

# ViewPoint

## The Uphill Road to Consumer-Driven Health Care

### 2013 Aflac WorkForces Report finds employees need help navigating the move to consumer-driven health care

While the Great Recession may have claimed the spotlight over the past several years, an equally daunting predicament has been brewing for businesses and consumers alike – the meteoric rise of health care costs. The reality is employers could afford to invest in many other things, including hiring additional workers, if they could lower their health care costs to what they were even a decade ago. With the cost of health care services expected to rise 7.5 percent this year, more than three times the projected rates for inflation and economic growth<sup>1</sup>, businesses are desperately seeking solutions to simply contain the continued rise.

Enter health care consumerism, and the move towards consumer-driven health plans (CDHPs) and similar options. CDHPs are now the fastest-growing form of health coverage in the U.S. and have surpassed health maintenance organizations (HMOs) to become the second most common plan design offered by U.S. employers.<sup>2</sup> This movement combined with the implementation of health care legislation has fueled a seismic shift for employers and consumers alike.

Yet, the shift has not come without debate or skepticism as to its effectiveness in substantially driving down costs or in consumers' willingness and ability to embrace it. And as is the case in any widespread transformation, the adoption of this movement will take resources, time and a strategic approach. The 2013 Aflac WorkForces Report examined several key aspects of health care consumerism, including the strategic and tactical steps businesses will need to take to leverage this trend effectively.

### What is consumer-driven health care?

As its name implies, a consumer-driven health care model gives consumers the primary decision-making role regarding the health care they receive. There are several health insurance plans that are commonly part of a consumer-driven model, including health savings accounts (HSAs), health reimbursement accounts (HRAs), alongside a high-deductible health plan (HDHP) that is meant to protect policyholders from catastrophic medical expenses.

HRAs are funded by employers; consumers pay for costs out of pocket, but are reimbursed by their company. HSAs are tax-free spending accounts owned by the employee that are fully portable. Some businesses contribute to HSAs, and some don't. Whatever accounts the employee chooses, with CDHC the employee retains the most control over how their dollars are spent.

The passage of federal legislation providing tax incentives to those consumers who choose CDHC plans in 2003 helped spur the rapid growth of this trend. The recent passage of health care reform legislation has added yet another consumer-driven insurance model in the form of state, federal and private health insurance exchanges.

Advocates for health care consumerism say it encourages cost-consciousness among consumers, provides more transparency into cost and quality of providers, and shifts greater control over health



care decisions to consumers. Critics maintain the trend simply shifts more costs from employers to employees, and may cause consumers to avoid needed and appropriate health care because of the cost burden and inability to make informed, appropriate choices.

## Employer benefits to consumer-directed model

Employers have arguably embraced the idea of consumer-driven health care more quickly than consumers, given the toxic combination of economic turmoil and rising health care prices. In fact, controlling health/medical insurance costs was named the most important HR objective for companies in 2013.<sup>3</sup> As a result, many companies have already introduced high-deductible health plans (HDHPs).

According to the 2013 Aflac WorkForces Report, 43 percent of large employers offered an HDHP as an additional option in 2012 to prepare for health care legislation. Many more have moved towards defined contribution health insurance, whereby the company gives employees a set contribution toward coverage and the worker then picks a health plan among several options. In fact, a 2012 Employer Health Plan Study by J.D. Power and Associates found that 47 percent of employers say they “definitely will” or “probably will” switch to a defined contribution health care plan.<sup>4</sup>



### Sea of Confusion<sup>3</sup>

Workers who are not knowledgeable about

- » Federal & State Exchanges - 76%
- » Health Reimbursement Accounts - 49%
- » Health Savings Accounts - 32%
- » High Deductible Health Plans - 31%

As the remaining health care legislation is implemented through 2018, including the tax on expensive health plans, more employers will adopt consumer-driven health plans or shift completely to this model.

Many experts characterize HDHPs as “entry-level” versions of the consumerism that defined contribution plans, or state and private insurance exchanges will offer – moving from simply providing consumers money to purchase health care services to giving them money to buy insurance altogether. This shift requires an entirely new degree of decision-making for consumers.

## Are consumers really ready to be in the driver’s seat?

When it comes to matters of financial security or health care, it’s fair to say that many consumers would prefer someone to take care of it for them while another segment is simply not equipped to take over ownership. In fact, more than half (54 percent) of workers responding to the 2013 Aflac study said “I would prefer not to be more in control over my health insurance expenses and options because I will not have the time or knowledge to effectively manage it.”

The reality is that for most workers, despite being given more health insurance options to choose from, 89 percent typically choose the same benefits year over year.<sup>5</sup> Employers must begin to acknowledge that workers have years of built-up habits and expectations when it comes to health benefits, alongside a hesitation to change when it comes to health care. Workers often find educating themselves about health insurance daunting – and as Aflac research uncovered, there is much to be learned.

The 2013 Aflac WorkForces Report found that 72 percent of workers have not heard of the phrase “consumer-driven health care.” Of those who had, 38 percent said that although they have heard of the phrase, they don’t understand it very well or at all. The clear majority of workers (76 percent) said they are not very or not at all

knowledgeable about federal and state health care exchanges.

One contributing factor to large out-of-pocket expenses is a lack of understanding about deductibles. According to the Aflac Open Enrollment survey, only slightly less than one-third (30 percent) of workers, say that when selecting an insurance product they always have a full understanding of the deductible costs. In fact, less than half (48 percent) sometimes have a full understanding of the deductible costs. Another 15 percent did not check to be sure their coverage deductibles were correct or that their preferred medical professional was in their network.<sup>5</sup>

**“Seventy-three percent of workers say when thinking about their choices for major medical insurance coverage, they only sometimes or rarely understand everything that is covered by their policy.”<sup>5</sup>**

Although Americans feel strongly about the freedom of choice, at the same time, many admit that greater control over health care decisions may not result in better protection or financial savings. The Aflac report found that more than five-out-of-ten workers (53 percent) think that “I may not adequately manage my health insurance coverage, leaving my family less protected than we currently are.”

A mere 26 percent of workers completely/strongly agree that they will “have better health insurance protection for their family because they will have greater control over how and where they utilize their health insurance.” Furthermore, only one-quarter completely/strongly agree that they will “be able to save more money in the long-term by taking greater ownership in their health care expenses and options.”

## At a critical crossroads

Companies are at a crossroads as to how they choose to handle the transition to a consumer-driven model within their own organization. The health care model a business adopts isn't as critical as how the business handles the adoption to the health care model. Given the importance of health care protection and the risk mismanagement poses to employees' wellbeing and financial stability, employers may need to retain control over several aspects of health care benefit delivery for a while longer.

Helping workers learn how to effectively manage their health care choices presents an opportunity for employers to demonstrate they care about their employees, and to curb potential absenteeism, low morale and low productivity. Workers may well be the ones responsible for their health care decisions but the wrong choices can greatly affect their performance and state of mind in the workplace.

Nearly four-out-of-ten workers (37 percent) attribute their distraction at work and lost productivity to work to financial or health problems. The potential for increased medical expenses due to mismanagement of health care decisions or lack of understanding of consumer-driven options is very high. In fact, 62 percent of workers believe the medical costs they will be responsible for will increase, while only 23 percent are saving money for potential increases.<sup>3</sup>

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Impending health care reform will only exacerbate the issue. Workers have little understanding of how new legislation might impact their lives, nor have they prepared for such changes. And the real crux of the situation is this – workers are looking to their employers to bridge that gap.

According to the 2013 Aflac report, 55 percent of workers have done nothing to prepare for possible changes to the healthcare system. Simultaneously, a full three-quarter of today's workers agree with the statement, “I believe my employer will educate me about changes to my health care coverage as a result of the

health care reform.” Alarming, only 13 percent of companies named “educating our employees about health care reform” as an important issue for their organization.

Employers need to acknowledge that while necessary, shifting more responsibility into the hands of its workers will require time, resources and support.

## Unlocking the potential of consumer-driven health care

Today, most organizations see great potential in consumerism strategies to help them better manage spiraling health care costs. However, the Aflac report discovered workers are largely unengaged health care consumers today, and are hesitant to take complete ownership over their health care decisions. Perhaps most importantly, employees are relying upon their employer to play a role in supporting their decisions.

Several key tactics and strategies can help organizations successfully move towards consumer-driven options and ensure their workforce remains adequately engaged in and protected by their health insurance benefit decisions.

### Realize the need to change a mindset

Companies often overlook the fact that during the managed care era a relative short-time ago, employees were largely shielded from the true costs of care and encouraged to follow the rules set by their health plans. This led to passive behavior among employees as straightforward users of health care services rather than informed proactive purchasers.

Given that most workers haven't been informed or encouraged to understand the shared costs of healthcare, the sudden shifting of costs to their shoulders appears as though employers are offloading all the increases rather than asking them to share a part of the increase.

Furthermore, the health insurance industry is growing so complex, many industry veterans and HR decision-makers themselves are struggling to keep up. Imagine then, the difficulty for workers to effectively choose among the array of insurance options that are touted, yet often not understood.

In the end, the most effectively-designed consumer-driven programs will not be successful if workers are not ready to embrace the change. Assessment of workers' readiness for transition to a consumer-driven model will aid in how aggressively the organization will need to educate and market such initiatives, and may ultimately indicate the projected success or participation of a new plan.

### Better understand the demographics and health status of your workforce

In preparing for a move to a consumer-driven model, businesses need to assess the demographics and health status of its covered population. Begin by determining their demographics, health opportunities and risks by participating in biometric screenings and health-risk assessments. Having this data can help dictate the best model for your organization, and allow you to tailor your communication program to fit the needs of your company structure and industry.

For example, a manufacturing plant may put up posters in break rooms or in the cafeteria, whereas retailers with multiple locations might consider direct mailers to workers' homes. Or, for an organization with a large number of dependents requiring coverage, materials can be targeted

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towards workers and their dependents.

Identify ahead of time those segments of the workforce that will most likely see the value in, and take advantage of, consumer-driven features. Once identified, target your communication and marketing efforts towards that group.

### Communication and education will be crucial this year

The magnitude of benefit decisions has arguably grown this year and requires a comprehensive, year-long education and communication program. Workers are used to instant access to information, and being communicated with via digital/social media frequently. Companies can stand to adapt to this expectation and trend, especially when it comes to something as critical as benefit selections. Employing a communication strategy that includes multiple options is critical when you need to reach employees and their dependents.

Some of the best practices for companies include diversifying materials to encompass print, Web, email and face-to-face meetings; hosting multiple in-person meetings throughout the year; and utilizing social and mobile media such as texts, Twitter and Facebook to communicate key messages and remind workers of upcoming open enrollment deadlines.

Simplify the language of benefit communications, including clear explanation of health care jargon. Often, employees are embarrassed to admit they don't understand concepts such as deductibles or copayments. Use the same terminology and clear explanations in every communication vehicle, keeping benefit materials consistent.

**“Often employees are embarrassed to admit they don't understand concepts such as deductibles or copays.”**

Giving workers examples of realistic scenarios based on each benefit plan's options can help crystallize just how much out-of-pocket expenses they may be responsible for as a result of each enrollment choice. Use catchy headlines or relevant questions to drive home the importance of benefit choices, such as “Do you know how much you spent on medical out-of-pocket costs last year?” Some companies offer their workers customizable worksheets to plug in their own individual information and calculate their potential medical costs for the year.

Begin by investing time and resources behind more effective, more frequent benefits communication. This can include such initiatives as:

- » Producing employee newsletters or “lunch and learn” to provide ongoing guidance to workers.
- » Providing an online benefits portal or platform where employees can have immediate access to their benefits plan.
- » Developing customized benefit booklets, FAQs, and other marketing pieces that advise employees how to best utilize their benefits.
- » Surveying your workforce to determine specific benefit needs and desires among employees.

### Start educating workers on how benefit options work together

Personal and professional dynamics change year over year, and often that means so should workers' benefit elections. Companies need to help workers overcome the tendency to “make things easier”

by simply electing the same benefits year after year.

Concurrently, a number of factors are contributing to the steady rise in additional health insurance products such as, voluntary insurance. Rising health care costs, the connection between offering voluntary insurance and employee satisfaction, and the move towards consumer-driven plans which places additional financial burden on consumers are leading to a growing need for voluntary insurance products employees can purchase with their defined contribution dollars. The voluntary insurance plans can provide a much needed resource in the face of a high deductible health plan.

**“With consumer-driven models, an employee’s exposure to out-of-pocket expenses are significant. Voluntary insurance can help cover out-of-pocket costs.”**

According to the 2013 Aflac Workforces Report, nearly all voluntary insurance products on the market today have grown in popularity over the last three years. In fact, several of these voluntary products have doubled in popularity from 2011 to 2013.

Most employees don’t fully appreciate the importance of ancillary or voluntary insurance options as a resource in addition to a comprehensive major medical plan. Voluntary insurance plans effectively provide the policyholder with cash benefits that can be used for any purpose. Particularly with consumer-driven models, an employee’s exposure to greater out-of-pocket expenses are significant. Voluntary insurance can help cover out-of-pocket medical expenses

or be used to help cover routine household expenses. Voluntary insurance policies range from accident, critical illness and cancer policies to dental, vision and disability plans.

### Introduce a CDHP

Implementing a form of CDHP will require a greater focus on the unique aspects of these types of plans and how they differ from the type of health insurance plan or benefits your employees may be accustomed to. Features such as, increased consumer choice, cost savings and the specific approach to using these plans effectively will need to be communicated. In order to achieve worker buy-in be sure to highlight the following:

- » The shift in health care decision-making from the health plan to the employee and their physician.
- » The added incentive CDHPs place on physicians and health care providers to deliver excellent patient service and achieve patient satisfaction, which ultimately benefits employees.
- » Offer detailed and robust information about patient satisfaction and outcome levels of each of the providers in your plan.
- » Provide support and resources, particularly to those workers new to CDHPs. These can include web-based and telephone customer service centers that can answer questions on benefit coverage, medical claims and status of accounts (for HSAs, HRAs, etc.)
- » Utilize tools to help workers make appropriate choices in treatments and providers taking into account costs, quality and outcome information.

Make your plans as simple and easy to use as possible. Consider fully funding your contributions to the HSA or HRA at the start of the year, rather than sporadically. Subsidize each plan (if more than one is offered) equally so that policyholders’ costs parallel those of the organization. This will help

eliminate the confusion that occurs in many organizations that subsidize different plans by different amounts, resulting in a lack of understanding among enrollees as to the company's investment or costs.

### Lean on brokers and benefit partners to boost understanding of consumer-driven options

As companies have streamlined staff to bare bones, the HR department did not emerge unscathed. Most HR departments are overworked and are being asked to do more with fewer people. The idea of taking on more initiatives or administration of additional benefits can appear overwhelming. Most HR executives feel they simply don't have the time or resources at their disposal. Yet, as the Aflac report has illustrated, workers are relying upon their HR department and resources to educate them about changes in health care benefits market.

**“The degree to which companies stay involved in key aspects of benefits delivery will produce results or ramifications.”**

This obstacle can be overcome by relying on broker services or administration services provided by your insurance partners. Assistance with enrollment and education for several insurance products is built in as a value-added service to companies. In fact, 90 percent of health insurance brokers say they understand health care reform at least somewhat well. And they are assisting their clients in a number of ways to help organizations understand the landscape, by providing

individual consultation (25 percent), delivering on-site seminars (25 percent), providing written materials or education materials (21 percent), and hosting webinars (19 percent).

Furthermore, in 2013 brokers have helped 26 percent of their clients move towards HDHP/HSA model, 48 percent move towards more employee-paid models, and 19 percent adopt a self-funded model.<sup>6</sup>

### More choices require better engagement from employers and employees

Businesses today have an abundant array of health insurance benefit delivery models to choose from. Yet, nearly all of them place more financial responsibility, decision-making and control in the hands of consumers.

The degree to which companies stay involved in key aspects of benefits delivery will produce results or ramifications. Will companies choose to let workers drive their benefits decisions without offering driving lessons or a map to guide them in the right direction? Disengaging from benefit delivery and support will have serious consequences, much like handing over the keys to a student who's never driven a car.

Regardless of the specific health insurance model an organization chooses to implement, arguably of greatest significance is how well it prepares for benefits changes and how engaged it remains in its delivery. This year will determine which organizations emerge as benefit-savvy, employers of choice and which remain apathetic and removed from the process.

## About the study

The 2013 Aflac WorkForces Report is the 3<sup>rd</sup> annual Aflac employee benefits study examining benefit trends and attitudes. The study, conducted by Research Now between January 4 and January 24, 2013 captures responses from 1,884 benefits decision-makers and 5,299 employees across the U.S. The Uphill Road to Consumer-Driven Health Care is one of four key themes from the 2013 study. To learn more about the Aflac WorkForces Report and to read the articles on Benefits Matter, The Competitive Edge and Growing Need for Voluntary Products, visit [AflacWorkForcesReport.com](http://AflacWorkForcesReport.com).

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<sup>1</sup> "Medical Cost Trend: Behind the Numbers 2013," PricewaterhouseCoopers, Health Research Institute, May 2012; [pwc.com/mx/es/industrias/archivo/2012-07-medical-cost-trend-2013.pdf](http://pwc.com/mx/es/industrias/archivo/2012-07-medical-cost-trend-2013.pdf)

<sup>2</sup> 2012 Health Care Survey, Aon Hewitt, September 2012, [aon.com/human-capital-consulting/thought-leadership/healthcare/2012\\_Health\\_Care\\_Survey.jsp](http://aon.com/human-capital-consulting/thought-leadership/healthcare/2012_Health_Care_Survey.jsp)

<sup>3</sup> "2013 Aflac WorkForces Report," conducted by Research Now on behalf of Aflac, January 2013

<sup>4</sup> "2012 Employer Health Plan Study," J.D. Power and Associates, June 18, 2012; [jdpower.com/content/press-release/fZdNI3/2012-employer-health-plan-study.htm](http://jdpower.com/content/press-release/fZdNI3/2012-employer-health-plan-study.htm)

<sup>5</sup> 2012 Aflac Open Enrollment Study, conducted by Research Now, August 2012

<sup>6</sup> 2013 Aflac Broker Study, conducted by Research Now, January 2013

Aflac herein means American Family Life Assurance Company of Columbus and American Family Life Assurance Company of New York.

This material is intended to provide general information about an evolving topic and does not constitute legal, tax or accounting advice regarding any specific situation. Aflac cannot anticipate all the facts that a particular employer or individual will have to consider in their benefits decision-making process. We strongly encourage readers to discuss their HCR situations with their advisors to determine the actions they need to take or to visit [healthcare.gov](http://healthcare.gov) (which may also be contacted at 1-800-318-2596) for additional information.