

## The Case for Consumerism in Health Care

### *More control and responsibility should lead to higher productivity*

By Linda Havlin and David Slavney

With health care costs climbing yet again and traditional cost-management approaches tapped out, companies are injecting consumerism into existing plans and designing entirely new ones. The point is to change behavior in a way that boosts well-being for the employee and the company.

**U**.S. companies have experienced their fourth year of double-digit increases in health care costs on top of an already high base. Health care expenses, for example, now add \$1,400 to the cost of each new car at General Motors.

Traditional cost management approaches that include changing deductibles and raising co-payments (flat-dollar payments) and employee premiums yield diminishing returns, not just in reducing cost increases but also in providing effective, efficient health care. Another approach, however, shows increasing promise for addressing the root causes of the cost spiral and for improving productivity: injecting consumerism, with more choice, market pricing, and self-direction, into health plans.

To do so, some companies are starting by changing from co-payment arrangements to co-insurance (based on a percentage of the total cost of a treatment), while others are adopting entirely new plan designs and care management approaches. A recent Mercer Human Resource Consulting survey of over 100 large U.S. employers found that:

- Consumer Directed Health Plans and Health Savings Accounts are the top choices for those companies seeking to introduce a new plan design. Health Savings Accounts allow people to save tax-free the deductible amount they have to meet each year on a high-deductible plan. They can withdraw the money tax-free to pay for medical expenses or allow the money to accumulate.
- About one-quarter of those surveyed are implementing education programs to foster a healthy workforce.
- Companies are moving quickly from prescription drug programs based on co-payments to ones that use co-insurance to raise awareness about the real cost of prescriptions and encourage employees to make more educated choices about the drugs they need.

The common elements here are more cost sharing, whether through higher deductibles or higher out-of-pocket costs, and more education and tools to help employees become effective consumers of medical care.

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But the concept of consumerism is broader, referring to a fundamentally different approach that allows employees to:

- Use their health care benefit dollars more wisely by choosing services appropriately and selecting the most cost-effective and highest-quality providers
- Take charge of their health care needs by actively seeking information about their health conditions and engaging in programs to help manage the risks
- Make informed decisions about what kind of care they need and the appropriate resources to provide that care
- Gain confidence to become an active, not passive, partner in health care decisions

In short, consumerism seeks to make employees more accountable, knowledgeable, and actively engaged in managing their health.

Given these goals, a consumerist approach requires change on several fronts. For employers, it requires a new plan design, targeted and personalized health management, vendor partnerships, transparent information about providers, and consumer education—all of which should be supported by a solid foundation of research about what's driving costs for the particular employee population.

Fortunately, consumerism does not require companies to abandon their current health plans, although some companies have chosen to do so. Consumerism can be infused in most existing health plans through targeted plan design changes and employee education. Either way, the point is to change employee behavior.

### **The factors driving health care costs**

Historically, health care providers have been viewed as the primary driver of cost increases, resulting in an abundance of strategies built around controlling unit price and utilization. Care was managed around the consumer rather than engaging the consumer in the decision-making process. Now the consumer's active participation is vital to bringing costs in check.

One reason is that the current cycle of rising costs is longer than previous cycles. This trend will not be reversed by one-time plan design changes. Other forces—in particular, demand for more care and new forms of treatment—are driving up costs by 12-15% annually on average. The key culprits include:

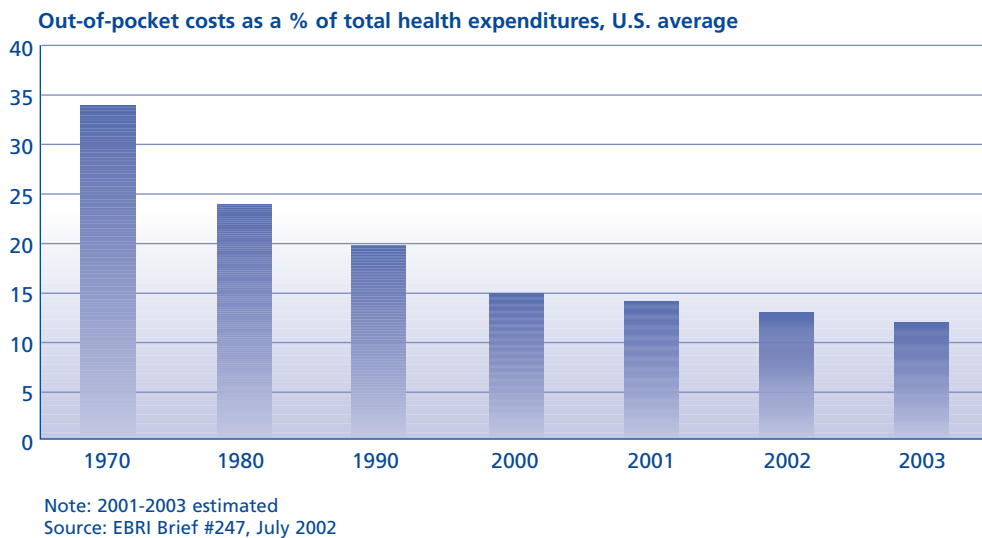
- New technologies and drug therapies
- Consumer demand for life-enhancing services
- The aging of the baby-boom cohort
- Medical errors
- Decreased ability to negotiate with individual providers, which are much larger after several rounds of industry consolidation

- Rising rates of health care risks in the population, notably obesity, tobacco use, and high blood pressure

Since patients play a major role in determining what care they receive, how much, where, and why, interventions targeted to the individual employee hold a lot of promise. Consider some of the dynamics behind rising demand and rising costs, and the reasons why the consumer's role must change.

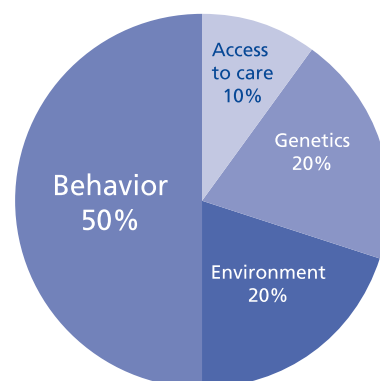
- *The share of costs paid by consumers has declined over the past 30 years.* In 1970, consumer out-of-pocket costs represented nearly 35% of total health care expenditures. For 2003, that figure is expected to be about 12% (Exhibit 1). The advent of co-payments for many types of services has protected consumers from inflation and also insulates people from knowing the true cost of health care.

Exhibit 1 **Consumers are insulated from the true cost of health care**



- *Behavior matters a lot.* Research shows that behavior is a far more significant driver of health status than environment, genetics, or access to health care. In fact, its impact is as powerful as all three of these other factors combined (Exhibit 2). Poor health status and inappropriate use of health care services can be addressed through behavioral modification, but employees first must have greater self-interest to be accountable, engaged, and informed.

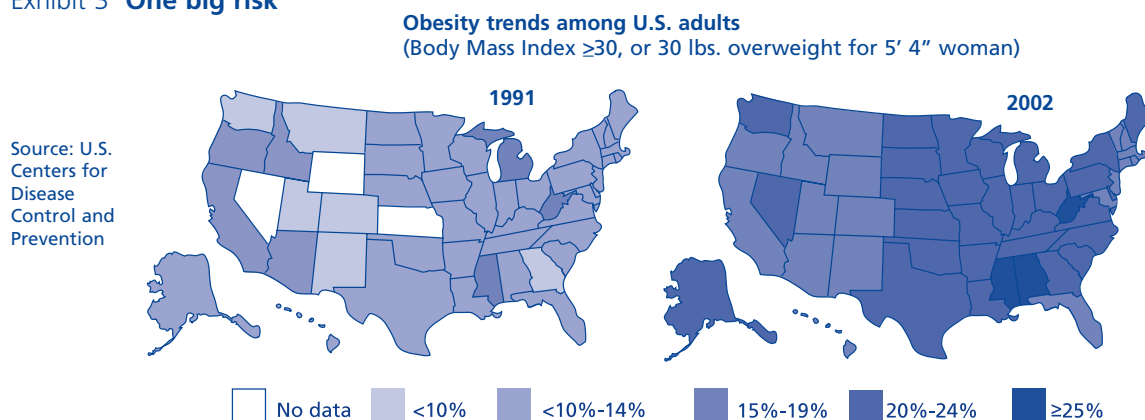
Exhibit 2 **Determinants of health status**



Source: Centers for Disease Control and Prevention estimate

- *Consumers are not engaged in managing their health.* Manageable health risks are increasing. Obesity, for example, has multiple health risks that affect both productivity and longevity (Exhibit 3). Yet, as a society and individually, we continue to ignore the warning signs.

## Exhibit 3 One big risk



Companies, which bear a major portion of the costs, have an enormous stake in engaging their employees and achieving a better return on their health investment. The optimal health plan requires a skilled, motivated consumer. One can devote a lot of resources to identifying physicians who render the best quality care at the most efficient price and the hospitals that outperform all others, but employees will use those providers only if they have the right information and motivation.

### The role of research

Conducting research at the start of a consumerism effort makes good business sense. It can help to refine strategies for health plan design and education. Better yet, it can provide a benchmark against which to measure success and evaluate initiatives and vendor performance. The most useful research falls into three categories:

- *Choosing.* Determine how much employees know about the rising costs of health care and what they can do to keep costs down. Find out how much they know about the resources available to them as they become more accountable consumers. See if they really understand the health care system, how it works, and how they can make good choices.

Recent Mercer research conducted at several large companies found that about two-thirds of the respondents want more information about health care costs, self-care, choosing a doctor, and finding health information on the Internet. More than half want more information on communicating effectively with doctors.

- *Using.* Find out how skilled employees are in applying their knowledge of health care. Ascertain how they currently interact with the health care system. Are they active consumers or do they let the system take control? What skills will they need to be taught if they are really to be in charge?

In our research, nearly half of respondents report that they may not participate in health care decisions because they don't know what questions to ask or they trust the doctor to make the decision.

- *Managing.* Find out how motivated employees are to change and to become active managers of their health. Determine the extent to which a shift in attitude will be necessary before employees embrace the role as informed, accountable consumers.

Having this type of detailed information about your employee population, rather than guessing or making assumptions about what employees think, know, or can do, is invaluable. Gaps in choosing and using can be addressed through targeted education efforts. Problems in the area of managing can be addressed by plan design, where desired behavior is rewarded and there are consequences for unproductive behavior, as well as through effective education.

### The role of pricing

Most current health plans were designed, by and large, during a period when employee attraction and retention were paramount. Companies wanted to offer a choice of health plans that were easy to understand and simply designed.

Thus, many plans were designed with flat-dollar co-payments and with deductibles and out-of-pocket levels that change only every three to five years with inflation. These designs largely insulate employees from cost trends and from knowing the real price of services. Instead of knowing the price of their treatment before it is rendered, consumers typically don't know the full cost of care until they receive an explanation of benefits. A co-insurance approach at least raises consumers' awareness that they will have to pay a portion of the bill, prompting them to ask questions about the total cost.

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## ■ Plan changes in the works

The consumerism movement will likely lead to a range of plan design changes over the next few years:

- *Variable co-insurance or capped payments based on provider cost-effectiveness.* Providers that are certified in the top tier of effectiveness, for example, would be paid at 90%, while lower tiers would be at 70% and 50%. Alternatively, a plan might pay a flat rate for a certain procedure, based on how much it costs to deliver the service at the most cost-effective level. Providers would accept that payment or try to justify their additional cost to their patients.
- *Increased co-insurance levels for long-term therapies.* Some extended therapies continue with little incentive for the patient to end the treatment. By increasing the patient's share of cost over time, the balance shifts to being more aggressive in completing the course of treatment. Some types of behavioral interventions and counseling in outpatient settings suit this approach.
- *Offering a core catastrophic plan and allowing employees to buy-up additional benefits.* Companies and employees alike are rethinking generous, hard-to-afford medical plans. One alternative is to offer a catastrophic plan that would be more affordable or paid in full by the company. Employees then could buy additional levels or groups of benefits. These plans can be coupled with a Health Savings Account funded by the employer or the employee.
- *Allocating a portion of unused savings account funds for retiree medical.* If employers have a Health Savings Account, they have to decide whether to roll over all or part of the unused account balance at the end of the year. One option would be to take a percentage of the unused amount and place it into a retiree medical savings account to cover the future cost of retiree health care.
- *Multiple savings accounts for preventive care, routine care, health improvement and productivity needs, and retiree medical.* Rather than providing one savings account, a company could create separate accounts to ensure that people are not depleting the account and foregoing the opportunity to use the account for preventive care. Health management needs, such as weight control and smoking cessation, could be paid out of a separate account. ❖

For health care to work more like a real market, people need access to information about the true cost and quality of services. As a starting point, more employers are abandoning co-payments in favor of percentage-based cost-sharing of the total cost. The next step will be to uncover the real cost of a procedure or treatment, negotiate rates from that full cost, and disclose the pricing value to employees.

Some new plan designs, including Consumer Directed Health Plans and Health Savings Accounts, incorporate some of these approaches. They can be introduced as a replacement of all plans, or in a more understated fashion as one option among more traditional preferred provider options.

Existing plans also can be modified to take a consumerist approach by varying co-payments and levels of co-insurance. Not all types of care should be covered by a \$10 co-pay or 90% co-insurance. There should be more differentiation in reimbursement for preventive, routine, life-threatening, chronic, and life-enhancing services. By varying the level of payment, companies force employees to assess the need for treatment and whether self-care or a less-expensive treatment is appropriate. Differentiation allows the employer to show more support for preventive care and less for routine care. Plans offered by Destiny Health use this approach, and the concept is gaining favor among pharmacy plans.

### **The role of education**

Successful consumerism initiatives to date involve more than pricing and plan design. They also devote resources to educating employees in a more careful, sophisticated manner than traditional wellness newsletters.

Some of the leading health plans and vendors have launched Web sites that allow users to create their own newsletter based on their individual risks and conditions. Other firms are refining data-mining techniques in order to focus resources on high-risk individuals rather than trying to blanket the entire employee population with managed care checkpoints that are marginally beneficial.

The most effective education will motivate employees to change behavior over time as well as provide them with the right set of information and skills to make the change permanent. This may involve the employee's family, since the employee may not be the sole or even primary decision-maker about health issues.

Effective education also should be ongoing rather than once a year during enrollment. Consumerism messages resemble a marketing campaign more than a typical human resource campaign. Behavioral change takes time, and education must likewise be sustained over a long period. What's more, the employer, not just the vendor, must be engaged in the effort. After all, it's the company that has a major financial stake in making the effort successful.

### **The role of productivity**

The ultimate goal for a consumer-centric health care program is to more effectively manage costs by having a healthier workforce. This goal has to be communicated as part of the deal, not a hidden agenda. Most companies talk about health care in the context of wanting to offer a competitive benefit plan or addressing employee satisfaction. Some shy away from mentioning the link to productivity.

Yet as long as companies pay the majority of the cost for health programs, from medical care to disability, worker's compensation, and employee assistance programs, it is their right to communicate how a healthier workforce is a more productive workforce. It's completely ethical as well as good management practice for companies to say that that they're making a substantial investment in health in order to improve employee well-being and productivity on the job. Both parties benefit: The company accrues cost savings and productivity improvements, while the employee's overall health improves.

In fact, the productivity measure is a good litmus test for any proposed changes in plan design. Pitney-Bowes, for example, decided to reduce employees' co-payments for asthma drugs. There was a risk that the standard cost-sharing level was high enough that it would cause some patients to stop their medications. By lowering the out-of-pocket amount, Pitney-Bowes saw improved compliance and, as a result, fewer hospitalizations and lower emergency room use. The net result was better productivity. By using productivity as a lens, we can ask how a benefit payment or treatment plan contributes to getting people back to work as soon as possible. Employers and employees have a better framework for cost sharing.

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Employers today are facing the hard truth about health care costs: The easy wins are over. Increased use of managed care and cost-shifting to employees produced some gains, but they are not going to transform health care economics.

As costs continue to rise, companies must use more advanced strategies. Consumerism shows tremendous potential for both employers and employees to reverse the trend line in health costs and, in the process, make people smarter and healthier. ❖