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A “Consumerism” Case Study: Humana Inc.

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Presented to:

Consumer-Driven Health Care - Evidence from the Field

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The Big Questions

- Does the offering of “consumer-directed” health plans lead to risk segmentation in an employer group?
- Is it likely to save the employer money?
- Is it likely to impact employees’ health care spending and result in lowered total health costs?

The Humana Case

- Offered 2 varieties of CDHP to its own employees in Louisville, starting 6/1/2001
- CDHP was part of an overall health benefits redesign - “SmartSuite”
- About 4,300 subscribers - 10,000 total members (average for 2001/2002)
- Humana’s primary goal in restructuring its health benefits offering was to reduce overall health care trend increases
  - Also hoped to introduce “managed competition” discipline by letting employees keep full savings from choosing less expensive plan

Choice Parameters

Year 1

- 3 Choices
- 2 PPOs, 1 HMO
- Employer contribution: 79% of chosen plan
- All plans have 3-tier Rx

Year 2 - “SmartSuite”

- 5 Choices
- 2 PPOs, 1 HMO, 2 types of “Consumer-Directed”
- Employer contribution: 79% of premium for richer PPO
- Online “Wizard” to help employees choose
- All plans have 4-tier Rx

Major Changes to PPOs and HMO

	Year 1	Year 2
Standard PPO (in/out of network)	• Deductible: $500 / $1,000 • Hospital: 80% / 60% • OV: 80% / 60% • OOP Max: $1,000/$2000 • Rx: $10 generic, $20 brand, $35 nonformulary • Premium: $15	• Deductible: $250/$750 • Hospital: $100 per day, then 90% / 70%* • OV: $20-$30/ 70% • OOP Max: $2,000/$3,000 • Rx: $10, $20, $40, 25% (add 30% out of network) • Premium:$16
Enhanced/ Tiered PPO (in/out of network)	• Deductible: None/$250 • Hospital: 90% / 70% • OV: $15/ 70% • OOP Max: $500/$1,500 • Rx: $10 generic, $20 brand, $35 nonformulary • Premium: $20	• Deductible: None/ None/ $500 • Hospital: $100 per day, then 90% / 70% / 60%* • OV: $20/$30/60% • OOP Max: $1,000/ $1,000/ $2,000 • Rx: $10, $20, $40, 25% (add 30% out of network) • Premium: $20 • *Triple-option*
HMO	• Deductible: None • Hospital: 100% (no hospital cost-share) • OV: $10 (prevention free) • OOP Max: $1,500 • Rx: $7 generic, $15 brand, $30 nonformulary • Premium: $18	• Deductible: None • Hospital: $100/day inpatient, no charge outpatient* • OV: $15 (prevention free) • OOP Max: $1,500 • Rx: $10, $20, $40, 25% • Premium: $18

* Daily hospital copay limited to 10 days, then regular coinsurance applies

“Consumer-Directed” Plans

	Coverage First 1	Coverage First 2
Allowance for First-Dollar Coverage	$500 per year*	$500 per year*
Deductible (in/out)	$1,000/$1,000	$2,000/$2,000
Preventive Care (in/out)	80% / 60%	100% / 80%
OV (in/out)	$20/ 60%	$20/ 80%
Hospital (in/out)	80% / 60%	100% / 80%
Rx	4 Tiers (same as all other plans)	4 Tiers (same as all other plans)
OOP Max (in/out)	$2,000/$3,000	NA/$3,000
Premium	$6.62	$5.00

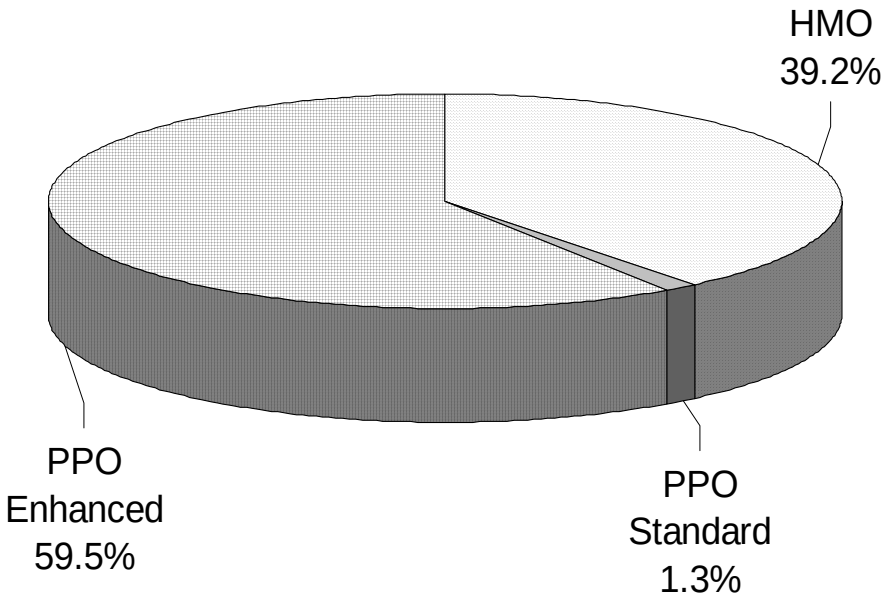
* Allowance may not be spent out of network and does not roll-over

A (Brief) Note on Methodology

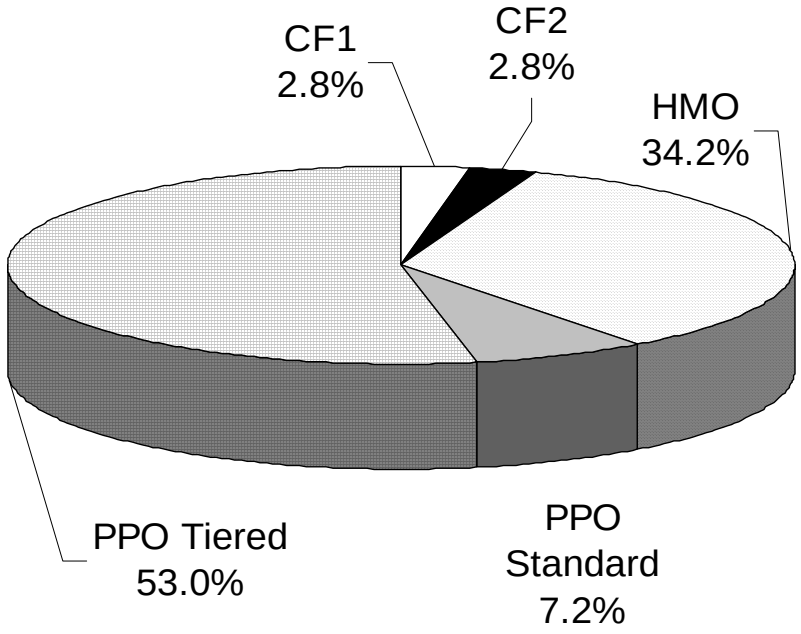
- Focus on employees who had 24 months of enrollment during the study period.
- Assumed all their dependents also had 24 months of enrollment.
- About 75% of members in each year had 24 months.
- Pattern was consistent across products.
- Most analyses were done with both 24-month and total enrollment, for comparison.
  - No major differences noted yet.
  - Further analysis is needed.

Membership by Plan, Years 1 and 2
(all members)

Year 1



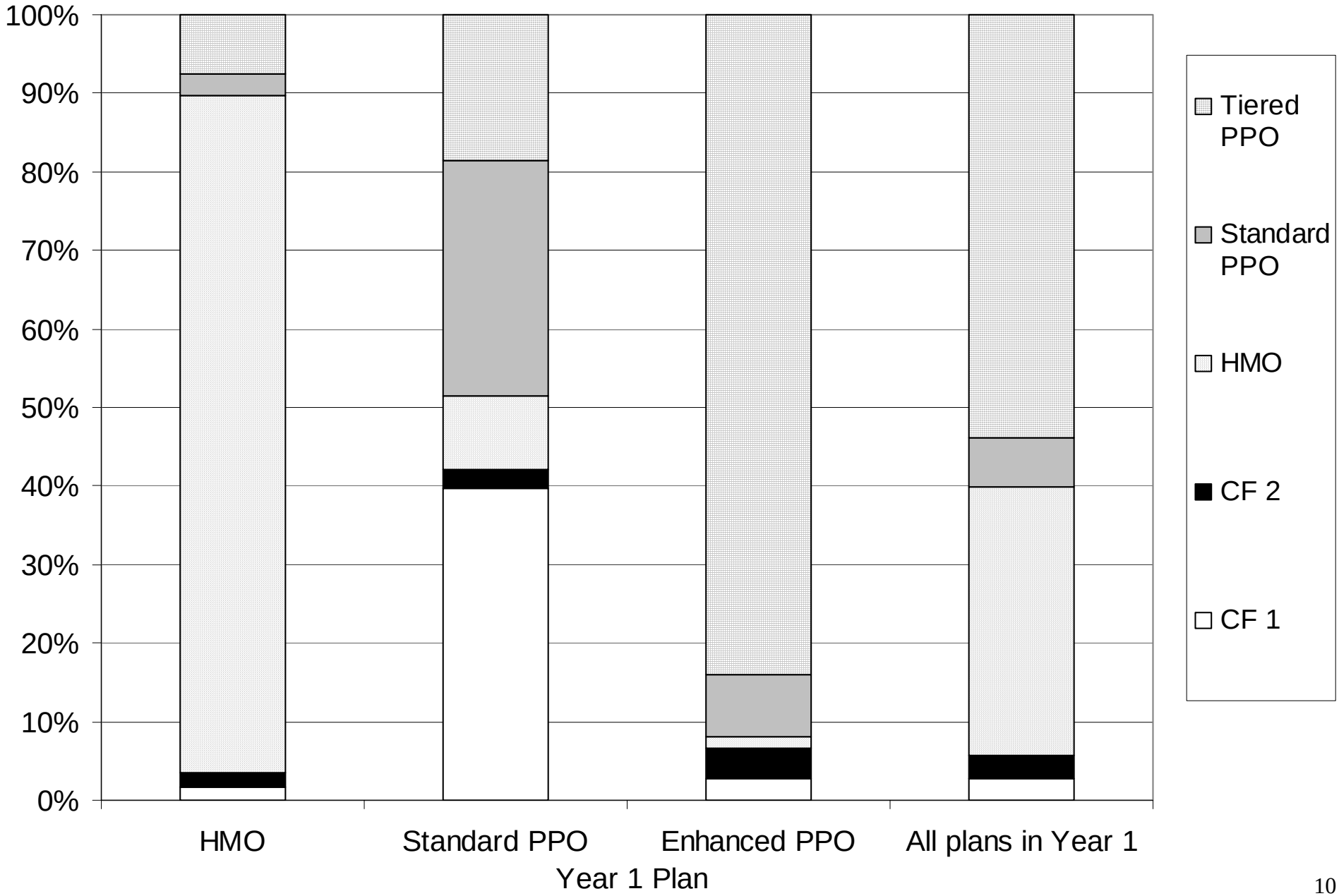
Year 2 - SmartSuite



Movement of Members from Year 1 to Year 2

- Most people stayed put
  - 86% of HMO members stayed
  - 84% of Enhanced PPO members stayed
  - But….only 30% of Standard PPO members stayed. Nevertheless, Standard PPO membership more than tripled, drawing from the HMO and the Enhanced PPO
- Leavers split pretty evenly between CF 1 and CF 2
  - With the exception of Standard PPO enrollees, who tended to choose CF 1 if they left
- The majority of enrollment in CF 1 and CF 2 came from the Enhanced PPO
  - The second largest group came from the HMO

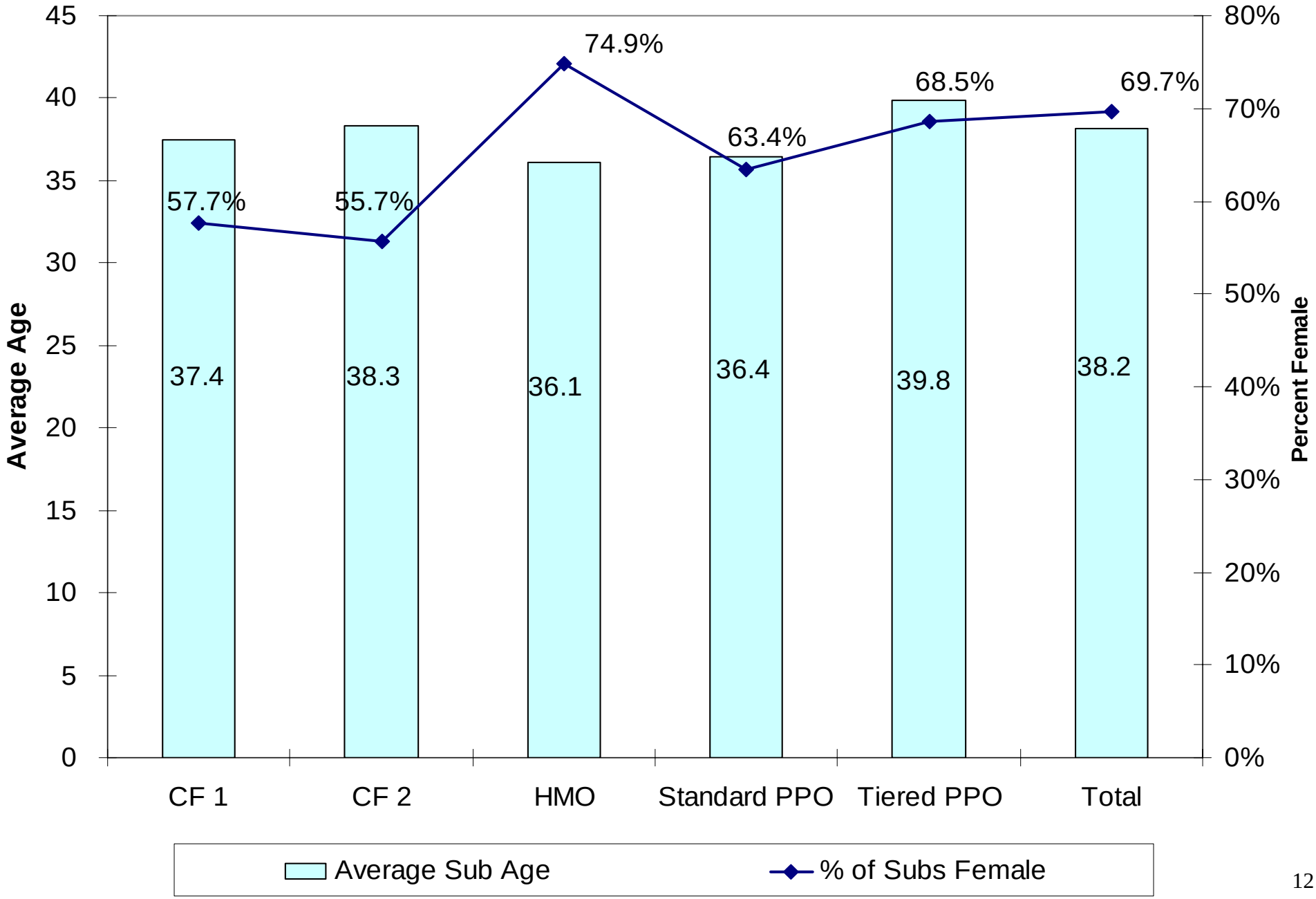
Where did year 1 members go in year 2?



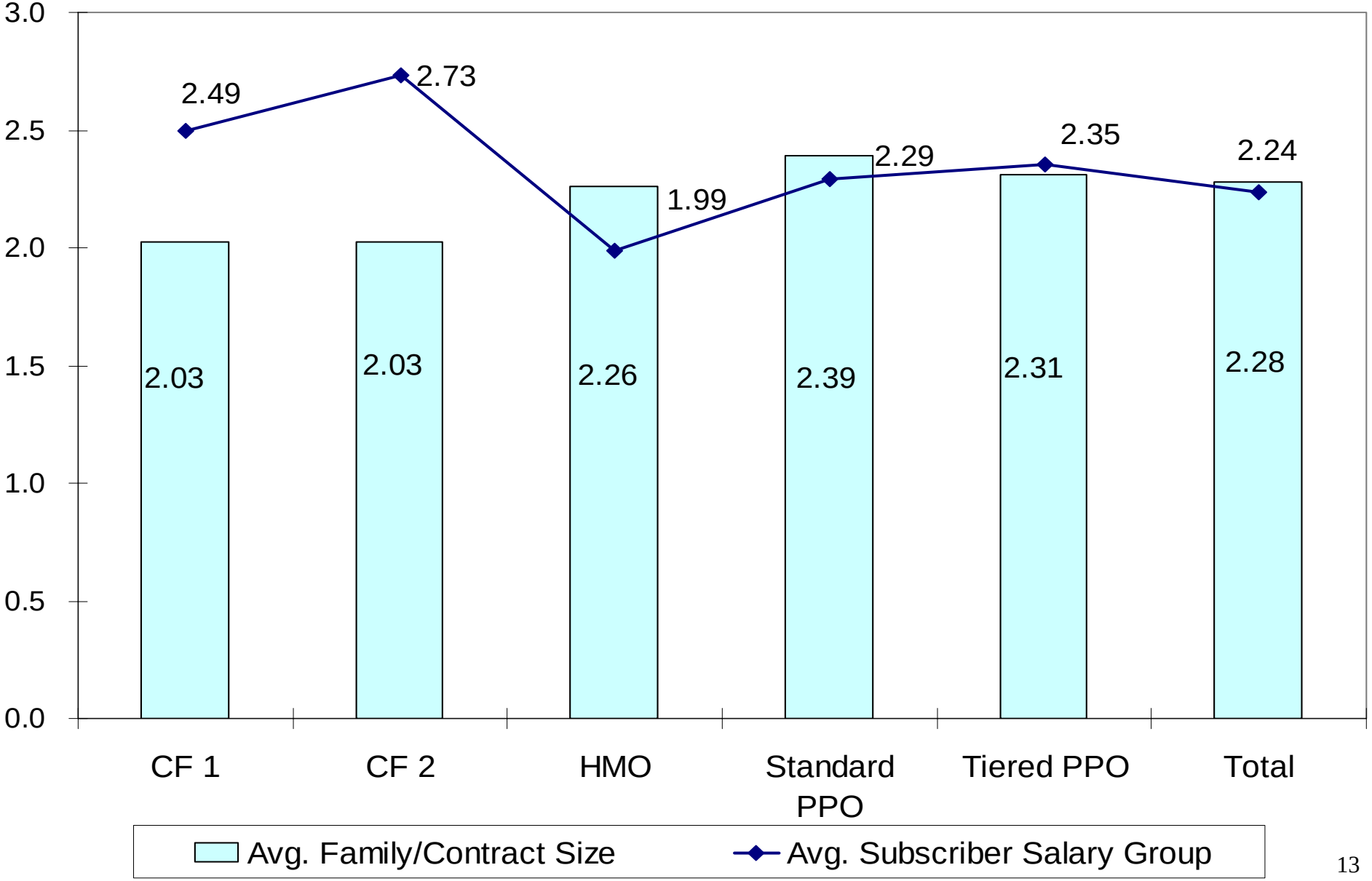
Risk Segmentation?
Demographics say “Maybe a little”

- CF 1 subscribers are about a year younger than average.
- CF 2 subscribers are about the same age as average.
- Compared to the average subscriber, they are less likely to cover children or a spouse under the plan.
  - Their families are 10% smaller than average.
- They are relatively more likely to be male, compared to the whole group of subscribers.
- CF 1 subscribers’ salary grouping is about 10% higher than average.
- CF 2 subscribers’ salary grouping is about 20% higher than average.

Age and Sex of Subscribers, Year 2



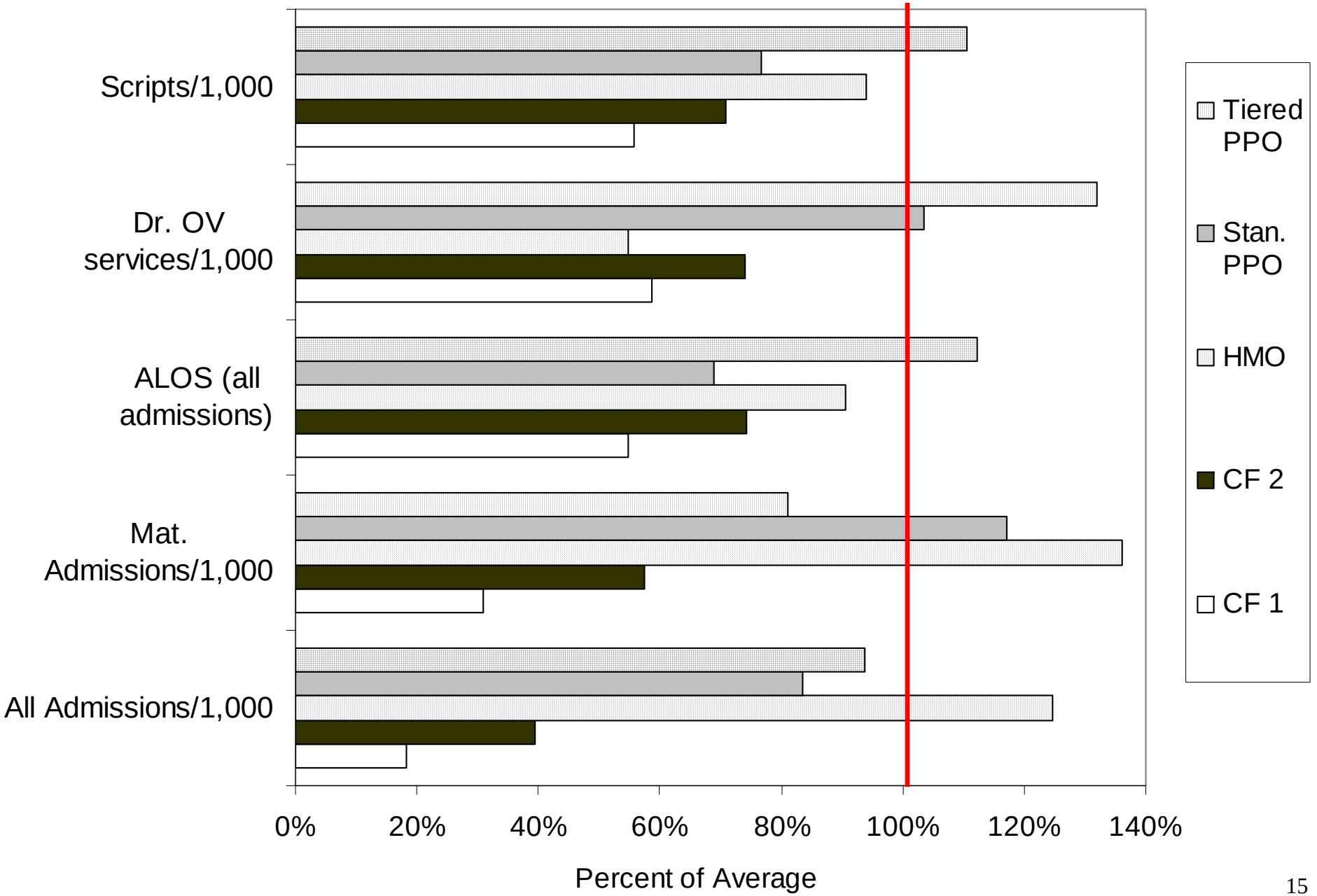
Average Family Size and Salary Grouping, Year 2



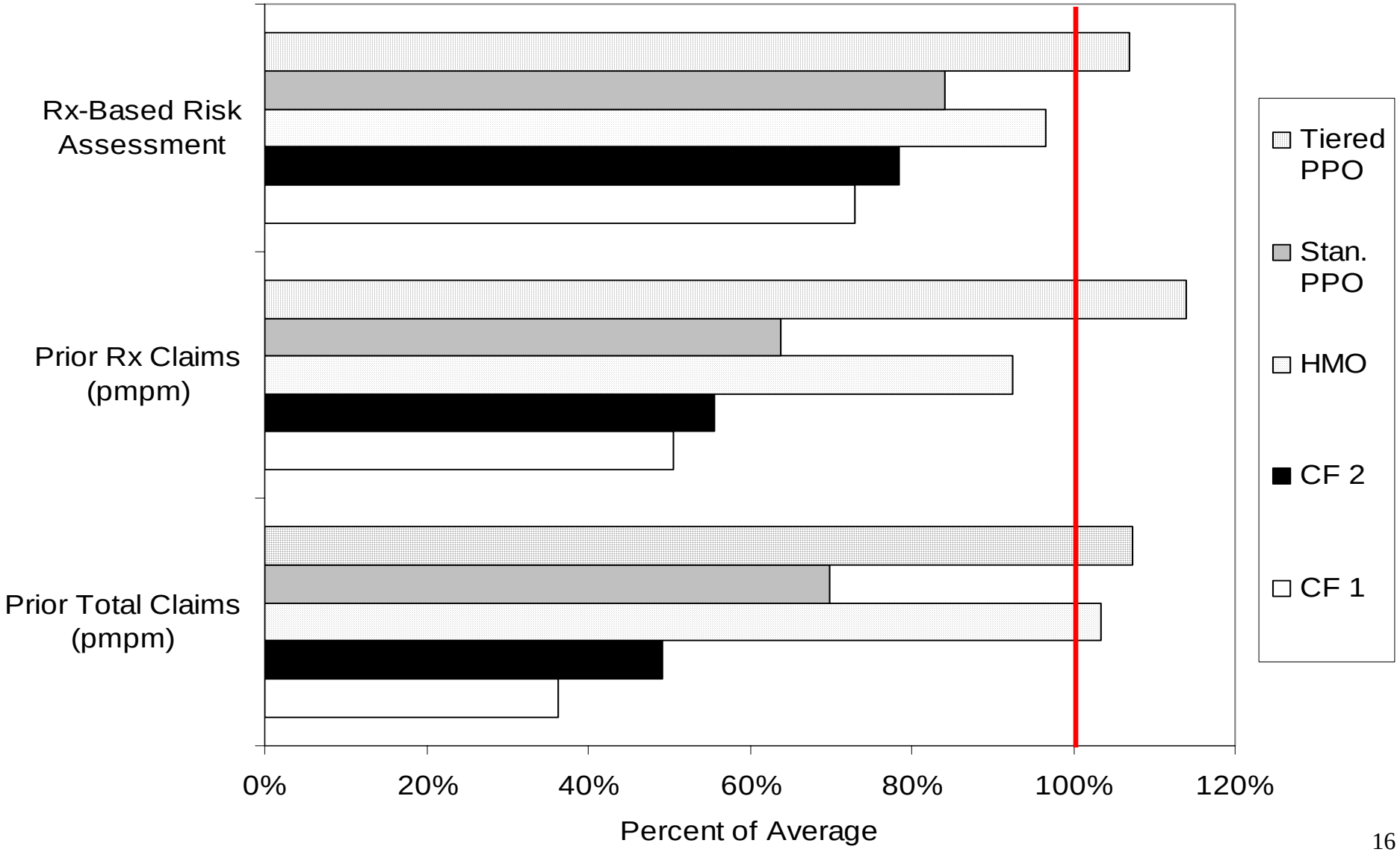
Prior use tells a different story

- CF 1 prior year:
  - admissions/1,000 were 18% of average
  - LOS was 55% of average
  - Doctor office visit services were 59% of average
  - Prescriptions/1,000 were 56% of average.
- CF 2 prior year:
  - admissions/1,000 were 39% of average.
  - LOS was 74% of average
  - Doctor office visit services were 74% of average
  - Prescriptions/1,000 were 70% of average

Prior Year Use of Services, by Plan



Rx-Based Risk Assessment Scores and Prior Claims, by Plan



Salary Groupings

Group	Range
1	Less than $25,000
2	$25,000 to $50,000
3	$50,000 to $100,000
4	$100,000+

Questions Raised by Apparent Risk Segmentation

- Will it continue?
- What will happen in CDHPs where the funds roll over?
  - Induced demand?
- In multiple-choice settings, will CDHPs ever reach significant enough enrollment such that risk segmentation matters?
- Is single-plan-replacement, *a la* SmartSuite, the only answer?
- Will risk adjustment ever be good enough to compensate?

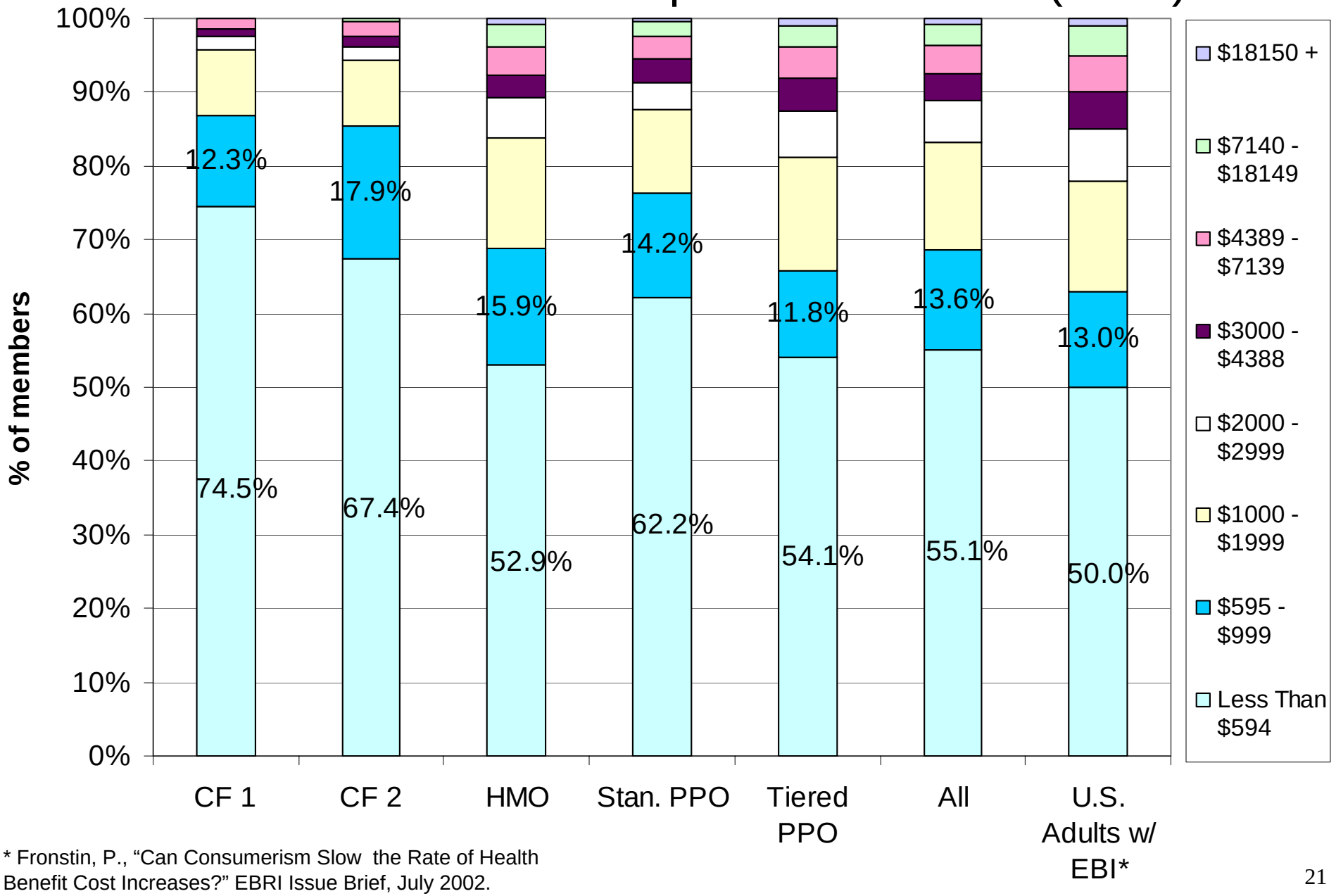
Will it save employers money?

- Total spending increased between year 1 and year 2 but at a rate far lower than any measure of inflation.
- We suspect this is *not* due solely to the introduction of the CDHPs, but rather to:
  - Overall health benefit restructuring
  - Change in employer contribution formula
  - Increased number of employees waiving benefits
- Still not clear whether the introduction of a CDHP *alone* will result in employer savings.

Will it change consumer behavior?

- Coverage First members had a spending distribution that was different from all other plans, and from the U.S. workforce.
- There are at least two possible explanations:
  - They were healthier to start with
  - They responded to the financial incentives inherent in the plan by reducing their use of unnecessary care.
- The answer probably lies somewhere in between.

Distribution of Members by Annual Expenditures, Humana Year 2 and U.S. Adult Population with EBI (1998)*



* Fronstin, P., "Can Consumerism Slow the Rate of Health Benefit Cost Increases?" EBRI Issue Brief, July 2002.

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