CDHPs: OPTIONS, CHOICES & KEY CONSIDERATIONS
TODAY’S PROGRAM

- CDHP Facts & Figures
- HSA and HRA Info & Insights
- CDHPs:
  » Rx Benefit
  » Preventive Drugs
  » Cadillac Tax
  » Private Exchanges
- Patient/Employee/Consumer Challenges of CDHPs
- Key Questions To Ask When Implementing A CDHP
CDHP

FACTS & FIGURES
A CONSUMER-DIRECTED HEALTH PLAN (CDHP) IS . . .

High Deductible Health Plan (HDHP)

with

OR

Health Reimbursement Arrangement (HRA)

OR

Health Savings Account (HSA)
### WHY DO EMPLOYERS UTILIZE CDHPs?

<table>
<thead>
<tr>
<th>Objective</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce health benefit cost</td>
<td>72%</td>
</tr>
<tr>
<td>Providing a low-cost plan for newly eligible employees</td>
<td>59%</td>
</tr>
<tr>
<td>Providing a tax-effective savings vehicle</td>
<td>57%</td>
</tr>
<tr>
<td>Promoting health care consumerism</td>
<td>55%</td>
</tr>
<tr>
<td>Avoiding the excise tax on high-cost plans</td>
<td>35%</td>
</tr>
<tr>
<td>Using as the default plan</td>
<td>29%</td>
</tr>
</tbody>
</table>

**Percent of employers agreeing that objectives have been met:** 71%

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ROBUST 10-YEAR GROWTH IN CDHP ENROLLMENT

Percent of Employer-Covered Lives Enrolled in CDHP

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>4%</td>
</tr>
<tr>
<td>2007</td>
<td>5%</td>
</tr>
<tr>
<td>2008</td>
<td>8%</td>
</tr>
<tr>
<td>2009</td>
<td>8%</td>
</tr>
<tr>
<td>2010</td>
<td>13%</td>
</tr>
<tr>
<td>2011</td>
<td>17%</td>
</tr>
<tr>
<td>2012</td>
<td>19%</td>
</tr>
<tr>
<td>2013</td>
<td>20%</td>
</tr>
<tr>
<td>2014</td>
<td>20%</td>
</tr>
<tr>
<td>2015</td>
<td>24%</td>
</tr>
</tbody>
</table>

ACA signed into law on March 23, 2010

CDHP MARKET SHARE OF EMPLOYER HEALTH PLANS

Employee Enrollment by Health Plan Type

- HMO: 14%
- POS: 10%
- INDEMNITY: <1%
- CDHP: 24%
- PPO: 52%

CDHP ANNUAL PREMIUMS COMPARED TO OTHER PLANS

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Family Premium</th>
<th>Single Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPO</td>
<td>$18,469</td>
<td>$6,575</td>
</tr>
<tr>
<td>HMO</td>
<td>$17,248</td>
<td>$6,212</td>
</tr>
<tr>
<td>POS</td>
<td>$16,913</td>
<td>$6,259</td>
</tr>
<tr>
<td>CDHP</td>
<td>$15,970</td>
<td>$5,567</td>
</tr>
</tbody>
</table>

- CDHP family premium is 14% lower than PPO family premium
- CDHP single premium is 15% lower than PPO single premium

CDHP ANNUAL DEDUCTIBLES COMPARED TO OTHER PLANS

- **PPO**
  - Family $2,012
  - Single $958

- **POS**
  - Family $2,467
  - Single $1,230

- **HMO**
  - Family $2,758
  - Single $1,025

- **CDHP**
  - Family $4,332
  - Single $2,099

- CDHP family deductible is 215% higher than PPO family deductible
- CDHP single deductible is 219% higher than PPO single deductible

“Account-based health plans—especially full-replacement plans—have proved effective in helping employers hold the line on costs . . . They also show promise for helping organizations avoid the PPACA excise tax on high-cost plans.”

HSA AND HRA INFO & INSIGHTS
## HRA & HSA Comparisons

<table>
<thead>
<tr>
<th></th>
<th>Health Reimbursement Arrangement (HRA)</th>
<th>Health Savings Account (HSA)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of Account</strong></td>
<td>» Benefit account, owned and directed by employer, set aside to pay for an employee’s qualified medical expenses.</td>
<td>» A tax-advantaged account, owned by the employee, that is used to pay for employee’s qualified medical expenses. » Regulated by IRS.</td>
</tr>
<tr>
<td><strong>Pretax Employee Contribution</strong></td>
<td><img src="false" alt="False" /></td>
<td><img src="true" alt="True" /></td>
</tr>
<tr>
<td><strong>Employer Contribution and Rollover</strong></td>
<td><img src="true" alt="True" /></td>
<td><img src="true" alt="True" /></td>
</tr>
<tr>
<td><strong>Portable</strong></td>
<td><img src="false" alt="False" /></td>
<td><img src="true" alt="True" /></td>
</tr>
<tr>
<td><strong>Assets in the Fund Allowed to Be Used for Investing Purposes</strong></td>
<td><img src="false" alt="False" /> «The funds may only be used for qualified medical expenses.»</td>
<td><img src="true" alt="True" /> «The individual may use the assets in the fund to invest in any IRA instruments.»</td>
</tr>
<tr>
<td><strong>Account Must be Linked with a HDHP</strong></td>
<td><img src="false" alt="False" /> «Can be paired with any plan type.»</td>
<td><img src="true" alt="True" /></td>
</tr>
<tr>
<td><strong>Employee Must Pay for Rx Until Deductible Met</strong></td>
<td><img src="false" alt="False" /> «Can be paired with any Rx plan type.»</td>
<td><img src="true" alt="True" /> «Allows employer to cover preventive drugs outside of deductible.»</td>
</tr>
</tbody>
</table>

HSA vs. HRA ENROLLMENTS

Percent of Employer-Covered Lives Enrolled in CDHPs with HSA and CDHPs with HRA

Note: Due to rounding, in some cases the percentages at the tops of the bars may not match those in the reference paper.
## HSA & HDHP Financial Standards for 2016

<table>
<thead>
<tr>
<th></th>
<th>FOR 2016</th>
</tr>
</thead>
</table>
| **HSA Contribution Limit** (employer + employee) | Individual: $3,350  
                          Family: $6,750 |
| **HDHP Minimum Deductibles** | Individual: $1,300  
                          Family: $2,600 |
| **HDHP Maximum OOP Amounts** | Individual: $6,650  
                          Family: $13,100 |

EMPLOYER CONTRIBUTIONS TO HSAs and HRAs

<table>
<thead>
<tr>
<th>Contribution Method</th>
<th>HSA</th>
<th>HRA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predetermined amount per participant</td>
<td>58%</td>
<td>59%</td>
</tr>
<tr>
<td>Contribution based on completing wellness or education program</td>
<td>29%</td>
<td>51%</td>
</tr>
<tr>
<td>Seeded funds on new accounts</td>
<td>28%</td>
<td>22%</td>
</tr>
<tr>
<td>Matching contribution</td>
<td>14%</td>
<td>n/a</td>
</tr>
<tr>
<td>Contributions based on achieving/meeting health goal</td>
<td>8%</td>
<td>15%</td>
</tr>
<tr>
<td>Wage-based account contributions</td>
<td>6%</td>
<td>12%</td>
</tr>
<tr>
<td>Contributions based on progressing toward health goal</td>
<td>3%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Some Employers Do Not Contribute to HSAs

- 45% of Employers Do Not Contribute to Individual HSAs
- 44% of Employers Do Not Contribute to Family HSAs

CDHPs: RX BENEFIT
PREVENTIVE DRUGS
CADILLAC TAX
PRIVATE EXCHANGES
Employees must first use HRA funds plus pay OOP to meet health plan deductible before being covered by a traditional Rx card program.

Employees covered by traditional Rx card plan (coverage not contingent upon first meeting health plan deductible)

Other 3%

47%

47%

Employers have the flexibility to pair a HRA with any prescription drug card plan of their choosing.

As regulated by the IRS, when HSAs are utilized Rx spending must be paid out of the deductible.

However, the ACA and certain IRS rulings have created an allowance for “preventive” drugs to be covered outside of the deductible.

Given the lack of clarity as to what constitutes a “preventive” drug under ACA and relevant IRS statues, many employers—as advised by their PBMs, health plans and consultants—are proactively designating important categories of drugs as “preventive” and covering them under a separate tiered cost-sharing design.
Preventive Drug Coverage in CDHPs with HSAs

“This value-based design feature is growing in popularity, and it encourages the use of therapies by removing some of the financial barriers to ongoing preventive treatment.”

CDHPs & PREVENTIVE DRUGS

What “preventive” drugs are employers covering outside of the HSA deductible?

Research Finding: Of those employers with a preventive drug list, 60% have a broad preventive drug list and 40% have a narrow preventive drug list.¹

Top 10 Drug Categories Cited By Respondents¹

<table>
<thead>
<tr>
<th>Drug Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Cholesterol</td>
<td>78%</td>
</tr>
<tr>
<td>Diabetes</td>
<td>72%</td>
</tr>
<tr>
<td>Hypertension</td>
<td>61%</td>
</tr>
<tr>
<td>Asthma</td>
<td>61%</td>
</tr>
<tr>
<td>Smoking Cessation</td>
<td>58%</td>
</tr>
<tr>
<td>COPD</td>
<td>47%</td>
</tr>
<tr>
<td>Anticoagulant</td>
<td>39%</td>
</tr>
<tr>
<td>Anti-psychotic</td>
<td>31%</td>
</tr>
<tr>
<td>Anti-depressant</td>
<td>28%</td>
</tr>
<tr>
<td>Anti-obesity/weight loss</td>
<td>25%</td>
</tr>
</tbody>
</table>

### CDHPs & PREVENTIVE DRUGS

The research finding indicates that 86% of employers are very or somewhat interested in learning what different PBMs recommend on their preventive drug lists and why.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Following recommendations of our health benefits advisors (PBM, health plan, consultant)</td>
<td>65%</td>
</tr>
<tr>
<td>Promote use of necessary preventive medications (compliance and adherence)</td>
<td>48%</td>
</tr>
<tr>
<td>Following recommendations of our tax and legal advisors</td>
<td>45%</td>
</tr>
<tr>
<td>Conservative interpretation of Department of Treasury guidance to reduce tax risk</td>
<td>32%</td>
</tr>
<tr>
<td>Containing prescription drug costs</td>
<td>30%</td>
</tr>
</tbody>
</table>

**What factors influence employers approach to “preventive” drug lists?**

**Research Finding:** 86% of employers are very or somewhat interested in learning what different PBMs recommend on their preventive drug lists and why.
CDHPs & THE “CADILLAC TAX”

Given this sobering reality . . .

<table>
<thead>
<tr>
<th>Year</th>
<th>“Cadillac Tax” Threshold for Self-Only Plan</th>
<th>% of Employers Hitting Threshold with Premium, HSA, HRA Contributions</th>
<th>% of Employers Hitting Threshold with Premium, HSA, HRA, FSA Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$10,200</td>
<td>16%</td>
<td>26%</td>
</tr>
<tr>
<td>2023</td>
<td>$11,800</td>
<td>22%</td>
<td>30%</td>
</tr>
<tr>
<td>2028</td>
<td>$13,500</td>
<td>36%</td>
<td>42%</td>
</tr>
</tbody>
</table>

“Implementing a new CDHP (or increasing enrollment in an existing plan) is a key strategy for employers to avoid the excise tax on high-cost plans.”

» 36% of employers will add a CDHP or increase enrollment in a CDHP to avoid Cadillac tax.

» 35% of employers report that avoiding the Cadillac tax was an important objective of implementing a CDHP.

Research shows that CDHPs are far more common within private exchanges than outside private exchanges.

<table>
<thead>
<tr>
<th>Private Exchange</th>
<th>% of Members Who Selected a HSA-Qualified Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Towers Watson</td>
<td>84% Have access to HSA-based plan</td>
</tr>
<tr>
<td>Arthur J. Gallagher &amp; Co.</td>
<td>65%</td>
</tr>
<tr>
<td>Mercer</td>
<td>59%</td>
</tr>
<tr>
<td>Aon Hewitt</td>
<td>49%</td>
</tr>
</tbody>
</table>

Average selection of HSA when offered outside a private exchange: 26%
PATIENT/EMPLOYEE/CONSUMER
CHALLENGES OF CDHPs
CDHP IMPACT ON PRESCRIPTION DRUG USAGE

Annualized spending growth on pharmaceuticals is 5 to 9.5 percentage points lower in the three years post CDHP implementation.¹


Workers significantly reduced their prescription drug use after the plan was implemented. Enrollees filled 1.37 and 0.85 fewer prescriptions after one and four years, respectively.²

Health Affairs. 2013

Medication adherence in CDHP employees decreased by 31% across all observed disease states compared to PPO enrollees. Patients with diabetes and patients with asthma were most affected.³


CDHP IMPACT ON HEALTH CARE UTILIZATION

Active workers significantly reduced their physician office visits after the plan was implemented.

CDHP enrollees less likely to receive some recommend cancer screenings. ¹

Health Affairs. 2013

After 4 Years, HSA plan enrollee annual physicals, well-child visits, and preventive visits were down slightly relative to the comparison group. ²

Employee Benefits Research Institute. 2014.

Sick, but “well off” consumers, reduced consumption of healthcare by 22%.

Consumers substantially reduce spending when under the deductible, but not at all when OOP maximum has been met. ³

UC Berkeley National Bureau of Economic Research

CONSUMER CONFUSION ABOUT CDHPs

» Only 10% of CDHP enrolled respondents correctly understand cost-sharing arrangements.

» 50% mistakenly reported that all office visits applied toward their deductible, not recognizing that preventive visits were exempt.

» 19% reported that they had delayed or avoided a preventive office visit because of its cost.

CONSUMER SATISFACTION WITH CDHPs

Are you satisfied with your health plan?¹

- Employee with CDHP: 48% said “yes”
- Employee with other type of health plan: 62% said “yes”

Would you recommend a CDHP to a colleague?¹

- Employee with CDHP: 40% said “yes”
- Employee with other type of health plan: 52% said “yes”

“Surveys show that although CDHPs may help plan participants and employers costs, participants may not always get the quality they were accustomed to in a traditional plan. This suggests that employers and employees need to weigh their health care costs against employee satisfaction before they decide to make a switch.”²

KEY QUESTIONS TO ASK WHEN IMPLEMENTING A CDHP
KEY QUESTIONS TO ASK WHEN IMPLEMENTING A CDHP

What They Did
Extensive analysis of peer-reviewed literature on the link between CDHPs and:
• Medical utilization
• Treatment and workforce productivity

What They Found

» **Utilization and Cost**: CDHPs will likely contribute to lower medical care utilization and costs to employer.

» **Health Behaviors**: Some of these savings will come from employees foregoing or delaying beneficial medical care, rather than from employees being informed and prudent health care consumers.

» **Productivity**: Avoidance of beneficial medical care will likely result in lost productivity for some workers—the value of this lost productivity may exceed the cost of the forgone medical care.

KEY QUESTIONS TO ASK WHEN IMPLEMENTING A CDHP

What They Concluded

Taken together, a cautionary tale for employers emerges from the research literature on CDHPs and medical care utilization, and the research literature on treatment adherence and workforce productivity.

“Whether they self-insure for health care benefits or partner with an insurance provider, employers must understand that while they may shift the costs of healthcare to external organizations or to employees, they can never fully shift the costs of lost work time and reduced performance to others.”

KEY QUESTIONS TO ASK WHEN IMPLEMENTING A CDHP

1. What is the strategy for informing enrollees about which CDHP services are covered for free or at low cost?

2. How does the CDHP facilitate employees’ abilities to shop around for services when it is feasible to do so?

KEY BIG QUESTIONS TO ASK WHEN IMPLEMENTING A CDHP

3. Are there resources employees can consult to help them understand which care options are both indicated and of relatively good value?

4. Is there evidence that covered disease and lifestyle management programs improve health and reduce lost productivity for participants?

In Conclusion …

EMPLOYERS & EMPLOYEES AND THEIR CDHPs

» Questions?
» Discussion
» Thank You!

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