

2004 Consumer-Driven Health Care Survey



Background

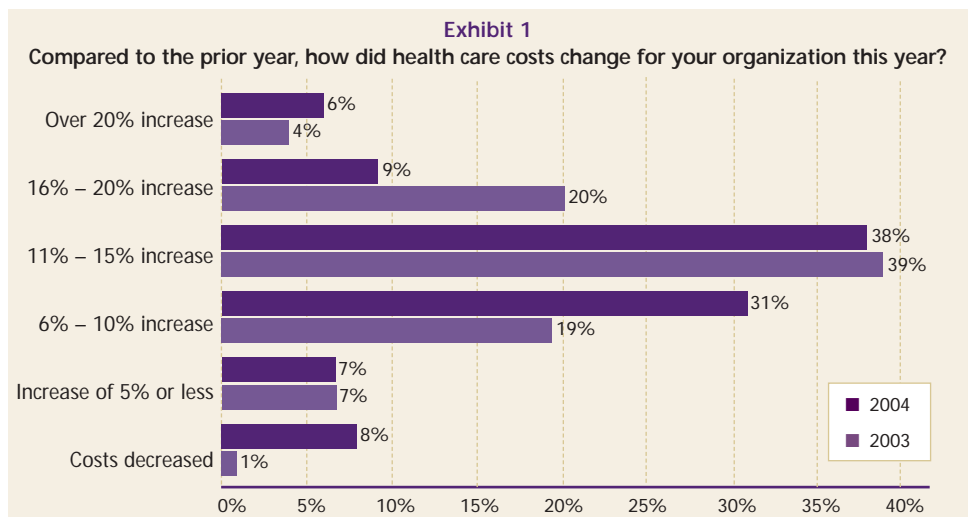
Health care cost increases were once again in the double-digit range for the majority of companies for the third consecutive year. Companies are continuously seeking new ways to help contain these costs while still providing the level of health care benefits their employees deserve and expect. Many companies are becoming increasingly interested in consumer-driven health care models as a potential remedy.

Deloitte Consulting LLP recently conducted its second annual Consumer-Driven Health Care Survey as a way to measure interest in and perceptions of the consumer-driven model. This year's survey had 314 participating companies,

representing nearly a 10 percent increase over our 2003 survey. This report outlines the findings of this survey.

Survey Findings

Deloitte Consulting's 2004 Consumer-Driven Health Care Survey found that the majority (53 percent) of companies again experienced double-digit increases in health care costs, although the number of companies reporting the most dramatic increases declined substantially from the prior year. (See Exhibit 1.) Still, with the rate of increase in medical benefit costs continuing to greatly exceed the rate of overall inflation, employers are, more than ever, actively exploring new plan design and delivery models.



Among companies responding to the survey, interest in alternative health care delivery models that encourage employee consumerism is at a significantly high level, as evidenced by the following:

- 19 percent offer a consumer-driven health plan as of 1/1/04, up from 11 percent last year
- 14 percent will definitely be offering such a plan in 2005 or 2006, up from 8 percent last year
- 29 percent are currently reviewing consumer-driven options and may offer one in the near future
- 30 percent are interested and will consider a new delivery model if long-term savings and employee acceptability can be demonstrated
- 8 percent are not considering a consumer-driven option, down from 14 percent last year

Interestingly, while the number of respondents that have adopted a consumer-driven model, or definitely plan to do so, has increased since last year, the number of respondents that believe this will become a universal choice has dropped noticeably. When

participants were asked: *Will consumer-driven health care be part of most employer health plans by 2005*, 38 percent agreed (down from 45 percent last year) and 42 percent disagreed (up from 29 percent last year). Perhaps not surprisingly, respondents that have already adopted consumer-driven plans were much more likely to agree with this statement (70 percent), but fewer “strongly agreed” compared to last year (13 percent versus 27 percent).

Responses to the above question differed somewhat by the size of the company, with larger companies being more sharply divided (51 percent disagree and 34 percent agree). It appears that many respondents believe employer-sponsored health care benefit programs in the United States will continue to evolve in future years and that there is not one universal solution for all employers.

Consumer-Driven Health Care Issues

Consumer-driven health care models can vary considerably. At their core, however, is this fundamental principle: Employees and their families must understand the true cost of health care

services and the options available to them for receiving care and must take increased financial responsibility for managing their health care. As the consumer understands that alternative plans of care are available, demand will shift and costs increases will mitigate.

Do respondents agree with this principle? The discussion generally follows three threads:

1. Some employers question whether the new models really promote cost reductions through consumerism — and wonder if they are simply another short-term method of shifting costs to employees without affecting long-term health care trend reduction.
2. Others question whether the sometimes complex plan designs really work — and wonder how a somewhat skeptical workforce will receive them.
3. Still others worry about the effect of these new models on the “less-healthy” employee, primarily those with a chronic illness.

Here’s what the employers that responded to our survey had to say. (See the Summary in Exhibit 2.)

Exhibit 2. Summary of Core Issues

Do the consumer-driven models promote cost reduction through consumerism?

Consumer-driven plans:	Agree	Neutral	Disagree
Change employee purchasing behavior	76%	14%	10%
Shift costs to employees without impacting purchasing patterns	26%	16%	58%
Result in immediate employer costs savings	47%	23%	29%
Reduce long-term health care trend	46%	27%	27%

These new plan designs seem complex — do they really work and how will they be received?

Consumer-driven plans:	Agree	Neutral	Disagree
Have complex and confusing designs	52%	18%	30%
Make employees pay more for costly providers	66%	17%	17%
Reward efficient providers	46%	34%	20%
Are well-received by some, but not all, employees	70%	12%	18%

Do consumer-driven health plans reward the healthy at the expense of the sick?

Consumer-driven plans:	Agree	Neutral	Disagree
Benefit only healthy employees	36%	22%	42%
Are best positioned as one of two or more plans	4%	15%	22%

Early Adopters: 2004 Open Enrollment

Nineteen percent of the respondents have a consumer-driven health plan in place. Most just completed open enrollment. Here's what they experienced.

- *When was the plan adopted?* Nearly one-half of the respondents with consumer-driven plans adopted the plan for the first time as of January 1, 2004. Among the remaining respondents, one-half adopted the plan prior to 2003 and the other half adopted the plan sometime during 2003.

Exhibit 3

If you offered a consumer-driven plan in 2003 and 2004, what was the change in enrollment in 2004?

Decreased	0%
About the same	20%
Slight increase	44%
Moderate increase	20%
Large increase	16%

- *What size company has added a consumer-driven plan?* Very small employers were less likely to have adopted a new plan model. Exhibit 4 shows the percentage of respondents that have a consumer-driven plan in place, sorted by the number of employees.

Exhibit 4

Percentage of Respondents That Have Adopted a Consumer-Driven Health Plan

Number of Employees	Percentage Adopting
Under 500	6%
500 – 2,000	15%
2,000 – 5,000	40%
5,000 – 10,000	0%
10,000 – 20,000	10%
Over 20,000	29%

- *Is the plan available to all eligible employees?* Seventy percent of the early adopters offer the plan to all benefit-eligible employees, down from 86 percent last year; 30 percent are piloting the plan with either a select group or geography. Interestingly, the larger employers are somewhat more likely to be piloting the plan, rather than offering it to all employees.
- *Is this a total replacement strategy?* Offering the consumer-driven plan as a total health benefit replacement is the strategy of 20 percent of the early adopters (approximately the same percentage as last year).
- *What type of consumer-driven health plan is being offered?* A Health Reimbursement Account plan is being offered by 67 percent of the respondents (up from 57 percent last year), and 12 percent have chosen a Plan Choice Model (down significantly from 32 percent last year). The remaining respondents offer a Tiered Network or some other model. These findings are not unexpected given the increasing exposures of Health Reimbursement Account plans.
- *What type of consumer-driven health care vendor was selected to administer the plan?* This question asked the participants to choose among “traditional” managed care vendors (e.g., Aetna, BCBS, Cigna, Humana, United Healthcare), a “new marketplace” vendor (e.g., Definity Health, Destiny, Lumenos) and a third-party administrator. Here are the selections:

Traditional managed care vendor	24%
New marketplace vendor	52%
Third-party administrator	19%
Other	6%

Note that the selection of the new marketplace vendor has increased over the past year (up from 43 percent), mostly at the expense of the traditional managed care vendor (down from 43 percent). Interestingly, large employers were more likely to choose a “new marketplace” vendor.

- *What contribution strategy was used?* Of these early adopters, over one-half (51 percent) set the consumer-driven health plan as the lowest-priced employee option, and another 11 percent set the contribution as the least expensive but the same as the contribution for other plans. Only 2 percent price the new model as the most expensive, down significantly from last year, when 14 percent priced the new model as the most expensive. The remaining 36 percent had the plan in the middle of all plan choices. There was no discernable contribution pattern based on the number of employees.

Early-Adopter Satisfaction

The adoption of a consumer-driven health care model affects every one of a company's employee constituency groups:

- The employees themselves as they incorporate the plan into their health care decisions (and their dependents, who are also affected)
- Senior management, who must live with the cost implications
- Middle management, who must not only adopt the plan for themselves, but also hear the complaints of any dissatisfied employees
- Human Resources, which will bear the brunt of confused or dissatisfied employees and must also deal with administering an entirely new model with new vendors

By and large, all of these constituencies are satisfied with the consumer-driven plan. (See Exhibit 5.)

Among those survey respondents that reported being dissatisfied, the vast majority are only mildly dissatisfied. Interestingly, the Human Resources department reported the highest percentage of "very satisfied" constituents.

Exhibit 5

Generally speaking, how satisfied are each of the following constituencies with your consumer-driven health care plan?

Constituency	Dissatisfied	Neutral	Satisfied
Employees/their dependents	8%	32%	60%
Senior management	0%	20%	80%
Middle management	4%	33%	63%
HR department	6%	13%	81%

Deloitte Consulting Commentary

The results of this survey show that an increasing number of companies are viewing consumer-driven plans as a viable option for their health care benefits strategy. Skepticism is declining, especially among those companies that once viewed these plans as merely a form of cost-shifting and those that believed the plans would be overly complex.

The early adopters of the consumer-driven model seem particularly pleased. Many companies reported a very successful initial enrollment, and no companies reported a decline in enrollment over the prior year. Moreover, a large majority of early adopters report widespread satisfaction with the plans among all constituency groups.

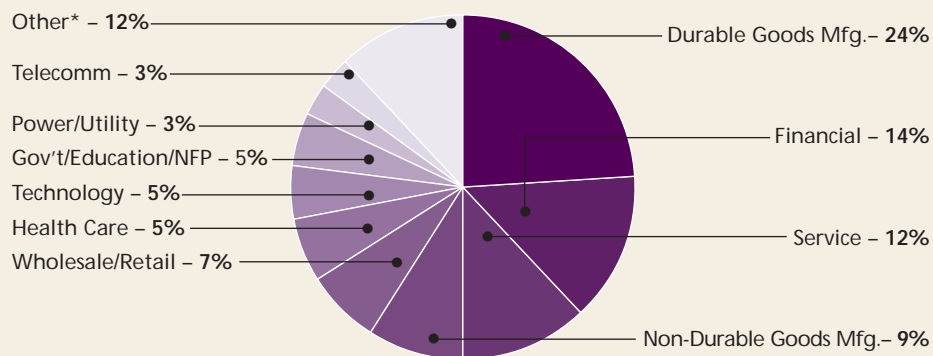
Is consumer-driven health care becoming mainstream? Not completely, but as more and more employers report early success with these plans, acceptance and understanding of this model will grow. In the meantime, companies considering this model can take several steps to explore how the consumer-driven model might fit with their benefits strategy:

- Realistically forecast future health care costs to create a financial baseline
- Gain an in-depth knowledge of the new delivery models
- Assess workforce and management readiness for consumerism in health care
- Project trend reduction under alternate plan scenarios

We hope this survey report will be a helpful step toward sharing trends and practices among those companies that are considering adoption and those that have already adopted this model. Thank you for your participation in this survey.

About Survey Participants

Exhibit 6
Participants by Industry



*Other includes Real Estate, Media, Transportation, Energy, Food, Scientific, and Chemical

Exhibit 7
Participants by Annual Revenue

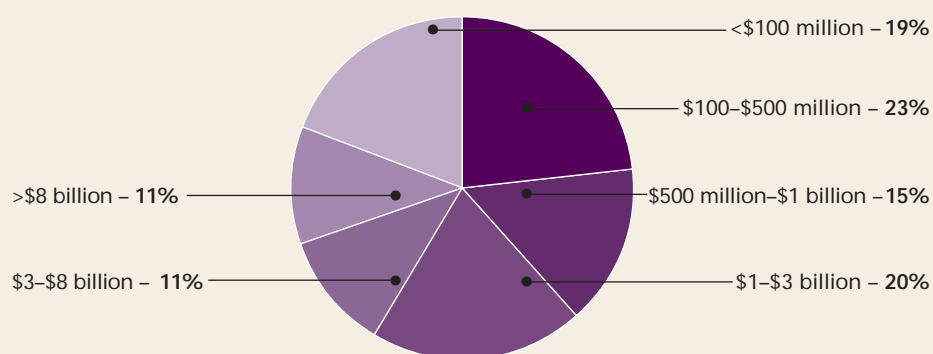
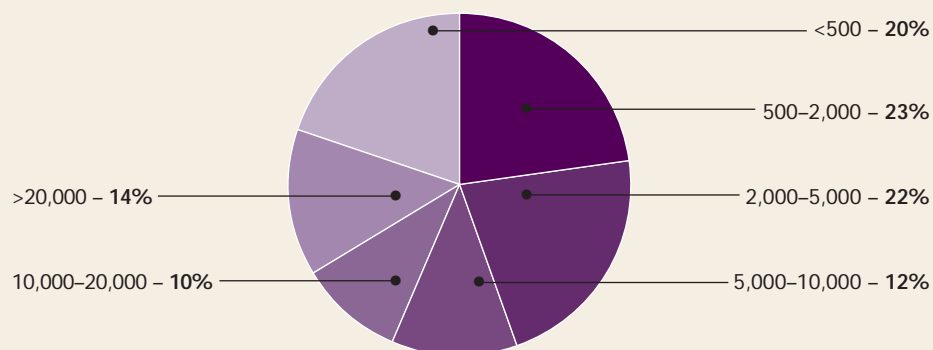


Exhibit 8
Participants by Number of Employees



the associated partnerships of Deloitte & Touche USA LLP (Deloitte & Touche LLP and Deloitte Consulting LLP) and affiliated entities. Deloitte is the U.S. member firm of Deloitte Touche Tohmatsu. For more information, please visit Deloitte's Web site at www.deloitte.com/us.

Deloitte Touche Tohmatsu is an organization of member firms devoted to excellence in providing professional services and advice. We are focused on client service through a global strategy executed locally in nearly 150 countries. With access to the deep intellectual capital of 120,000 people worldwide, our member firms (including their affiliates) deliver services in four professional areas: audit, tax, consulting, and financial advisory services. They serve over one-half of the world's largest companies, as well as large national enterprises, public institutions, and successful, fast-growing global growth companies.

Deloitte Touche Tohmatsu is a Swiss Verein (association), and, as such, neither Deloitte Touche Tohmatsu nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," or other related names. The services described herein are provided by the member firms and not by the Deloitte Touche Tohmatsu Verein. For regulatory and other reasons certain member firms do not provide services in all four professional areas listed above.

About Deloitte

Deloitte, one of the nation's leading professional services firms, provides audit, tax, financial advisory services, and consulting through nearly 30,000 people in more than 80 U.S. cities. The firm is dedicated to helping its clients

and its people excel. Known as an employer of choice for innovative human resources programs, Deloitte has been recognized as one of the "100 Best Companies to Work For in America" by *Fortune* magazine for six consecutive years. "Deloitte" refers to

For More Information

For more information about this survey, please contact Steven Kraus at stkraus@deloitte.com. For more information about the Human Capital practice of Deloitte Consulting LLP, please e-mail HumanCapitalDTT@deloitte.com.