

Aon Consulting/ISCEBS Survey

Consumer-Driven Health Plans Gaining Stronger Presence

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In a nationwide survey developed by Aon Consulting and conducted in association with the International Society of Certified Employee Benefit Specialists (ISCEBS), we asked ISCEBS members and select Aon Consulting clients and contacts for their views on consumer-driven health plans (CDHPs) and its present and future impact on the delivery of employee health benefits. Over 430 employers of all types and sizes and from every region of the country provided us with input on this important benefit issue.

The main reason employees do not enroll in a CDHP is that they fear high out-of-pocket costs associated with the high-deductible health plan according to 66% of the employers offering a CDHP.

This is the second year Aon and ISCEBS have conducted this survey. This year, a larger percentage of employers are providing their employees the option of obtaining a CDHP with a combination of catastrophic insurance protection and health care accounts controlled by employees. These health care accounts take two forms—a health reimbursement arrangement (HRA) funded solely by the employer or a health savings account (HSA) that can be funded solely by employees or with contributions from the employer. Both accounts allow unused account balances at year-end to accumulate and carry over from one year to the next.

In summarizing the survey results below, we will highlight the differences and similarities between this year's and last year's responses.

The Survey Results

Of the 434 employers responding to the joint Aon Consulting/ISCEBS survey, 28% currently offer a CDHP to their employees, up from 22% last year. Reflecting how new this benefit design is, 75% of employers with a CDHP only began offering the

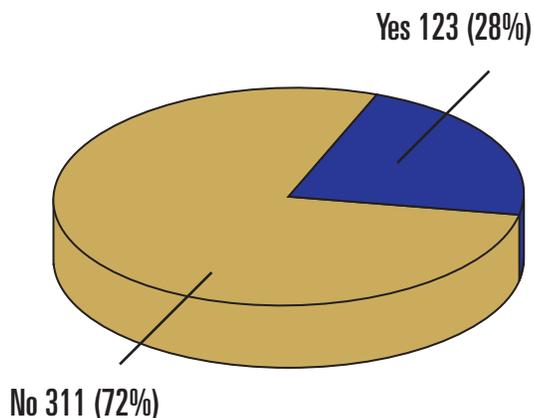
plan in 2005 or 2006. Of the employers not offering a CDHP, 30% believe the concept is too new to offer now and will wait to see what the experience of other employers is before deciding on offering one. This was also the main reason given by 32% of employers last year, showing a steady level of reluctance by some employers to commit to a consumer-driven plan just yet.

Employers Currently Offering CDHP

In a shift of attitudes from last year, employers currently offering a CDHP are mainly doing so to introduce “consumerism” into the purchasing of health care for long-term change (48%) or to control rising health care costs (38%). Last year, controlling rising costs was the number one reason (43%) while introducing consumerism was second (39%). Only 11% are primarily doing so to expand health plan choices and very few (2%) are doing so primarily to provide a vehicle for retiree medical savings—similar to last year's responses.

The split between HRAs and HSAs is also shifting, with HSAs growing more popular. This year, 43% of CDHPs are using HRAs and 48% are using HSAs. Last year, almost two-thirds of the CDHPs were HRAs with only 15% using HSAs. Only 10% of the employers offering CDHPs provide

Does your employer currently offer a consumer-driven health plan (CDHP) option to employees?



both an HRA and HSA to their employees, down from 15% last year.

The main reason employees do not enroll in a CDHP is that they fear high out-of-pocket costs associated with the high-deductible health plan according to 66% of the employers offering a CDHP, up from 56% last year. Only 4% of these employers believe employees view CDHPs as too complicated to keep them from joining, while only 7% believe the main reason for not enrolling is that employees still favor the traditional plan design over a CDHP—similar to responses from last year.

Employers' confidence in the future popularity of consumer-driven plans is also growing with more employers believing more than half of their employees will be in a CDHP in five years.

Although more employers are offering HSA coverage this year than last, more are also contributing to their employees' HSAs. Of the 75 employers offering an HSA, 62% contribute either a flat dollar amount of less than \$500 per person (17%), \$500 or more (37%) or match employee contributions (8%). Last year, 53% of employers offering HSAs contributed to these accounts.

Employers Not Currently Offering a CDHP

Attitudes of the employers not currently offering a CDHP are similar to those expressed last year with 44% planning to offer one in the future—12% are planning to offer one this year or next while 32% are undecided on an effective date. The remaining 56% of these employers are not seriously considering a CDHP as a future plan offering. Of the employers not seriously considering a CDHP, almost a third believe the concept is too new and will wait to see other employers' experience with CDHPs before deciding to offer one themselves.

Of the employers planning to offer a CDHP in the near future, 34% anticipate offering an HSA either as an option (29%) or as a total replacement for their existing health plans (5%). Only 16% anticipate offering an HRA (12% as an option) with 39% still undecided on either. As with last year's survey, these results clearly reflect the continuing popularity of HSAs over HRAs.

All Respondents

Employers' opinions on the effectiveness and future success of CDHPs are consistent with

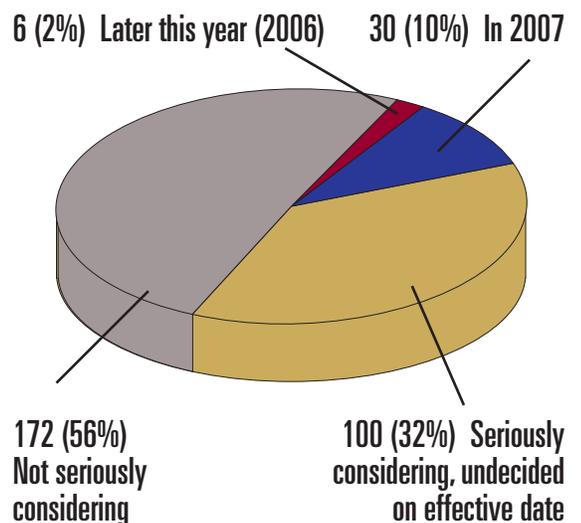
opinions given in last year's survey. Almost half of respondents in the survey (48%) believe CDHP design makes employees better, more efficient consumers of health care, with only 8% believing it has no effect on employee health care purchasing. Still reflecting a hesitance of some employers to embrace the consumer-driven concept, 25% believe CDHP designs lead employees to forego needed health care to save money. On the future of the CDHP concept, a slightly higher percentage (30%) believes CDHPs will be unsuccessful in controlling employers' health care costs in five years. The remaining respondents believe CDHPs either will be successful (39%) or don't know (31%).

About the same percentage of employers responding to the survey this year believe CDHPs will fit into their benefit packages in the future but are more optimistic than last year as to its popularity among workers. Of the employers expressing an opinion on this future fit (excluding 94 of the 434 total who did not know), 83% believe they will be offering a CDHP in five years, slightly less than last year's 89%. However, a much higher percentage (34% vs. 23% last year) believes CDHPs will cover over half their workforce and fewer (29% vs. 37% last year) believe it will cover less than 25% of employees. A slightly higher percentage (17% vs. 11% last year) of the employers expressing an opinion believe they will not be offering a CDHP in five years.

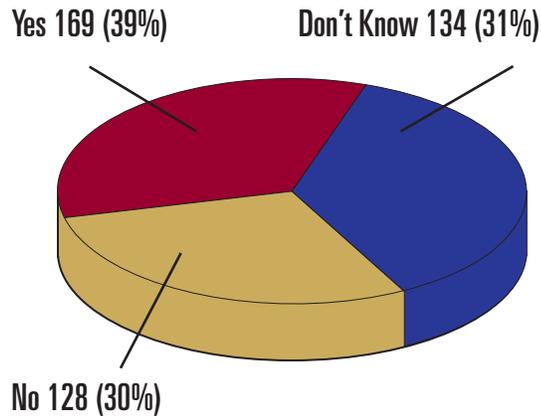
Conclusions

The survey shows CDHPs are still in their early stages of growth with three-quarters of existing plans introduced in the last two years. It also shows CDHPs' tremendous growth potential with nearly half of the employers not currently offering one seriously considering it for the near future and the vast majority expecting to have one within five

Does your employer plan to offer a CDHP in the near future?



In five years, do you believe CDHPs will prove to be successful in controlling health costs for employers that sponsor such programs?



years. Compared to a year ago, the “consumer-driven” approach is gaining believers among employers with a higher percentage of employers introducing HSAs or HRAs for long-term change rather than merely short-term cost reductions. HSAs are now the clear favorite over HRAs for employers offering a CDHP or planning to offer one in the future.

Employers’ confidence in the future popularity of consumer-driven plans is also growing with more employers believing more than half of their employees will be in a CDHP in five years. CDHPs are continuing their strong growth and employers appear to be endorsing the belief that consumers hold the key to long-term change in health care delivery and cost control.

About Aon Consulting 

Aon Consulting Worldwide, the human capital consulting organization of Aon Corporation, is reshaping the workplace of the future through benefits, talent management and rewards strategies and solutions. We support organizations of all sizes with distinctive consulting and outsourcing solutions that fit with their broader financial and business goals.

The survey development and analysis was provided by Paul E. Sullivan, Assistant Vice President, and C. William Sharon, CEBS, Senior Vice President.

About ISCEBS



The International Society of Certified Employee Benefit Specialists is a nonprofit educational association providing continuing education opportunities for those who hold the Certified Employee Benefit Specialist (CEBS), Compensation Management Specialist (CMS), Group Benefits Associate (GBA) or Retirement Plans Associate (RPA) designations offered through the CEBS® program. Visit the Society Web site at www.iscebs.org.

Consumer-Driven Health Plans

Responses: 434

Note: Percentages may not always equal 100% due to rounding.

1. Does your employer currently offer a consumer-driven health plan (CDHP) option to employees?

Yes—If you answer “yes,” please complete questions 2 through 9 and 13 through 19.	123	28%
No—If you answer “no,” please skip to question 10 and complete the remaining questions.	311	72%
Total	434	100%

2. What is the main reason your employer offers a CDHP to employees?

Control health plan costs	48	38%
Expand employee plan choices	14	11%
Introduce consumerism for long-term change	60	48%
Provide a vehicle for retiree medical savings	2	2%
Provide a tax-favored savings vehicle	2	2%
Don't know	0	0%
Total	126	100%

3. Which type of CDHP does your employer offer?

HRA (optional)	39	32%
HRA (total replacement of prior health plans)	13	11%
HSA (optional)	51	41%
HSA (total replacement of prior health plans)	8	7%
HSA and HRA (both optional)	12	10%
Don't know	0	0%
Total	123	100%

4. In what year did your employer first offer a CDHP?

2002 or prior	8	7%
2003	8	7%
2004	15	12%
2005	52	42%
2006	40	33%
Total	123	100%

5. How many employees participate in your CDHP?

10% or less	58	47%
11-15%	9	7%
16-20%	8	7%
21-25%	2	2%
26-30%	4	3%
31-35%	3	2%
More than 35%	39	32%
N/A—no enrollment yet	0	0%
Total	123	100%

6. What do you believe is the main reason employees do not enroll in your CDHP?

Fear of high deductible/out-of-pocket expenses	81	66%
Still favor traditional plan design over CDHP	8	7%
Lack of knowledge or awareness of CDHPs	9	7%
CDHPs viewed as too complicated	5	4%
Other	19	16%
Total	122	100%

7. If your employer offers an HSA, does the employer contribute money to employees' health savings accounts?

Yes—flat dollar amount of less than \$500 per person	13	11%
Yes—flat dollar amount of \$500 or more per person	28	24%
Yes—based on employee contribution (matching)	6	5%
No—employee contributory only	28	24%
Do not offer an HSA	44	37%
Total	119	100%

8. What is your HDHP (high-deductible health plan) deductible level for an individual?

Less than \$1,000	8	7%
\$1,000-\$1,499	49	41%
\$1,500-\$1,999	24	20%
\$2,000-\$2,499	22	18%
\$2,500 or more	16	13%
Total	119	100%

9. When implementing your CDHP, what communication methods proved most effective in educating employees about CDHP design/operation?
After responding, skip to question 13.

Newsletters	3	2%
Employee meetings	98	80%
Video presentation	1	1%
Booklets/workbooks	8	7%
Intranet/Internet information Web site	3	2%
Other	9	7%
Total	122	100%

Only respondents at employers WITHOUT a CDHP should complete questions 10 through 12.

10. Does your employer plan to offer a CDHP in the near future? (If “yes,” go to question 12; if “no,” go on to question 11 and skip question 12.)		
Yes, we plan to offer one effective later this year.	6	2%
Yes, we plan to offer one effective in 2007.	30	10%
Yes, we are seriously considering offering one but undecided on effective date.	100	32%
No, we are not seriously considering one.	172	56%
Total	308	100%
11. If you answered “no” to question 10, what do you think is the main reason your employer is not planning to offer a CDHP to employees?		
Do not want to expose employees to potentially high claim costs	23	13%
Do not believe “consumerism” will change employee purchasing behavior	9	5%
Do not believe enough employees will enroll to make it worth offering	34	20%
The CDHP will only siphon off healthy employees from our traditional plans hurting overall plan costs.	22	13%
The CDHP concept is too new—will wait to see other employers’ experience before deciding to offer.	52	30%
Currently satisfied with traditional plan designs	27	16%
Don’t know	7	4%
Total	174	100%
12. If you answered “yes” to question 10, what type of CDHP does your employer anticipate offering?		
HRA (optional)	16	12%
HRA (total replacement of existing health plans)	6	4%
HSA (optional)	40	29%
HSA (total replacement of existing health plans)	7	5%
HSA and HRA (both optional)	14	10%
Don’t know	53	39%
Total	136	100%
13. Which statement most accurately reflects your belief about how CDHPs affect employee health care purchasing behavior?		
CDHPs make employees better, more efficient consumers of health care.	208	48%
CDHPs lead employees to forego needed health care to save money.	107	25%
CDHPs have no effect on employee health care purchasing behavior.	36	8%
Don’t know	81	19%
Total	432	100%

14. In five years, how do you believe CDHPs will fit into your employer's benefits package?		
Will cover more than 50% of employees	114	26%
Will cover 25-49% of employees	68	16%
Will cover less than 25% of employees	99	23%
Will not be offered	59	14%
Don't know	94	22%
Total	434	100%
15. In five years, do you believe CDHPs will prove to be successful in controlling health costs for employers that sponsor such programs?		
Yes	169	39%
No	128	30%
Don't know	134	31%
Total	431	100%

Demographics

16. What is the size of your organization?		
500 or fewer employees	134	31%
501-2,000 employees	120	28%
2,001-10,000 employees	99	23%
More than 10,000 employees	78	18%
Total	431	100%
17. Where do most of your employees work?		
Pacific (WA, OR, CA, HI, AK)	36	8%
Mountain (MT, ID, WY, NV, UT, CO, AZ, NM)	20	5%
North Central (ND, SD, NE, KS, MN, IA, MO, WI, IL, IN, MI, OH)	181	42%
South Central (OK, TX, AR, LA, KY, TN, MS, AL)	42	10%
North Atlantic (ME, NH, VT, MA, RI, CT, NY, PA, NJ)	64	15%
South Atlantic (FL, GA, SC, NC, VA, WV, MD, DE, DC)	89	21%
Total	432	100%
18. In what type of industry does your employer primarily operate?		
Manufacturing	131	30%
Wholesale/Retail Trade	23	5%
Transportation	5	1%
Utility	19	4%
Insurance/Finance/Real Estate	42	10%
Professional/Management Services	32	7%
Technology/Media/Telecom	28	6%
Other	153	35%
Total	433	100%