



Changes in
**HEALTH CARE
FINANCING &
ORGANIZATION**

Defining “Defined Contribution” 2002: Research and Practice

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**DEFINED CONTRIBUTION
HEALTH INSURANCE
PRODUCTS:
DEVELOPMENT AND
PROSPECTS**

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Defined Contribution Health Insurance Products (DCPs): Model III Revisited

A portion of the employer's contribution towards health benefits is placed into an account from which the employee purchases services with tax-advantaged dollars

A major medical or some other type of "wrap around" insurance policy is purchased with a portion of the employer's contribution

There is an expectation that employees will spend their own dollars to cover the "gap" between the "health spending account" and the insurance policy coverage

The internet is used to facilitate consumer purchase decisions and to provide information related to health care and health care providers

THE DCP MARKET

□ **Start-up Firms Providing DCPs:** □

Definity (Twin Cities)

Destiny Health (Chicago)

HealthMarket (Connecticut)

Lumenos (Virginia)

MyHealthBank (Portland)

Vivius (Twin Cities)

□ **Major Insurers Who Have Introduced, or Stated Their Intention to Introduce, DCPs:**

Aetna

CIGNA

Humana

UnitedHealthGroup

Wellpoint

HOW DO DCPs DIFFER FROM MSAs?

DCPs

Use information technology to create "informed consumers"

Appear to consumer and providers as similar to other health plans

Dollars in personal health spending accounts typically are not portable

MSAs

HIPAA (1996) allowed tax breaks for savings accounts under HIPAA - regulated MSAs offered to employers with 50 or fewer workers

Subscribers "shoe-box" medical bills for later reimbursement from their accounts

Dollars in savings accounts are fully portable

WHAT "PROBLEM" DO DCPs CLAIM TO ADDRESS?

Insured consumers have little knowledge of the cost of services and weak incentives to consider cost in purchase decisions, due to MCO benefit designs

MCO restrictions on care are objectionable to employers and consumers

Placing more decision making in the hands of employees, supported by appropriate tools, financial incentives, and information can increase employee satisfaction and ultimately reduce employer costs for medical care and benefits administration

DIFFERENCES AMONG DCPs

Use of provider networks

Provider payment arrangements
(but ffs now dominates)

The disposition of unexpended
monies in spending accounts

Target markets: large, self-
insured employers versus
mid/small sized employers

Market acceptance to date

CHALLENGES FACING DCP START-UPS

Venture capital support

Insurer competition

Constraints on rapid diffusion

Open-enrollment periods

Perceived concept complexity

Conservatism of human resources
managers