Changes in Health Care Financing & Organization

# Defining "Defined Contribution" 2002: Research and Practice

May 15, 2002
Washington, DC

AcademyHealth

# Defining “Defined Contribution”

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The Robert Wood Johnson Foundation’s
Changes in Health Care Financing and Organization
(HCFO) Initiative

May 15, 2002

# What is defined contribution?

- Not a single arrangement
- General approach
- Can take a variety of specific forms

**Model I:**
**Single Employer or Sponsor with a Single Carrier**

**Model II:**
**Single Employer or Sponsor with Multiple Carriers/Plans**

**Model III:**
**Employer or Sponsor Uses an Intermediary**

**Model IV:**
**Cash / Vouchers**

# Model I

- Single health plan
- Multiple product options with differing benefits and cost sharing levels
- Employer provides a fixed-dollar contribution
- Employee is responsible for additional premium costs

# Model II

- Multiple health plans
- Employer provides a fixed-dollar contribution
- Employee is responsible for additional premium costs

# Model III

- Health benefits provided through an intermediary
- Employer provides a fixed-dollar contribution
- Employer/Intermediary can establish a personal care account for employees
- Intermediary might offer a high-deductible major medical product

# Model IV

- Employer provides a fixed-dollar payment (e.g. voucher, higher wages, other transfer of funds)
- Employee purchases care independently

# Implementation Decisions

- Benefit Package
- Accountability
- Choice of Plan/Intermediary
- Choice of Providers
- Employer Cost
- Financial Risk
- Risk Pooling
- Information Dissemination
- Administrative Functions

# Shifting Responsibilities

Choice of plans/providers

- In progressing from Model I to IV, employee choice increases
- In Models I to III, employers are more involved in the choices of their employees
- With increased choice, consumers have greater responsibility

# Shifting Responsibilities

## Accountability

- From Model I to Model IV, the lines of accountability become less clear
- In Models I and II, the employer and health plan are accountable to employees
- In Model III, it is less clear which entity is accountable for which decision
- In Model IV, employees are held accountable for their choices

# Shifting Responsibilities

## Pooling Risk

- Under Models I, II, and III, the employer is responsible for pooling the risk of their employees
- Under Model IV, no entity is responsible for risk pooling

# Shifting Responsibilities

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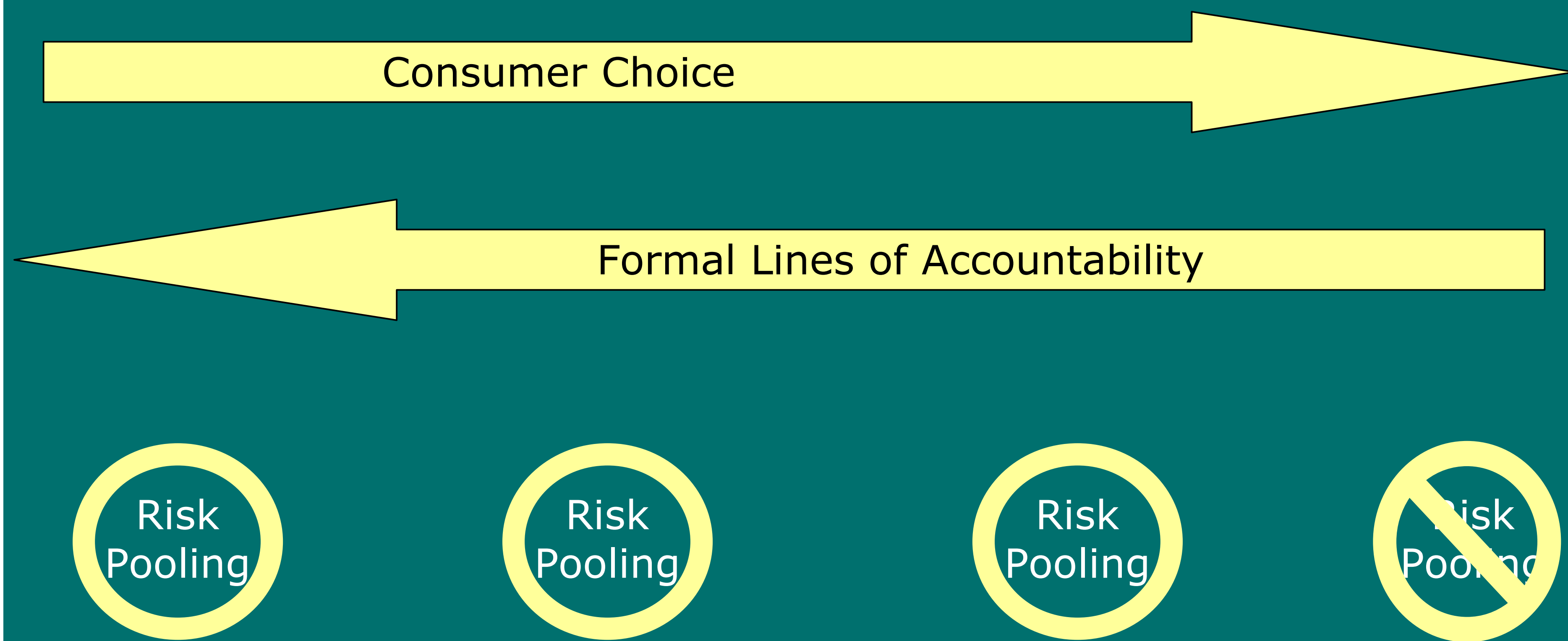

# Implications

A move toward defined contribution will affect:

- Risk selection
- Risk adjustment
- Tax policy
- Insurance market

Exactly how these things are influenced depends on the model.