

# An Overview of the Evolving World of Health Insurance and the Role of Defined Contribution

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# Health Insurance in the Future

- Will employers continue in their present role?
- Will there be a changing role for consumers?

- The Current Landscape
    - Provider Consolidation Is Here to Stay
    - Employee Expectations Are High
    - Employer Costs Are Increasing, Market Leverage Is Decreasing
  - Next Steps for Employers
    - Take Advantage of Rising Unemployment by Cutting Contributions to Health Plans and Benefits Coverage
- OR**
- Seek a New Social Compact With Employees Over Roles/Responsibilities
    - Employer Interest Is Building
    - The Machinery Is Being Developed in the Form of Consumer-Driven Health Insurance Products

# Consumer-Driven Health Plans

- A portion of the employer's contribution towards health benefits is placed into an account from which the employee purchases services with tax-advantaged dollars
- A major medical or some other type of “wrap around” insurance policy is purchased with a portion of the employer's contribution
- There is an expectation that employees will spend their own dollars to cover the “gap” between the “health spending account” and the insurance policy coverage
- The internet is used to facilitate consumer purchase decisions

# Consumer-Driven Health Plans

- Plans with the highest visibility at present:

Definity (Twin Cities)

Destiny Health (Chicago)

HealthMarket (Connecticut)

Lumenos (Virginia)

Vivius (Twin Cities)

# Consumer-Driven Health Plans

- All purport to solve the same “problem”
  - Insured consumers have little knowledge of the cost of services and weak incentives to consider cost in purchase decisions, due to MCO benefit designs
  - MCO restrictions on care are objectionable to employers and consumers
  - Placing more decision making in the hands of employees, supported by appropriate tools and financial incentives, can increase employee satisfaction and ultimately reduce employer costs for medical care and benefits administration

# Distinguishing Among Consumer-Driven Health Plans

## Provider Networks

- Most plans sign contracts with companies (usually PPOs) for use of their provider networks
- Lumenos believes the concept of “provider network” has negative connotations – offers consumers information about prices
- Vivius (now) “partners” with existing MCOs, using their networks

# Provider Payment

- Most plans, from the beginning, planned to pay providers using fee-for-service
- Vivius and Health Market initially proposed other payment approaches, but now offer fee-for-service payment
  - Vivius: provider “retainers”
  - HealthMarket: “episode” payments



## Spending Accounts

- Vivius approach is unique; consumers “spend” their account by paying selected providers on a pmpm basis
- Typically, balances in the spending account can be “rolled over” from year-to-year but revert to the employer when an employee changes plans or leaves the company
  - Destiny is an exception, as employees retain account balances

# Intrastructure Investment

- Vivius and HealthMarket raised significant venture capital funding and spent large sums on software to support pricing, payment and consumer decision making
- Other consumer-driven health plans have contracted with internet health care content suppliers
- Destiny doesn't contract with internet sites, believing that consumers have sufficient access to sites of their choice

## Target Markets

- Initial marketing focused on advantages of consumer-driven plans
- Expectation was that consumer-driven plans would be offered alongside other options
- Definity and Lumenos are targeting large employers nationwide
- Vivius targets large employers, but focuses on communities where it finds MCO partners

- HealthMarket markets nationally to employers of all sizes; fully-insured product for small/medium sized employers and self-insured ASO product for larger employers
- Destiny targets small to medium sized employers in selected communities with an insured product

# Status of Employer Acceptance

- Plans have been successful in creating concept awareness on the part of larger employers
- Early adopting employers are proceeding cautiously, offering option to subgroups of employees along with existing MCO options
- Initial penetration rates (5-80%) have been acceptable but may reflect the enthusiasm of early employer adopters

# Status of Venture Capitalist Support

- Consumer-driven plans depended on venture capitalists for initial funding
- Some plans are soliciting, or have received, a second round of venture capital (e.g. Definity)
- Venture capitalists serve on plan boards
- Normal time period for VC investment is 3-5 years

# Status of “Competitor” Responses

- For some plans, large health insurers and MCOs are viewed as partners and customers, rather than competitors
- Many large insurers are marketing their own consumer-driven products as options

# The Future for Consumer-Driven Health Plans

- Plans are at a critical juncture; need to diffuse rapidly or risk being pre-empted by “look alike” products developed by MCOs

## Conditions supporting rapid diffusion

- Compatible with expressed employer values
- Can be “trialed” on a limited basis
- Results of early adopting employers are easily visible to others
- Double digit premium increases for existing MCO products create environment supporting employer change
- Conditions challenging rapid diffusion
  - Can be difficult for employers and consumers to understand
  - Employer concern about employee “bad decisions” and subsequent dissatisfaction with health benefits



# WHAT WE WOULD LIKE TO KNOW

- Will consumers choose consumer-driven plans?
  - Will the plans appeal most to “healthy” consumers?
  - Will the plans appeal mostly to “tech-smart” consumers?
- For consumers who do choose the plans:
  - Will their consumption patterns change?
  - How will changes in consumption vary in the short and long term?
  - Will consumers use the information provided? Will they value it?
  - Will there be any impact on consumer health?
- For physicians:
  - Will consumers in these plans be more knowledgeable? More aggressive in their care demands?
  - Will physicians compete on price and amenities for these consumers?
- For society:
  - Will “activated consumers” mean better, more cost-effective health care?