

Employee Choice of a Consumer Driven Health Plan in a Multi-Plan, Multi-Product Setting

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What are the Issues in a Multi-plan, Multi-product Setting?

- To date, most consumer driven plans have been offered as a choice with other products, such as Preferred Provider Organizations and traditional HMOs
- CDP will often be lower-priced than competing PPO plans and possibly lower than HMOs
- For CDPs to be successful in the marketplace, employees must be sensitive to premium differences among competing plans
- First issue: What is the premium sensitivity of enrollment decisions in a multi-plan, multi-product setting?

Issue #2

- Whenever employees have a choice of health plan products (PPO, HMO, CDP), sicker employees may prefer one product more than the others
- Adverse selection may lead to undesirable consequences:
 - plans may try to avoid high risks by reducing benefits that attract them and/or increasing cost-sharing that deters them
 - high-risk plans increase premiums and may “death-spiral”
- High risks are reported to dislike high deductibles and not to be attracted by personal care accounts
- Second issue: Do high risks tend to avoid the CDP in a multi-plan, multi-product setting?

Issue #3

- CDPs represent a departure from traditional health insurance and managed care:
 - increased consumer decision-making over health care
 - exposure to higher out-of-pocket costs, but generous coverage once the deductible is reached
 - use of information technology to create informed consumers
- Third issue: Do consumers who prefer distinguishing features of CDP plans (e.g., a personal care account that rolls over) tend to choose the CDP?

Issues Recap

- #1 What is the premium sensitivity of enrollment decisions in a multi-plan, multi-product setting?
- #2 Do high risks tend to choose the CDP plan in a multi-plan, multi-product setting?
- #2 Do consumers who prefer distinguishing features of CDP(e.g., personal care account that rolls over) tend to choose the CDP?

Study Setting

- We studied these issues through the experience of the University of Minnesota, which offered a CDP for the first time in 2002
- UM had 16,000 covered employees in 2002
- 2002 plan offerings:
 - Definity Health CDP
 - HealthPartners HMO with limited out-of-network coverage
 - PreferredOne PPO
 - Patient Choice care systems that contract directly with medical providers
- UM makes defined contribution based on the low-cost plan and does not risk-adjust the employer contribution

Definity Health Details at UM

Personal Care Account (PCA)

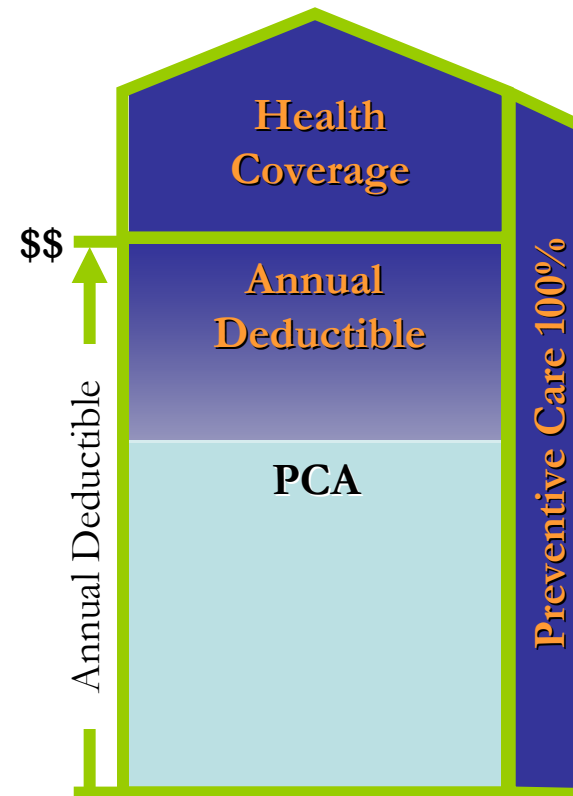
- Employer allocates PCA and decides which expenses will be eligible
- \$500 single/\$1,000 family or \$1,000/\$2,000
- Member directs PCA, which rolls over at year-end if any is unused

Health Coverage

- 100% coverage for preventive care
- Annual deductible of \$1,250/\$2,500 or \$2,000/\$4,000
- 100% coverage for in-network care once deductible is met; 70% or 80% coverage for out-of-network care
- Access to nationwide provider network
- No referrals required

Health Tools and Resources

- Care management program
- Extensive easy-to-use information and services



UM Plan Options/Enrollment

	Employee-only coverage			
	Total Cost	Less UM contribution	Employee contribution	Enrollment
HealthPartners Classic	\$137.84	\$137.84	\$0.00	5,027
Patient Choice Cost Group I	\$137.84	\$137.84	\$0.80	2,091
Patient Choice Cost Group II	\$147.15	\$137.84	\$9.31	
Patient Choice Cost Group III	\$157.90	\$137.84	\$20.06	
PreferredOne National	\$189.51	\$137.84	\$51.77	731
Definity Health Option 1	\$150.52	\$137.84	\$12.68	349
Definity Health Option 2	\$150.48	\$137.84	\$12.64	

Total 8,198

	Family coverage			
	Total Cost	Less UM contribution	Employee contribution	Enrollment
HealthPartners Classic	\$344.59	\$323.92	\$20.67	3,967
Patient Choice Cost Group I	\$329.60	\$323.92	\$20.67	2,808
Patient Choice Cost Group II	\$351.30	\$323.92	\$39.23	
Patient Choice Cost Group III	\$376.80	\$323.92	\$65.73	
PreferredOne National	\$448.40	\$323.92	\$143.91	997
Definity Health Option 1	\$353.00	\$323.92	\$51.63	346
Definity Health Option 2	\$327.50	\$323.92	\$51.55	

Total 8,118

Single & Family Total 16,316

Employee Survey

- Survey goals: Record preferences for health plan features, employee health conditions, and experiences with Definity and other health plans
- Survey administered in April-June 2003 with reporting on 2002 health plan experience
- All Definity Health enrollees were surveyed, plus a random sample of enrollees from other health plans
- Interviewers from UM human resource staff were trained specifically for this research project
- 433 Definity Health respondents (62.6% response rate)
- 503 Other health plan respondents (73.3% response rate)

Data from Employee Survey

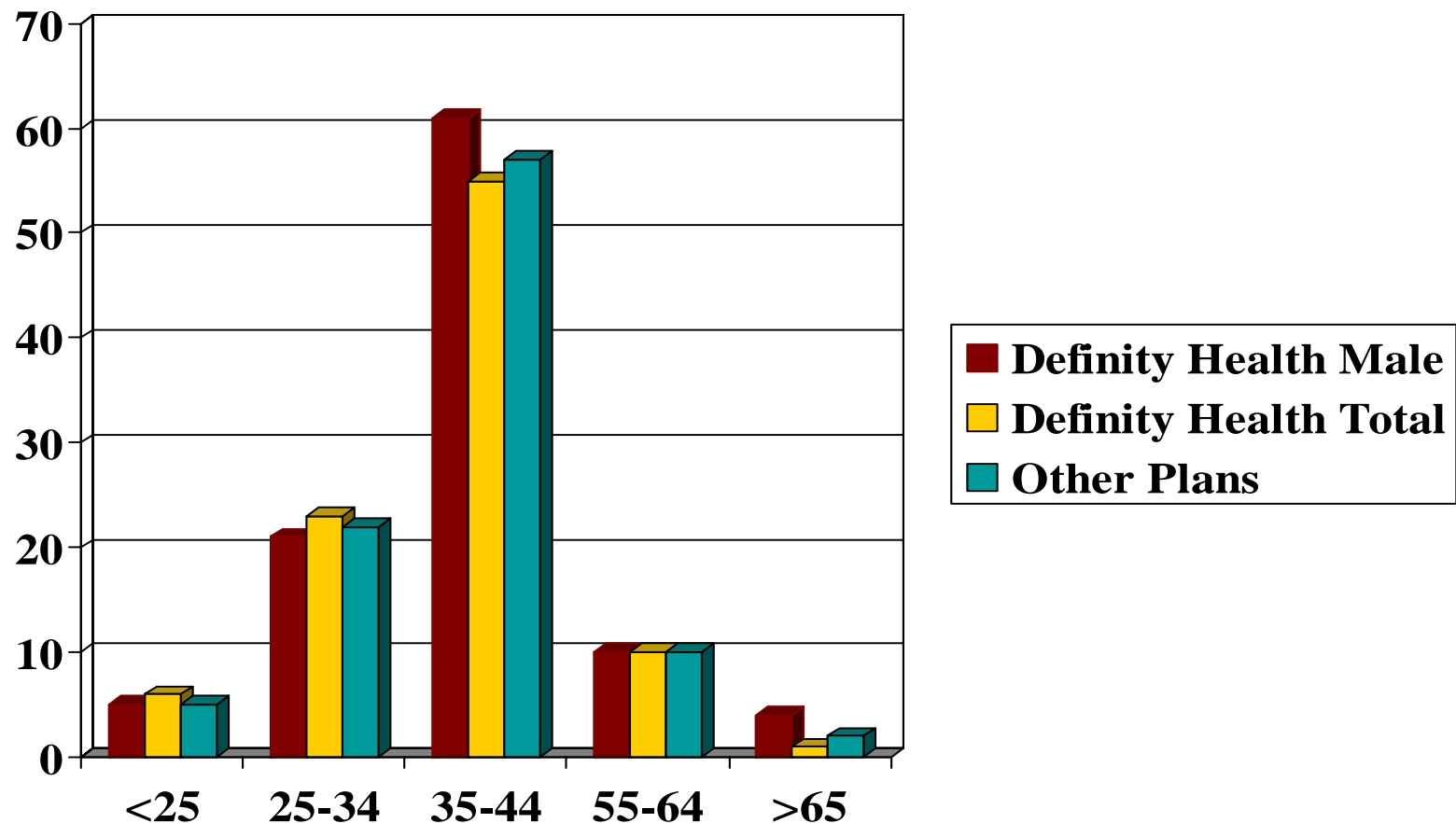
- Answer to question: *Do you or your dependents have a chronic condition such as asthma, hypertension (high blood pressure), diabetes or arthritis?*
- Employee was asked to select 3 most important features of a health plan (not necessarily the one they are in):
 - *national network of providers*
 - *the plan's network includes my providers*
 - *the plan covers preventive care*
 - *the plan does not require referrals or pre-authorizations*
 - *the potential out-of-pocket expense in addition to premiums is small*
 - *the balance in a personal care account rolls over*
 - *the plan provides on-line tools and resources to manage medical care*

Additional Data from UM Personnel System

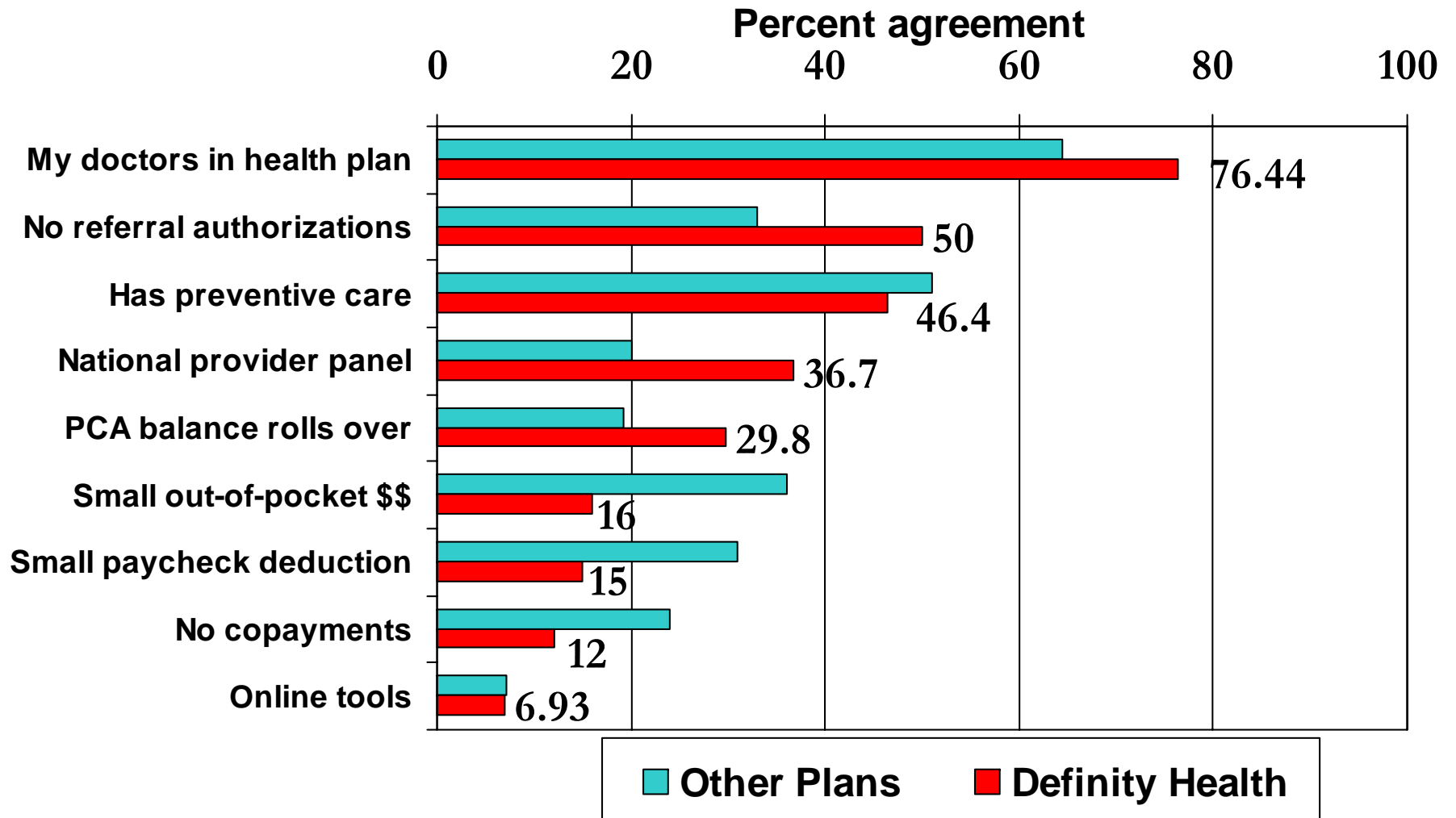
- 2002 plan choice and coverage type
- Income
 - Important for two reasons: (1) higher-income employees/families may prefer certain plans, and (2) out-of-pocket premiums are paid with pre-tax dollars so higher-income employees get larger tax subsidy
- Age and gender

Definity Health Age/Gender Distribution

2002 University of Minnesota



Preferred Health Plan Features



Conceptual Choice Model

We estimated a choice model based on the idea that the employee chooses a health plan to maximize utility, which is formally stated as:

$$U_{ij} = f(Z_j, X_{ij})$$

- i is the employee choosing among j health plan products
- Z_j = health plan product attributes such as the out-of-pocket premium
- X_{ij} = interactions between product attributes and employee characteristics such as self-reported health status and preferences

Results: Premium Sensitivity

- Employees are sensitive to out-of-pocket premiums, and surprisingly, employees with chronic conditions are more premium-sensitive
 - If Definity Health raised its premium by 1%, it would lose 4.6 % of healthy single enrollees and 5.4% of healthy families
 - 1% premium boost would cause 6.9% of singles and 10.7% of families with chronic condition to leave Definity Health
 - The results depend on passing 100% of the premium hike along to the employee (i.e, defined contribution), as the UM does

Results: Health Status and Other Employee Characteristics

- Employees and families with chronic conditions prefer the PPO, but otherwise, there is no evidence of adverse selection
 - Having a chronic condition is associated with an 11.8 percentage-point increase in the probability of choosing PreferredOne
 - Note that PreferredOne had the highest premiums (\$189.51 for single coverage and \$448.40 for family coverage per pay period), suggesting that this plan is experiencing adverse selection
- Higher-income employees chose Definity Health or Choice Plus, suggesting these plans may evolve as favorites of the 'well-to-do'
- Older employees chose PreferredOne or Choice Plus

Results: Employee Preferences (Marginal effects)

<u>Feature</u>	<u>Definity</u> <u>Health</u>	<u>Choice Plus</u>	<u>PreferedOne</u>
National Panel	11.7%	No Effect	4.5%
Preventive Services	No Effect	No Effect	No
Effect My Doctor in Panel	11.9	29.6	35.0
No Referrals	11.5	5.0	6.2
Low Cost-Sharing	No Effect	6.2	No Effect
PCA Rolls Over	No Effect	No Effect	-7.3
On-Line Tools	No Effect	20.2	-18.1

“Marginal effect” is the percentage-point increase in the probability of choosing each plan for an employee who rates a feature as among the 3 most important

Conclusions (for this population)

- Employees are sensitive to premium differences among competing health plans
- Employees and families with chronic conditions are more premium-sensitive
- The CDP was not disproportionately chosen by the young and the healthy, but it was chosen by the wealthy
- Definity Health's preferred features are a national panel that includes the employee's doctors and has no restrictions on referrals

Implications and Conundrums

- Offering a CDP will not segment the risk pool into ‘healthy’ and ‘unhealthy’ groups, but adverse selection can arise for other reasons such as offering a PPO in competition with CDP and HMO plans
 - It is not clear if PreferredOne can avoid a death spiral
- Definity Health can ‘win’ employees by keeping its premium low, but it might win the unhealthy ones
- At this point, Definity Health’s ‘special’ CDP features such as on-line tools and a PCA that rolls over don’t provide a competitive advantage or disadvantage