

COUNTY OF MILWAUKEE
INTER-OFFICE COMMUNICATION

DATE: July 19, 2010

TO: Supervisor Elizabeth Coggs, Chairwoman, Committee on Finance & Audit
Supervisor Patricia Jursik, Chairwoman, Committee on Personnel

FROM: Employee Benefits Workgroup

SUBJECT: **Analysis of Consumer Directed Health Plans (File No. 09-391)**

Background

In 2009 the County Board established the Employee Benefits Workgroup to review and analyze the Milwaukee County benefit package and to assess opportunities to reduce costs associated with those benefits. The 2010 Adopted Budget included a directive for the Employee Benefits Workgroup to assess a consumer directed health plan featuring a low-premium/high-deductible structure complimented with a health savings account model.

The Workgroup, comprised of staff from Corporation Counsel, Audit, County Board and the Department of Administrative Services (Fiscal, Benefits and Labor Relations), worked with health benefits consultant Cambridge Advisory Group to review plan designs associated with consumer directed health plans (CDHP) and assess the feasibility of such plan designs in the context of Milwaukee County employees, the regional marketplace, and the federal health care reform legislation.

Consumer Directed Health Plans

Consumer directed health plans operate under the theory that covered members may help control employer health costs if the employee has a personal financial stake in health care utilization. CDHPs generally feature high-deductibles, increased co-payments (or both), offset by lower premiums and the personal financial incentives and tax advantages associated with CDHP structural components such as health reimbursement arrangements (HRA) and/or health savings accounts (HSA). A key assumption in CDHPs is that the employee is empowered as a consumer, able to make health decisions based on the cost of services and personal financial priorities. The attached report titled "Consumer Driven Health Issues and Considerations" from the Cambridge Advisory Group provides an excellent overview of CDHPs.

Findings

Cambridge Advisory Group has served as Milwaukee County's health benefits consultant since 2008 and, in addition to their extensive industry experience, has acquired thorough knowledge of the County's plan design, workforce population, the third-party administrator, and the health delivery systems of the region.

Based on their knowledge of the industry in general and the Milwaukee County health plan and employee base specifically, Cambridge Advisory Group suggests delaying consideration of implementing a consumer directed health plan option. Cambridge's summary report citing the rationale behind their recommendation is attached.

In addition to the Cambridge findings, the Employee Benefits Workgroup also identifies the collective bargaining process as a potential barrier to implementing a consumer directed health plan.

Conclusion

Cambridge Advisory Group suggests that consumer directed health plans may offer opportunities for cost reduction for Milwaukee County in the future, but the marketplace and consumer health system literacy has not yet reached a level of maturation necessary to pursue implementation. The Employee Benefits Workgroup, in conjunction with the Benefits Division and industry experts such as Cambridge, will continue to work with the plan administrators to improve health and pharmacy cost performance.

Recommendation

This report is submitted for informational purposes.

cc: County Executive Scott Walker
Milwaukee County Board of Supervisors
Tom Nardelli, Chief of Staff County Executive's Office
Terry Cooley, Chief of Staff, County Board Chairman's Office
Jodi Mapp, Personnel Committee Clerk
Carol Mueller, Finance and Audit Committee Clerk



Milwaukee County Health Plan

Consumer Directed Health Plan Analysis

July 2010

CAMBRIDGE
advisory group inc.

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What Is A Consumer Directed Health Plan (CDHP)

- High deductible plan subject to IRS regulations.
- Tax advantaged account types of either a Health Reimbursement Account (HRA) or Health Spending Account (HSA) which are granted to the employee.
- A design whose goal is to increase participant awareness of costs thus making these "educated consumers".
- Increased cost sharing where participants can use account balances to offset costs. Participants invariably incur the effect of "the donut hole" leading to direct out of pocket costs.

What Are The Differences Between An HRA And HSA?

- An HRA remains the property of the plan sponsor and thus their financial liability. Full or partial rollover is allowed at year end. Rolled over amounts remain a liability on the books of the plan sponsor.
- An HSA is a direct transfer/ownership of monies to the plan participants. Full annual rollover of unused account balances is explicit.
- Both account types are subject to the same IRS rules regarding the types of services for which monies can be utilized regarding reimbursement.

Where Does CDHP Fit?

- CDHP can be either an option of choice or a total replacement for existing plans.
- Covered populations with low turn-over may be a more applicable prospect.
- A plan sponsor wanting to increase cost share with goals of educating and sharing risk with the covered population.
- A covered population who are well educated users of the plan, have available needed informational tools for proper decision making and access to quality care with reasonable transparency around costs.

What Have Been Historic CDHP Results?

- A lower baseline cost to the plan sponsor due to the reduction in benefits leading to a cost shift to participants.
- Annual trend only slightly lower than standard PPO plan designs.
- Increased administrative and communication activities for the plan sponsor.
- Increased participant dissatisfaction due to confusion regarding "how the plan works?".
- Frequently delayed receipt of needed care by participants in an attempt to build account balances.
- Occasional increased use of preventive and diagnostic services.

What Strategy Best Fits The County?

- Significantly delay the considered implementation of CDHP.
- Develop needed programs and strategies to improve health status, morbidity and health education of the covered population.
- Create a "culture of wellness" including redesign of existing wellness, disease management and educational resources.
- Identify an administrator to assist with communications as well as cost and transparency issues surrounding the local healthcare delivery system.
- Consider CDHP as a future option in the context of administrative, regulatory and other issues being driven by Health Care Reform.