

Interested in ways to save money on health insurance next year?

*Over the next several weeks look for more information about the health insurance options that will be available to you in 2007.*

In 2007 Bacou-Dalloz will offer you two health plan options through Blue Cross and Blue Shield; a Preferred Provider Organization (PPO) Option and a Health Savings Account (HSA) Option. Both options will use the same doctors, hospitals and pharmacies. They offer you comprehensive coverage in different ways with different costs. It is important that you carefully review both plans to decide which is best for you and your family.



**New for 2007 – Health Savings Accounts!**

You've probably been hearing about HSAs – a new type of account that lets you save money tax-free to help pay for your health care expenses. HSAs are also becoming a very popular way to save money tax-free for your future health care needs (perhaps in retirement). And - because you own your HSA - you control how and when you spend your money. We're excited to be able to offer you this great addition to our benefits program in 2007!



The PPO Option gives you access to comprehensive care with the convenience of fixed copayments for doctor and pharmacy visits



The HSA Option uses the same network as the PPO option but uses an up-front deductible rather than copayments. You can save for these expenses with a Health Savings Account

*Open enrollment will be held November 1 - 21; new benefits will be effective January 1, 2007*

**BACOU-DALLOZ USA, INC.**  
*Similar to Premier*

900 Douglas Pike  
Smithfield, RI 02917-1874



# Targeted Employee Communications Campaign

## Flyer #1 – Late August

### Purpose:

- Get employee attention
- Describe the health plan options for 2007
- Introduce HSAs
- Let them know that more information is on the way





# Key Considerations When Choosing an HSA Provider

## HSA Debit Card

- Debit card is a stored value card
- A signature based card - no PIN system access
- Consumer may present the card at time of health care purchase at a provider that accepts VISA debit cards
- With a swipe of the card, payment is immediately deducted from the HSA (if prompted, select “Credit”)
- Can not use card at ATM’s to withdraw funds





# Key Considerations When Choosing an HSA Provider

## Dedicated Customer Service Number

- **1-866-449-9912** Toll Free dedicated number for Participants
- Customer support: member assistance available via automated IVR options 24/7.
- In-person Client Service Representative support available from 8 AM to 9 PM EST.
- Call center staff are trained extensively.
- Calls are logged and those requiring research are responded to within 24 hours.





# Key Considerations When Choosing an HSA Provider

## *My Account* for HSA Participants

@ [www.wfhbs.com/bcbsri](http://www.wfhbs.com/bcbsri)

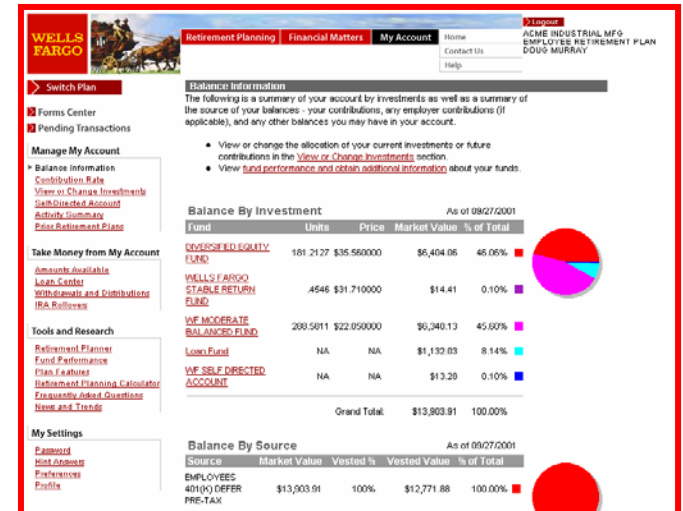
Full transactional capability

View account balances, fund performance, online prospectuses, fund descriptors...

Automated confirmations of all transactions

Secured site

Available 7 days a week / 24 hours a day



**WELLS FARGO**

**Bacou-Dalloz**



# Key Considerations When Choosing an HSA Provider

## A Variety Of Investment Options Ranging From:

Money Market - Conservative - Moderate - Growth Aggressive - Diversified



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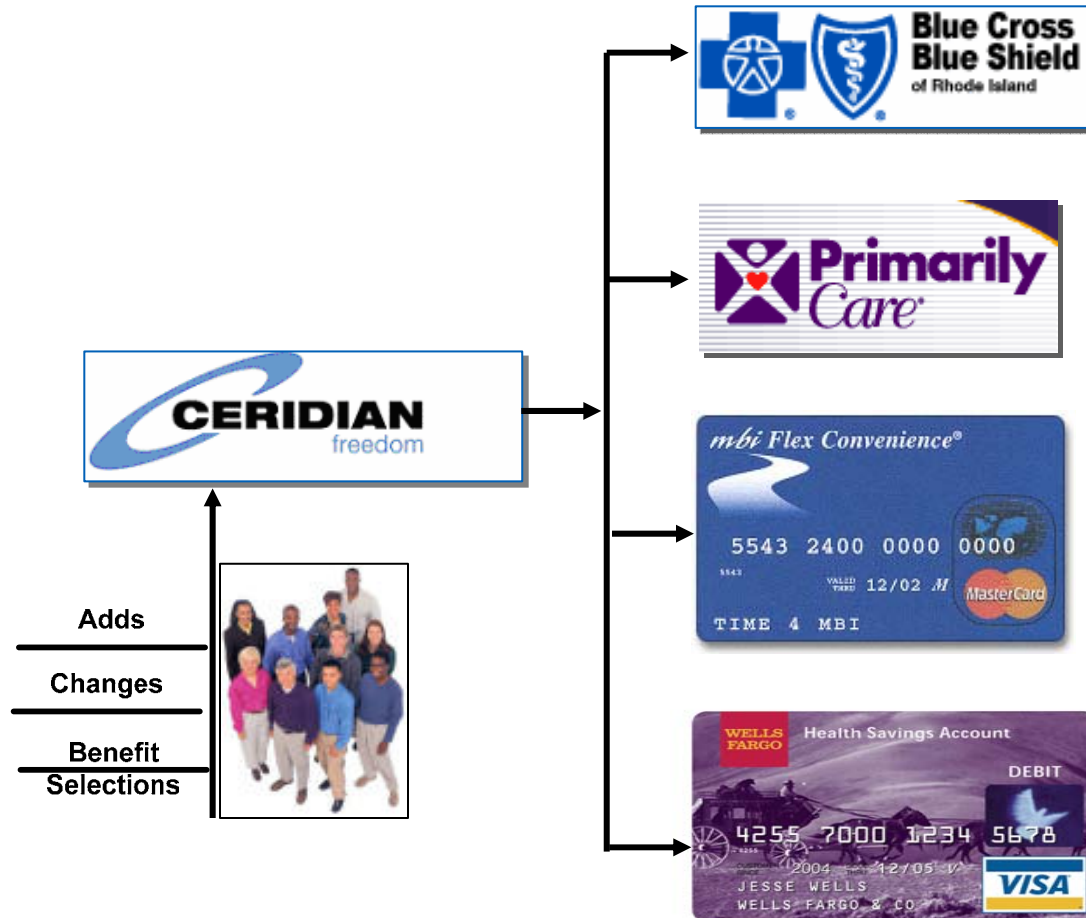
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# Don't try this at home . . . (without)

- The right business partners:
  - Health Plan
  - TPA
  - Flex account program
  - HSA provider
- An HRIS capable of exchanging data with your Insurance, TPA and HSA providers' systems
- The resources to meet the cash flow requirements of the self-funded and debit card accounts





## For More Information

**Ed Belt**  
**Primarily Care, Inc.**  
**75 Sokanosset**  
**Crossroad, Suite 300**  
**Cranston, RI 02920**

**401-946-4441**  
**800-395-1300**

**ebelt@**  
**primarilycare.com**

**Mike Vittoria**  
**Bacou-Dalloz USA, Inc.**  
**900 Douglas Pike**  
**Smithfield, RI 02917**

**401-757-2111**

**mvittoria@**  
**bacou-dalloz.com**





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