Key Issues for Defined Contribution Health Plans

- Employer contribution strategy:
  - What is the "reference plan" that determines the contribution for other plans?
  - What is the amount of the "reference premium"?
  - How quickly does the employer want to migrate to new plans?
- Keeping the risk pool intact
  - Healthy employees will choose DC plans
  - How does the employer choose to manage adverse selection in the traditional plans?

Preliminary Experience with a "Natural Experiment"

Humana chose to have its 5000 Louisville associates help design a consumer-driven health product

- Offered to Associates on 7/1/01
- Three months of education, including:
  - Letters from the CEO
  - Seminars for managers
  - Use of an electronic "wizard" to help make plan choices
  - Posters and other reminders

Preliminary Experience with a "Natural Experiment"

- Consumer-driven product (called "MOCHA"):
  - Offered 6 major choices
    - Traditional HMO
    - Tiered PPO with "rich" benefits
    - Standard PPO with $250 deductible
    - Two "CoverageFirst" products with an allowance, then a high deductible, then catastrophic coverage
    - One Out-of-Area indemnity plan
  - Reference plan was the Tiered PPO with $20 biweekly single Associate contribution; all other plans had smaller contributions

Preliminary Experience with a "Natural Experiment"

Member enrollment results:

- 5.5% migrated to the new CoverageFirst plans
- 6% more migrated "down" to new Standard PPO
- 53.5% in the Tiered PPO
- 35% in the HMO

220 members chose to drop coverage (but only 1 member went "bare")