

Employer Guide to the **Current State of Consumer Driven Health Plans**



Provided by LHD Benefit Advisors



Health care consumerism has always been about empowering health care consumers to select more cost-effective, appropriate care. This thesis is the backbone of consumer driven health plans (CDHPs), which aim to make employees active participants in their health care. Specifically, CDHPs aim to achieve the following goals:

- Help employees become more involved in their health care decision-making rather than remaining passive.
- Encourage employees to spend their health care dollars wisely by seeking care from providers who are cost-efficient and provide quality care.
- Help employees take charge of their health by helping them understand their conditions and treatment options, and change their behaviors to eliminate unnecessary health risks.

This guide provides an overview of CDHPs and offers considerations for employers looking to reduce benefits expenses and boost employee health literacy.

What Are CDHPs?

Employers may be familiar with high deductible health plans (HDHPs) and health care accounts, such as health savings accounts (HSAs). A CDHP is simply the combination of those benefits—an HDHP paired with a health care account.

Since HDHPs have low premiums but high deductibles (i.e., employees must cover a significant portion of incurred health costs), health care accounts are often used to offset these expenses.

That's the great thing about CDHPs—they offer affordable plans, paired with accounts that can be used as needed by employees. Not only does this help lower employees' monthly premiums, but it also empowers them to be wiser health care consumers.



Health Care Accounts

Most employers offer CDHPs in conjunction with a health care account. There are three types of accounts typically available for CDHPs:

- 1. HSAs**—Opened by an employee and can be funded by both the employer and the employee, with funds rolling over each year.
- 2. Health reimbursement arrangements (HRAs)**—Owned and funded only by the employer, with limited rollover.
- 3. Flexible spending accounts (FSAs)**—Opened by an employee and can be funded by both the employer and employee, but only some funds can be rolled over each year.

All these health accounts are tax-advantaged. For example, with HRAs, employer contributions do not have to be included in the employee's gross salary, so contributions are not taxed. For HSAs, the amount the employee contributes is tax-deductible and not included in the employee's gross wages. With FSAs, pre-taxed income can be set aside for the year's medical payments.

Each health care account comes with certain differences and unique advantages. For instance, some accrue tax-free interest when funds are rolled over and can move with employees even if they change workplaces. Some are entirely controlled by employers, while others are shared between employees and employers.

Choosing which health care account to offer with a CDHP will depend on a variety of factors, namely how much control employers want. Regardless, any health care account encourages improved health literacy by requiring employees to proactively consider how their health care dollars are spent.

Reach out to learn more about the advantages of each type of health care account.

Contribution Levels

In an effort to encourage employee participation and engagement, some employers contribute to their employees' health care accounts, although the amounts they contribute can vary widely. With some accounts, employers price match employee contributions. With others, employers contribute a specific amount. Deciding on a health care budget early can help employers decide which health care account is right for their bottom line.

CDHP Employee Advantages

One of the greatest advantages of a CDHP is its ability to empower employee health care decision-making. Chronic health problems are among the leading causes of death in the United States, and they create significant financial burdens for those affected. This is, in part, due to individuals putting off routine health checkups as an attempt to save money, thus allowing chronic conditions to potentially worsen. This situation can lead to seemingly healthy individuals ignoring their health completely, even forgoing an annual physical exam. In turn, conditions that may have been caught and treated early have the potential to develop into chronic

issues.

CDHPs put employees in control of their health decisions, requiring them to think carefully about their health instead of allowing them to slump into a passive role. The plans offer employees an affordable lifeline to health services, with tax-advantaged ways of paying for that care when needed. CDHPs are especially attractive to younger employees who may visit the doctor infrequently. Having an affordable CDHP helps encourage good health practices among employees and helps position them for a healthier future without chronic issues.

CDHP Employer Advantages

CDHPs can be an excellent way for employers to control health care spending. In fact, CDHPs are often more effective at reducing total medical costs compared to traditional health plans. For example, short-term cost savings increased over 20% for employers during their first year of switching to a CDHP, according to a Cigna report. That's because CDHPs share much of their costs with employees, rather than relying primarily on the employer. Even employers who contribute to employee health accounts can choose how much to do so, providing even more spending control.

Beyond monetary advantages, CDHPs also help improve employee satisfaction with their health coverage. By enabling employees to choose when and how their health dollars are spent, they can decide what's best for their unique situations. Under a traditional plan, employees are relegated to a more passive role and do not have access to a tax-advantaged account that can be used for qualified health expenses.



Utilization and Value Trends

The numerous advantages of CDHPs are encouraging more employers to adopt them. In fact, CDHP enrollment has increased significantly in recent years, with over 30% of workers covered under these plans, according to the Kaiser Family Foundation (KFF). What's more, this shift may account for significant savings for both employers and employees. CDHP annual costs per individual are \$776 less than other traditional health plans on average, according to KFF.

Here are some other noteworthy statistics, based on a 2020 America's Health Insurance Plans (AHIP) report:

- CDHPs had over 30 million enrollees in 2019, following a long-term upward trend since the early 2000s.
- Of those enrollees, 35% have at least one chronic condition, illustrating that CDHPs still provide access to necessary, ongoing care.
- CDHP enrollees have almost the same rate of cancer screenings and immunizations, compared to traditional health plan participants.

These statistics help demonstrate the impact CDHPs are having on the insurance marketplace. By giving employees more power over their health care, employers are reducing costs and improving health literacy.

Increasing the Success of a CDHP

The success of a CDHP is largely dependent on clear, consistent communication. Employees are often skeptical about enrolling in a CDHP for a variety of reasons, including concerns about higher out-of-pocket costs, misinformation, lack of understanding or reluctance to switch from a traditional plan that is comfortable and familiar. To minimize these concerns, employers should communicate early and often and explain that CDHPs are meant to help employees take control of their health. Also, they should be sure to focus on the lower monthly premiums associated with CDHPs, the tax benefits of health care accounts and employer monetary contributions.

To achieve buy-in, communication regarding health care consumerism should resemble a marketing campaign more than a typical HR information campaign. Employers should incorporate sufficient lead time into communication efforts to ensure maximum traction. Using a variety of communication methods, such as handouts, emails, videos, face-to-face meetings and presentations, can provide the most impact. Repeated messages in different formats can ensure sufficient employee exposure and understanding.

In addition, employees need education on how to use a CDHP, as these plans differ significantly from traditional health plans that employees may be more familiar with. For example, employers should teach employees when it's appropriate to go to the doctor's office, urgent care or the emergency room, so they can reduce their out-of-pocket expenses. Other beneficial topics may include highlighting the benefits of generic medications and the higher costs and restrictions associated with out-of-network care. This education should begin during open

enrollment and continue throughout the year so employees can become wiser health care consumers.

Having the right information regarding CDHPs will give employers valuable assistance in designing a plan and effectively communicating it. Employers should consider surveying employees before implementing a CDHP to discover what current perceptions and knowledge are, so they can target the areas that need clarification. Additionally, resurveying employees after implementation will provide an assessment of where gaps in understanding remain, how effective the initial communication efforts were and how plan designs and communications can be modified for the future.

Summary

CDHPs offer an intriguing option for long-term improvement and cost savings—so much so that many employers across the nation either have already implemented CDHPs or are considering doing so. To learn more about setting up a CDHP, contact us today.

