

► **Health Care Benefits**

The Next Big Thing in Health Benefits: **Consumer Choice**

by Jack Bruner

► **Consumers are the only ones who can affect all decision points that drive health care cost and quality.** *As a result, consumers' health and financial security depend on their taking more responsibility for their health care decisions and having the tools and information needed to do so successfully. This article explains the five key decision points that drive health care cost and quality, how technology aids marketplace innovations, and how employers can help advance consumer choice in order to push the health care system to deliver better care and keep inflation in check.* ◀

Consumer choice in health benefits is finally coming.

We are about to experience a change as sweeping as the shift to flexible compensation two decades ago, which took root almost overnight in an era of double-digit inflation, and as dramatic as the advent of managed care a decade ago, when unfettered indemnity health plans suffered a sudden demise. One minute those changes seemed unthinkable; the next unstoppable. Now, with health care inflation roaring back and health maintenance organizations (HMOs) impotent at restricting access to specialty care, the consumer choice revolution is upon us.

Businesses recognize the danger that untrammelled health inflation poses both to the bottom line and to workers who, on average, make \$28,000 a year. Affordable health care is not a luxury; it is a necessity. The question is, what can control costs, and who can drive the process? Ultimately the value, quality and cost decisions in health care are very personal. Health care consumers not only have diverse needs, but also diverse value systems. Employers and HMOs recognize they can only lose, both in the press and in the courts, by dictating personal decisions. Doctors and the government similarly have not demonstrated the capacity to manage these personal decisions effectively. The consumer is the only one left who can wage this battle for better, more affordable health care.

As a practical matter, consumers are not anxious to take more responsibility, but their health and financial security are at stake. They're also the only decision makers who can't be sued, an important consideration as \$100 million judgments force health plans out of this arena. In this context, we need to give consumers the tools and information to take the lead.

Consumers face hard choices all the time, such as how to make the mortgage payment, how to put food on the table, how to pay for a child's education and how to pay for medical care. If it means eating hamburger more than steak, parents do that without blinking. Once consumers realize that they can cut costs without sacrificing quality, they will make hard-nosed health choices. Those who want the most expensive providers will be free to choose them—at a price.

We won't wake up tomorrow and read that half the Fortune 500 has switched to defined contribution health benefits in pure form, or that Company X simply sent its 120,000 workers vouchers and the Web address of an e-health marketplace and abandoned them to shop on their own. Instead, businesses will take small steps down this road, then move briskly ahead.

Several challenges stand in the way. Everyone must understand the threat that rising costs pose to health care affordability and access. This threat grows from increasing costs, poor health outcomes and our own health behaviors. The public may not yet realize that managed care is losing its power to contain costs. They see headlines about medical mistakes killing tens of thousands of patients, and they are beginning to recognize the threat that substandard care poses to their family. What is missing is the recognition of how much hardship results from patients' failure to take care to follow doctors' instructions for lifestyle, preventive care and pharmaceuticals. To paraphrase Pogo: When we see the enemy, it will be us.

For even the biggest purchasers, size no longer affords a haven. The vaunted Federal Employees Health Benefit Program, with nine million participants, saw premiums shoot up 10.5% last January, and mighty CalPERS, the California Public Employees' Retirement System, is raising rates 16-24% for 2002.

At 12% a year, businesses face a 76% premium jump by 2006. The typical Hewitt client spends \$40 million on health benefits for 10,000 employees. In 2006, it may have to shell out \$70 million. Who can afford that?

Eighty-five percent of the employers we surveyed last fall said they were rethinking and revising their health care strategy. Where can they look for value? Forget about cutting employees adrift to fend for themselves in the individual market. Most would have to pay three times more for the same coverage, if they could find it.

We need new ways to combine the power of group purchasing and incentives for consumers to make better decisions. The market for Lasik surgery proves that consumers can drive dramatic improvements in quality and cost simultaneously. Providers soon will discover that patients can be more aggressive than managed care plans in demanding value.

FIVE KEY DECISION POINTS

There are five key decision points that drive health care cost and quality. The consumer alone has the capacity to affect all five decisions. But consumers lack both incentives and information needed to make the best choices. These five key junctures are:

1. Choice of health plan
2. Choice of providers
3. The price tag
4. Management of disease
5. Benefits offered.

Choice of Health Plan

This is the single most important decision that a consumer can make. Our research shows that costs vary by up to 40% between the most and least efficient health plans in each market. Most employers pay a constant percentage, whether the plan is a Cadillac or a Honda. If employers paid 80% of the cost of any car their workers bought, the employee parking lot would be filled with gleaming new Lexuses and Mercedes SUVs in spaces where Tauruses and Camrys used to park. Best-in-market health plans with risk-adjusted premium differentials typically reduce the total cost of health care by 10% or more.

Choice of Providers

Every health plan already offers a choice of providers, but few provide sufficient incentives to shop wisely. Depending on which hospital or surgeon the consumer chooses, cost can vary by as much as 35%. A university-affiliated hospital and a community hospital in the Chicago area both perform high volumes of heart bypasses and are both acknowledged as high-quality facilities. The difference is that the community hospital charges dramatically less for the same procedure.

The Price Tag

Providers' actual charges differ dramatically, depending on whether you are in an HMO that struck the best deal, on Medicare, or someone paying the "sticker" price. Hospitals charge as many different rates as hotels or airlines for the same service. Consumers and their plans must be savvy shoppers. In the future, we may see Travelocity- or Priceline-type markets for hos-

pital rooms for the same reasons or the same economics that compel hotels to structure pricing to fill unused capacity. It's important to note that the occupancy rate for hospitals in the United States is under 60%.

Disease Management

Disease management can help those with diabetes, asthma, congestive heart failure and other chronic conditions live longer, healthier lives and significantly reduce hospital stays and health care costs. Today, fewer than 10% of eligible employees use these programs, as neither health plans nor employees have incentives to do so. It's not easy to get employees to monitor their conditions and take medications properly, much less change lifestyles. But doing so could reduce overall costs for these patients by 10-50%.

Benefit Design

Companies sometimes offer a range of health plan options, but they don't allow employees to customize their own benefit package the way they can tailor automobile insurance coverage or other insurance to meet their needs. Everyone gets charged to maintain high levels of benefits for heavy users.

Consumer choice can allow us to create a health care system that better recognizes the diversity of health needs and the values of each individual. This is not just a way to restrain costs. It is the *right* thing to do. These should be very personal decisions. It is not the role of a health plan, employer, the government or a physician to make them.

Each party bears responsibility to make consumer choice work.

- Health plans must provide a range of services that are understandable and deliver quality results.
- Employers must give consumers information and a wide array of the best choices, not just the least costly ones.
- Providers must help patients understand how to balance cost and quality.
- Employer health plan premiums must better recognize the health risk or, more importantly, health needs, of covered employees to improve the quality of plan incentives.
- The government must ensure the playing field is level.

No one should be forced into a particular health plan or disease management program. But employers should reward voluntary choices that lead to better health and lower costs.

Instead of mandating that those with diabetes or congestive heart failure participate in disease management, we'd suggest waiving a \$1,000 copayment or deductible if they sign up. Positive incentives are the right way to encourage good personal health decisions.

Consumers also must understand that they will pay a price for not spending their health dollars wisely. The key is to offer a variety of health plan options, from preferred provider organizations to health maintenance organizations to medical savings accounts, without stacking the deck in favor of the most expensive care.

TECHNOLOGY AIDS MARKETPLACE INNOVATIONS

Once, the idea that a large employer could offer employees customized health benefits and that consumers could make smart choices was a pipe dream. Today it is a reality, made possible by technology.

Already, Hewitt and Sageo have created an administrative platform that serves as an honest broker on the employees' behalf. At our Internet auction last year, nine major customers saved \$3.5 million as 90 HMOs competed for their business. This year, Hewitt will help two million people sign up for or renew health coverage over the Internet.

Companies like Vivius, HealthMarkets and Health Allies are moving Internet purchasing down to the provider level so consumers can check out doctors' and hospitals' credentials

The Author

Jack Bruner has been Hewitt Associates' national practice leader for health care consulting since 1991. He has over 20 years of consulting experience in all phases of employee benefits, total compensation and human resource strategy. Mr. Bruner's current activities include strategic planning, research, writing and active consulting. He is a fellow of the Society of Actuaries and a member of the American Academy of Actuaries, and he has a B.S. degree in actuarial science and business administration and an M.A. degree in actuarial science.

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before they choose plans. The Internet can help hospitals and surgeons fill empty beds and idle operating suites, just as Travelocity and Priceline make it possible to buy airline tickets and other goods at deep discounts.

This is not over the horizon. The infrastructure is already in place. We already have data showing that health plan efficiency varies by up to 40% on a local basis. A leading national retailer offers its sales associates a choice of health plans in each community, with larger contributions for plans that combine quality with efficiency. This retail giant gets 26 cents more value per dollar spent on health care than other employers do. A national bank stopped asking its human resources department and consultants to design a one-size-fits-all benefit package and instead is letting its workers customize their preferred provider organizations (PPOs) and benefits.

Here are steps that employers can take to advance consumer choice:

- Embrace a best-in-market health plan strategy with risk-adjusted contribution differentials.
- Consider combining a medical account with catastrophic insurance to promote active employee consumer behaviors.
- Allow employees to customize design components to meet their needs.
- Offer multitiered hospital coverage, just as many plans now offer different coverage for prescription and brand-name drugs.

Plans could cover community hospitals that price services aggressively in full, intermediate cost facilities at 80% of cost, and the most expensive facilities at 70% of cost. To keep the concept simple, this might be structured as a zero dollar, \$2,500 or \$5,000 inpatient hospital deductible.

- Encourage high-risk individuals to participate in disease management programs by offering extra benefits at no cost.
- Offer high quality at a low cost by providing an option for employees in PPOs to choose hospitals that specialize in hip replacements or bypasses. By giving these patients access to the best care and reducing their copayment, we can encourage providers to compete based on quality and efficiency.
- Pilot a modified form of defined contribution, where employers let employees select plans in a third-party marketplace with no underwriting, but employers' actual payments to each plan would vary based on the health status of who signs up.

Advanced risk adjustment is the key to creating broader choice and better incentives. This year, Hewitt will apply actuarial factors three to five times more accurate than the demographic factors used in the past. Employers should take a close look at what the new players in the health marketplace—Sageo, Definity, HealthMarkets, Vivius, Active Health—are offering.

There will still be a role for the major health plans. With their strong infrastructure and long relationships with providers and employers, Blue Cross, Cigna, Aetna, Kaiser, Humana and others have a tremendous opportunity to develop new models. Some will do it through existing distribution systems; others will partner with the new e-health players.

In short, the consumer choice model can:

- Control costs
- Boost consumer satisfaction
- Match benefits and coverage to needs
- Improve quality of care.

If consumer choice pushes the health system to deliver better care and keeps inflation in check, it is a win-win situation. We at Hewitt are excited about these opportunities and stand ready to help our clients bring the power of consumer choice to play in their own employee health plans. ◀