Employer–Sponsored Insurance after PACA
Today

- ESI: A refresher
- What’s on employers minds
  - Post reform: In the game or out of the game?
  - Trends
- Other Stuff
When you Talk about Employers….

**Stratify, stratify, stratify**

- Cover health benefits: large vs. small
- Don’t Cover
- In the Industry
History: No Such Thing as Accidents?

- World War II price freezes, tax breaks, ERISA
- U. S. value of favoring private over public sector
- If employers don’t fund, who will?

The New England Journal of Medicine

“. . . employer-sponsored insurance in the United States is, by many accounts, an accident of history that evolved in an unplanned way and, in the view of some, without the benefit of intelligent design.”

David Blumenthal, M.D., July, 2006
Providing Health Coverage Remains a Key Business Necessity

- Attract and Retain: 45%
- Be Competitive: 31%
- Protect Employees: 9%
- Build a Healthy and Productive Workforce: 13%
- Other: 1%
Influencing Market Performance

'98 → Present
- Provider measurement
- Public transparency
- Hospital / safety focus

Hospitals get safer → , ↓ errors, ↓ costs

'02 → Present
- Pay-for-Performance
- Doctor focus

'05 → Present
- Episode payment
- Blended doctor/hospital

'08 → ?
- Broad payment reform
- Doctors and hospitals
- Cost and quality

Doctors / hospitals paid more only if ↑ quality ↓ costs ... potential big win

Plus: Managed care, disease management, transparency, medical home, etc
The Employer Dilemma

- **Unique supply chain cost**
- **Reluctance to invest**
  - Personal
  - Complicated
  - Hard to measure
  - Long term
- **Reluctance to surrender**

*Health Affairs*

“Between a Rock and a Hard Place: Understanding the Employer Mind-Set.”

Robert S. Galvin and Suzanne Delbanco

*The New England Journal of Medicine*

“Why Employers Need To Rethink How They Buy Health Care”

Robert S. Galvin and Suzanne Delbanco
Do Employers Want To Preserve ESI or Find An Exit Strategy?

YES
Will Exchanges Offer an “Exit Strategy”?

- Retirees: 53%
- COBRA Plan Participants: 41%
- Current Part-time Employees: 33%
- Spouses or Dependents: 17%
- Current Full-time Employees: 16%
- None: 22%

Number of Responses = 81

If It Seems Too Good to Be True.....

• Seems like a no-brainer: $2000 penalty vs. $10,000 cost

• But....

• Cost of self-insurance $\rightarrow$ insurance

• Loss of tax breaks

• Belief that penalties will increase
Reading the Tea Leaves

- CBO predictions for 2014 probably accurate

- **2017 & beyond: Large employers assess:**
  - Impact of “Cadillac tax”
  - How exchanges are doing
  - What competitors are doing

- **In healthcare, expect the unexpected**
  - Low cost trends sustain the status quo
  - Tight labor market makes health benefits key differentiator
  - New alternatives

- **It will always be a business decision**
  - Cost
  - Labor competition
Trends
Trends

Consumerism

• Incentives for health outcomes
• High deductible plans
• Price transparency/Reference pricing

Value-based insurance design

Delivery system

• Defined contribution – performance networks
• Payment reform
• Medical homes & ACO’s
More spending means better care

There isn’t much I can do about getting healthier

What does it matter? The insurance company pays

There aren’t big differences in quality between doctors and hospitals
CDHP Offerings in 2012 and 2011

2012
- Yes, Full Replacement: 17%
- Yes, as an Option: 56%
- No: 27%

Number of Responses = 75

2011
- Yes, Full Replacement: 20%
- Yes, as an Option: 41%
- No: 39%

Number of Responses = 69

What We Know About CDHPs

- Big cost decreases in year #1
- Utilization decreases: both necessary and unnecessary services
- Active consumerism occurs in a only a small cohort
- Significant decision support necessary to maximize impact
- A means not an end
- Encouraging trend towards wage tiering and value-based design
For a Sore Throat in Schenectady...

<table>
<thead>
<tr>
<th>Service</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exam by your in-network primary physician</td>
<td>$65</td>
</tr>
<tr>
<td>In-network Urgent Care Center</td>
<td>$90</td>
</tr>
<tr>
<td>Out-of-network Urgent Care</td>
<td>$130</td>
</tr>
<tr>
<td>Out-of-network specialist</td>
<td>$325</td>
</tr>
<tr>
<td>ER visit</td>
<td>$800</td>
</tr>
</tbody>
</table>
MRI Scan of Shoulder: Same Scanner

Hospital Outpatient $1200

Imaging Center $600

If You Were Paying the Whole Cost, Wouldn’t You Go Shopping?
Reference Pricing Will Spread

A Tale of Brand-Generic Drugs: Company XYZ

- Only 50% of employees are using available generics despite lower co-pays
- Health fairs, communications, coaching barely moved the dial
- New program: employee pays excess over generic if they choose brand
- What was a $15 difference in co-pay became a $90 / month cost
- Within two months, 90% use of generics and minimal complaints

Accompanying increase in employee interest in understanding what generics were all about

Take home lesson: U.S. consumers may or may not be interested in quality or even their own health but they are world-class shoppers
Consumers Who Pay First Dollar Demand Information
After a Two-Year Loan to the United States, Michelangelo’s David Is Being Returned to Italy

His proud sponsors were:

- McDonald's
- KFC
- Starbucks
Tough Love, Lower Health Costs
A UnitedHealthcare plan offers incentives to employees who strictly control their diabetes

By Arlene Weintraub

A few years back, Dr. Robert S. Galvin was desperately searching for new ways to control medical costs at his company, General Electric (GE). Galvin is GE’s chief medical officer. It’s his job to keep the company’s 323,000 workers healthy. But he was growing frustrated with the challenge: Too many employees with chronic illnesses such as diabetes were not taking their medications or following other prescribed treatment plans, and that led to serious—and expensive—complications. "I said, 'We need to innovate around managing costs,'" Galvin recalls.

- Voluntary program for diabetics
- No cost for medications, supplies and provider visits
  
  IF
- Compliant with medications, lab tests, scheduled visits
Other Stuff
Will Too Big to Fail Come to Healthcare?

![Diagram showing integration and consolidation between doctors and hospitals.]

- **Doctors**
  - Improved Outcomes
  - Lower Costs

- **Hospitals**
  - Higher Prices
  - Unchanged Outcomes

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EQUITY HEALTHCARE
Know More, Feel Better, Stay Healthy
Follow the Money

- **Investment capital can reflect / predict healthcare trends**
  - Away from biotech/devices
  - Towards infrastructure that can save costs
    - Price information to consumers
    - Telehealth
    - Companion technologies
    - Administrative improvements: Back office, payment integrity