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INSIDE CONSUMER-DIRECTED CARE

News and Analysis of Benefit Design, Contracts, HSAs, Market Strategies and Financial Results

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ICDC/ISCEBS Study: More Employers Offer CDH for '07, but Enthusiasm Is Cooling

The once-explosive growth of consumer-directed health (CDH) plans has slowed a bit, but will likely remain strong during this fall's open-enrollment period, according to a national survey of employee benefits consultants conducted by *ICDC* and the International Society of Certified Employee Benefits Specialists (ISCEBS).

A year ago, respondents had higher expectations for CDH implementation among their largest clients. Respondents then predicted 23% of "jumbo" employers (more than 10,000 employees) would offer an account-based plan for 2006 (*ICDC 10/7/05, p. 1*). That prediction fell short, according to this year's survey results. Respondents said that just 12% of their jumbo clients offered a CDH plan for 2006. They predicted nearly 18% of their largest clients would offer a CDH plan for 2007 (see table, p. 7).

ISCEBS President Richard Storms, a benefits consultant with Mercer Health and Benefits, says he wasn't completely surprised by the somewhat conservative predictions about CDH growth. "Employers are still interested in CDH plans, but they're not moving ahead at the pace predicted by last year's survey results." Storms suggested the tempered enthusiasm could be tied to health insurance rate increases, which are slightly lower percentages than they have been in previous years. *Case in point:* A Milliman, Inc. study released Oct. 25 found that HMO premiums for 2006 increased just 6% from 2005 — the smallest increase in nearly a decade. PPO premiums increased just 4% during the same period. Storms adds that some employers have decided "to launch wellness and behavior-change programs before moving to a high-deductible health plan [HDHP] with an HSA."

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The Final Four: Tax Laws in a Few States Still Don't Jibe With Federal HSA Rules

On Jan. 1, 2004 — the day HSA-based health plans became available — tax laws in 17 states included "structural impediments" that made it difficult to pair a high-deductible health plan (HDHP) with an HSA. That list has since been whittled down to just four: Alabama, Wisconsin, New Jersey and California.

While HSA contributions are exempt from federal income tax, they are not yet exempt from state taxes in those four states. Interestingly, laws in California and Wisconsin allow for tax deductions made to Archer Medical Savings Accounts (MSAs) — the HSA's more restrictive predecessor, says Roy Ramthun, former senior adviser to the White House on health policy. (The Medicare reform law that gave birth to HSAs in late 2003 made MSAs obsolete.) "This has become a political issue [in those four states]. Get us past the [midterm] elections, and it might be a whole new ball of wax," says Ramthun, who recently launched his own firm, HSA Consulting Services.

Three other states — New York, Illinois and Missouri — have HMO deductible limitations and/or mandated benefit impediments to offering an HSA-based plan, according to Mohit Ghose, a spokesperson for the trade association America's Health Insurance Plans.

continued

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Tax Laws Add 'Layer of Complexity'

While industry observers say the rules don't appear to have had a negative impact on adoption rates in those states, they assert that it does add another layer of complexity when it comes time for enrollees to file state taxes.

"The non-conforming state laws will have some impact on adoption, especially on small employers in [those] states," says William Sweetnam, a principal at the Groom Law Group in Washington, D.C. "But remember, not all states followed the federal tax rules on 401(k) [retirement] plans and on flexible spending arrangements, and that really didn't hurt the market. It just adds another layer of complexity." Prior to joining Groom, Sweetnam was benefits tax counsel at the Treasury Dept., where he and Ramthun co-wrote much of the early HSA guidance.

"When state and federal [tax laws] work together, it is neater and certainly is a plus, but I don't think it has been a major deterrent" for HSA-based plans in those four states, adds Richard Cauchi, senior policy specialist at the National Conference of State Legislatures. "I think most people will find that the savings on premiums [for HSA-compatible insurance] and the federal tax exemption outweigh the loss of state taxes," Ramthun adds.

Here's a closer look at HSA-based plans — and tax laws — in Alabama, Wisconsin and New Jersey:

◆ ***Alabama:*** Adoption of HSA-based plans has been low in Alabama largely because the state's dominant insurer, Blue Cross and Blue Shield of Alabama, has done little to promote them, says Michael O'Malley, executive director of the Alabama Association of Health Plans. "The day [the Blues plan] wants HSAs to flourish, they will flourish."

Richard Holman says that despite the inability to exclude HSA contributions from state taxes, there is tremendous interest in HDHPs in Alabama's individual market. Holman is vice president and chief operating officer at i Solutions, Inc., an insurance brokerage firm based in Titus, Ala. He says some of his clients opt for single coverage offered through an employer and cover family members with an individual HDHP. The HDHP coverage tends to be less expensive than is family coverage offered by an employer, he explains.

"They can't open an HSA for their kids, but they might take some of [the premium] savings and open a bank account to cover heath care costs," he explains. Holman says HDHPs from Golden Rule (a division of UnitedHealth Group) and Assurant Health are his top sellers.

◆ ***California:*** Four bills that dealt specifically with the HSA rule over the past two years have either not had a hearing or failed to survive the first policy meeting, says Michael Shaw, California assistant state director for the National Federation of Independent Businesses (NFIB). Early this year, Shaw says, NFIB co-sponsored a state Senate bill with the California Medical Association that sought to tweak California's HSA tax rules. "We felt it had a chance to go places, but ultimately it didn't pass the policy committee."

Last January, Gov. Arnold Schwarzenegger (R) included a change to the state tax law in his 2006-2007 budget proposal, and again in a revised proposal the following May. "What it comes down to is two major groups — labor unions and those that would like to see state-run universal coverage — oppose this issue," Shaw says. "The plan moving forward will be to introduce [new] legislation. " If the governor is re-elected by a wide margin next month, there is a better chance that the tax law will be changed, he adds. Other industry observers in California say they are not optimistic that the HSA tax status will change any time soon.

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Managing Editor, Steve Davis; Assistant Editor, Eve Collins; Executive Editor, James Gutman; Publisher, Richard Biehl; Marketing Director, Donna Lawton; Fulfillment Manager, Laura Baida; Production Coordinator, Melissa Muko

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◆ *New Jersey:* A longstanding state law required insurers to provide below-the-deducible coverage for tests that screen children for levels of lead in their blood. The health coverage also must include any necessary medical follow-up and treatment for children determined to have lead poisoning. Those rules made health plans incompatible with HSAs, which don't allow non-preventive health benefits to be covered outside of the deductible. Last December, the state passed a law that exempted HSA-compatible health plans from that rule, says Wardell Sanders, acting president of the New Jersey Association of Health Plans. However, HSA contributions in the state remain taxable. The governor and leaders of both houses of the state government are Democrats. This, combined with a recent state budget crisis, has made it difficult to pass a law that would change the tax law, Sanders says. And while the New Jersey legislature is still in session, a Republican bill that addresses HSA tax laws has not moved out of committee. There's little chance any rules will get changed before the end of the year, Cauchi says.

◆ *Wisconsin:* "There have been a number of proposals to bring Wisconsin's [tax laws] in line with federal law, including the most recent legislative session," says Phil Dougherty, deputy director of the Wisconsin Association of Health Plans (WAHP). Despite legislation that has been introduced and reintroduced by state lawmakers to align Wisconsin's tax laws with the federal rules, Gov. James Doyle (D) has vetoed all the bills that passed. "His message seems to be that HSAs are a benefit to too narrow of a population…the population that already has money" to invest in an HSA, Dougherty adds. WAHP's 18 member health plans cover more than 1 million people in the state, and all of them offer an HSA-compatible product. Dougherty says large national insurers, such as Humana Inc., WellPoint, Inc. and UnitedHealth Group, are selling HDHPs in "much greater volume" than are the state's smaller health system-based plans.

While the governor opposes HSA-based plans, he's not opposed to tax breaks that ease the cost of health coverage. Last year, Doyle signed a tax cut that made health insurance premiums tax deductible for families that pay the entire cost of their own insurance. This summer he proposed making health insurance premiums tax free for all Wisconsin citizens. This expansion, according to his office, would benefit more than 637,000 Wisconsin families and individuals. Under the proposal, a family that pays $300 a month for insurance would save about $236 a year from this tax change. State Rep. Mark Green (D.), who is running against Doyle in this fall's election, says he will, if elected, make HSA contributions exempt from state taxes.

"We believe that 46 states cannot be wrong," says Rob Guilbert, a spokesperson for Assurant Health, a Milwaukee-based health insurer that sells HSA-compatible plans nationally.

Contact Ghose at mghose@ahip.org, Ramthun at roy@hsaconsultingservices.com, Holman at rholman@isolutionsinc.net, Dougherty at pdougherty@tds.net, Cauchi at dick.cauchi@ncsl.org or O'Malley at momalley@alhealthplans.org. ✧

Experts Clarify HRA, HSA Rules For Domestic Partners, Spouses

A quirk in the rules that govern HSAs allow a non-tax-dependent domestic partner — covered by an employee's high-deductible health plan (HDHP) — to open a separate HSA to cover medical expenses and to contribute up to the annual deductible amount. For domestic partners, the combined contribution in the two HSAs could be double what a married couple can legally contribute.

"If you read the statute literally, it basically says that certain domestic partners can double dip," says Jeff Munn, a benefits consultant in the Washington, D.C., office of Hewitt Associates. However, while an employee can use his or her HSA dollars to pay for a spouse's medical expenses, those HSA dollars cannot be used for a non-tax dependent domestic partner, he cautions.

Here's how it works: An employee covered by an HDHP with family coverage can make an annual HSA contribution up to the amount of the annual deductible (maximum of $5,650 for 2007). While a spouse can contribute to the employee's HSA — or open a separate account — the combined annual contribution in one or both accounts cannot exceed the annual deductible amount. In the case of domestic partners who are not tax dependents, however, both the employee and the domestic partner can open an HSA, and both can contribute up to the deductible amount.

"It is kind of a glitch," says Chip Kerby, an employee benefits attorney with the law firm McDermott, Will and Emery in Washington, D.C. "If an employee and a domestic partner are both covered [by an HDHP] and eligible to make HSA contributions, they can each make contributions up to the maximum HSA contribution limits," he says.

The second issue is whether the domestic partner qualifies as a tax dependent under the expanded definition in Section 105(b) of the Internal Revenue Code. If the domestic partner is a tax dependent, he or she can be covered by the employee's HDHP, which typically is paid for with pretax dollars, adds John Hickman, an employee benefits attorney in the Atlanta office of Alston & Bird. However, if the domestic partner is not a tax dependent, the HDHP premiums attributable to the

domestic partner must be paid for with post-tax dollars. And any employer subsidy for health coverage provided to the domestic partner must be included in the employee's taxable income.

HRAs Can Be Taxable for Domestic Partners

A Revenue Ruling released Sept. 1 by the IRS (2006-36) clarifies that if an HRA holder dies, the remaining HRA balance can be used by a covered spouse, or by tax dependents, to pay for qualified medical expenses. However, if the balance can be transferred to someone who is not a spouse or tax dependent (e.g., a non-tax-dependent domestic partner), all of the HRA funds become taxable, even if those dollars are used only for medical expenses.

"So under that rule, the HRA goes from being a great pretax account to something that's really no better than taxable cash for a domestic partner," says Munn. Most employers, however, require that unused HRA balances revert back to the employer in the event of an employee's death, Hickman adds.

If an employee has an HRA-based plan and provides health coverage to a domestic partner, there are no problems if the domestic partner is a tax dependent, Hickman explains. But if that person is not a tax dependent, then the value of the employer-paid subsidy for health coverage is considered income and is taxable.

"A lot of people first looked at this ruling and interpreted it to mean that they can't [use an HRA] to provide coverage to domestic partners. But the IRS was looking only at coverage that is tax free," says Hickman.

To see a copy of Revenue Ruling 2006-36, visit www.irs.gov/pub/irs-irbs/irb06-36.pdf. ✧

New Study Finds Mixed Reviews Among Early CDH-Plan Adopters

An extensive study of CDH plans and the effect they've had so far on the cost and quality of health care finds mixed results among early adopters.

While the report — the lead article of a seven-article series on CDH plans — concludes that account-based CDH plans can lead to lower utilization of medical services among enrollees, it's too early to tell if such reductions will have a negative effect on their health in the long run. The report, released Oct. 24 by the health policy journal *Health Affairs*, is the first part of a four-year, $4 million RAND Corp. study funded by the Robert Wood Johnson Foundation and the California HealthCare Foundation.

Melinda Beeuwkes Buntin, a health economist with Santa Monica, Calif.-based RAND and the report's lead author, tells *ICDC* that she was "heartened that we didn't find more evidence of adverse selection" while researching the report. CDH critics have long argued that CDH plans will attract an employer's healthiest members and leave the sicker, more costly patients enrolled in traditional plans. Based on myriad studies, the report's authors found little age difference between CDH enrollees and those covered by more traditional plans. However, CDH participants tend to have higher incomes than those enrolled in other plans, according to the report.

While soaring health coverage costs often prompt employers to consider CDH plans, Buntin says many of the employers she interviewed saw CDH as a way to get employees to take a more active role in their health. "The thing I have heard most often [from employers] is a desire to get employees engaged and aware of their health care costs," she says. "They want to engage employees and hope that will lead to savings."

Here's a look at some of the report's key findings:

◆ ***CDH enrollees might seek more preventive care:*** Several studies examined by the report's authors found increased use of preventive care — and increased compliance with prescribed treatment regimens — among CDH enrollees. "One study also finds that those in such plans are more likely than others to forgo care for less serious health problems but are not more likely than others to forgo needed care," according to the report. However, the researchers also found several studies that show CDH enrollees "are significantly more likely to adopt cost-saving behavior that might have adverse consequences."

◆ ***Premium savings is likely:*** Researchers found anecdotal evidence that CDH plans help lower health coverage costs. The study found that savings of at least 10% relative to expected trends were typical among employers that introduced high-deductible health plans. Some employers reported savings as high as 20% to 25%, according to the report.

◆ ***Cost and quality data are still too sparse:*** While health insurers are working to arm CDH enrollees with information about health conditions and with cost and quality data about providers, the tools tend to be limited. "Less than a sixth of enrollees said that information was available to help them with choices, and only half of those said that they used [the information] to make decisions," according to the study. CDH enrollees feel that they lack sufficient information to support their decisions, particularly in the area of costs, the study concludes.

The entire article, and a package of related articles about CDH, can be found at http://content.healthaffairs.org/cgi/content/full/hlthaff.25.w516/DC2. ✧

Experts: CDH, Wellness Yields Less Costly, Healthier Members

As much as 70% of all health care costs is related to personal health behaviors.

But a CDH plan that includes financial incentives can keep some of those expenses in check, says Michael Parkinson, M.D., chief health and medical officer of CDH firm Lumenos, Inc., a subsidiary of WellPoint, Inc. Parkinson explained how employers can control health coverage costs by targeting chronically ill and at-risk employees at an Oct. 11 audioconference sponsored by *ICDC*.

"You don't control costs by controlling costs. You control costs by addressing risk factors," Parkinson told attendees. "And while we can't control age, we can have a strategy that keeps low-risk people at the low-risk tier and help medium- and high-risk people move to lower tiers over time." A reduction in risk factors, he added, can lead to as much as a 30% reduction in claims within three years, Parkinson said.

Wellness Program Saves $600,000

Mike Parker, director of human resources at Richmond (Va.) Behavioral Health Authority (RBHA), told attendees that a wellness program he helped launch led to a $600,000 savings in employer-paid premiums in the first two years. It also resulted in a 40% decrease in prescription drug use among enrollees. Since the program was launched four years ago, RBHA's 420 employees have collectively lost about 2,000 pounds, he added. RBHA is a public entity that provides mental health, mental retardation, substance abuse and preventive services to the citizens of Richmond.

continued

INDUSTRY NEWS

◆ **Health Net of California says it has launched an HSA-based product — EZAccess HSA — aimed at individuals who do not have employer-sponsored health insurance.** It also is available to employers of any size. Health Net's HSA administrator partner is Wells Fargo Bank. HDHP enrollees who open an HSA through Wells Fargo receive two HSA debit cards that can be used to pay for medical services with HSA dollars. Wendell Gurley, vice president of product development, tells *ICDC* that the cost of the EZAccess product is about 15% less than the cost of a more traditional Health Net PPO. Health Net of California is a subsidiary of Health Net, Inc., which serves nearly 2.3 million members statewide. Contact Brad Kieffer at brad.kieffer@healthnet.com.

◆ **Aetna, Inc. says it has launched a health reimbursement arrangement (HRA)-based HMO in California.** Unlike most HRA-based PPOs — which require the enrollee to pay the full cost of services until the deductible amount — the Aetna HealthFund HMO, the company says, features office-visit copayments. Preventive care and most routine professional services, including doctor visits and diagnostic lab tests and X-rays, are covered at 100% in network after applicable copayments. Deductibles for the new plan range from $500 to $1,500 for individuals and $1,000 to $3,000 for families. The annual employer HRA contribution ranges from $250 to $1,000 for individuals and from $500 to $2,000 for families. The HealthFund HMO product is being sold to employers with a minimum of 50 employees for an effective date of Jan. 1, 2007.

◆ **New York City-based bWell International, a health benefits education and consulting company, says it has launched a new CDH education tool.** The nine-minute video tutorial can be used for broker marketing, and for employer and employee education and communication at open enrollment and throughout the year. The tutorial can be purchased and downloaded in a variety of formats via bWell's Web site. It also is available as a CD or DVD. Visit www.bwell-inc.com for more information.

◆ **Fiserv Health, a business group of Milwaukee-based Fiserv Inc., says it has acquired Innovative Cost Solutions (ICS),** a firm that negotiates health care claims, specifically from non-network providers. ICS will continue to operate out of its Chicago headquarters and will retain its name and staff, according to Fiserv. Financial details of the transaction were not disclosed. Fiserv Health's business includes CareGain, a CDH software provider; ppoONE, a claims repricing and data management organization; JW Hutton, a subrogation and overpayment recovery organization; and BP Inc., a managing general underwriter for stop-loss products. Visit Fiserv at www.fiserv.com.

Incentives Can Help Change Behavior

Here's a look at a few strategies that the audioconference speakers recommended to promote healthy behavior and slash health coverage costs:

◆ ***Make an investment in health:*** RBHA has a $32 million annual budget and — prior to launching its wellness program — spent $1.2 million a year on health coverage premiums. The firm made an initial $22,000 investment to turn a vacant room into a gym and budgeted $28,000 to cover the salary of a part-time personal trainer. Parker acknowledged that few employers would be willing to make such an investment in the health of employees. But an in-house program might be the only way to convince employees to exercise and adopt healthier behavior, he said. Employees who are self-conscious about their weight, for example, typically won't join a gym even if the employer offers membership discounts or even free memberships. However, they will use an on-site fitness center, especially if it's actively promoted and used by company leaders, he said.

◆ ***Target the "big three" risk factors:*** Obesity, tobacco and sedentary lifestyles lead to more health problems than do any other lifestyle factors, Parkinson said. Tobacco cessation programs, he explained, are "one of the most effective preventive services" that a health plan can offer. However, such programs typically are "an afterthought" for most health plans and employers, he said.

◆ ***Offer cash incentives:*** Unlike more traditional PPO and HMO plans, CDH plans are uniquely tailored for incentives, Parkinson said. Employers with HRA-based plans can offer additional HRA dollars to employees who enroll in smoking-cessation and weight-loss programs. Such financial incentives also can be used to encourage preventive care. T-shirts and frequent-flyer miles don't work nearly as well as do cash incentives, he said.

◆ ***Compare out-of-pocket costs:*** Chronically ill employees won't consider a CDH plan unless the maximum out-of-pocket costs are at least comparable to those of the more traditional options. To make the CDH plan more attractive, Parkinson suggested that employers offer a $100 HRA incentive if they complete a health risk assessment. "The plan needs to be designed deliberately to address the chronically ill, and [the plan-design features] must be effectively communicated" to those employees. Chronically ill employees can earn an additional $100 if they sign up with a personal health coach. Those employees can earn as much as $200 more after the completion of a four-to-six-week program that teaches them how to comply with their illness.

◆ ***Use the term "graduation" for those who complete coaching program:*** Lumenos uses the word "graduate," when people complete the personal health coach program. "Graduation connotes a level of gravity.…It's hard work," Parkinson said. "Our employers will not just give [employees] $200 for looking at a brochure and making one phone call."

Contact Parkinson at mparkinson@lumenos.com or Parker at parkerm@rbha.org. ✧

To purchase a CD recording of AIS's Oct. 11 audioconference, "Consumer-Directed Care and Chronic Conditions: How to Design Plans That Target High-Cost Members," please call (800) 521-4323.

Wisconsin Groups Pick Destiny Health for Wellness Program

A group of Wisconsin businesses that share insurance risk have selected CDH firm Destiny Health as their insurance carrier for three years beginning Jan. 1, 2007.

Leaders of the Healthy Lifestyles Cooperative of Brown County say they wanted a health plan that included an integrated wellness component as a way to improve employee health and reduce future health coverage costs. Destiny, based in Chicago, is the U.S. subsidiary of South African company Discovery Health.

The cooperative was started by two entities — the Green Bay Area Chamber of Commerce and the Non-Profit Resource Group of Brown County — that were "frustrated by the increasing costs of insurance," says Phil Hauck, president of the chamber of commerce. Members of the groups were seeing 15% to 35% annual premium increases for health coverage, Hauck tells *ICDC*.

After meeting with members, the cooperative ended up with 230 employers (about 7,000 covered lives) that wanted to find a solution to soaring health coverage costs, Hauck says. All of the employers have 150 employees or fewer; about half of the companies have fewer than 10 employees, he adds.

"Destiny gave us a far better package. Nobody else was aligned with our mission," Hauck says. Of the other health plans the cooperative talked to, none were integrating wellness into their programs, but instead offered an "add-on or had a wellness provider," he explains.

Destiny's Vitality Program, which rewards employers and their employees for improved wellness activities, was "the first thing that hit" the cooperative members, says Rob Gilmore, the Destiny sales manager responsible for the Wisconsin marketplace. The cooperative was focusing on "developing healthy lifestyles, [and] that's a very important element of the product that we market," Gilmore says.

The cooperative members will be offered HSAs or HRAs paired with plans that have deductibles of $1,500, $2,500 or $5,000, Gilmore says. Member employers are required to remain in the cooperative for three years. If they opt out, they must pay a penalty of 20% of their cooperative premium for the remainder of the contract period.

The second and third years of the contract are tied to participation in Vitality, which will affect premium rates, Gilmore explains. "This is how employers really have more control over what their renewal increase will be by getting their people healthier," Gilmore says.

For more information, contact Hauck at phauck@new.rr.com and Gilmore through Eileen Rochford at (773) 463-2480. Read more about the cooperative at www.titletown.org/default.asp. ✧

Big Employers Likely to Fund HSAs

continued from p. 1

The second annual survey — conducted between Sept. 28 and Oct. 17 — is based on responses from 58 benefits consultants from more than 20 firms, including Aon Consulting, Towers Perrin, Watson Wyatt and Mercer. The respondents represent 6,650 employers.

While survey respondents said 11.4% of their smallest employer clients (fewer than 500 employees each) offered a health savings account (HSA)-based plan this year, the percentage is expected to jump to 17.5% for 2007. By contrast, respondents said just 3.3% of their largest clients offered an HSA-based plan this year. For 2007, that percentage is expected to climb to 6.9%. Jumbo employers, however, are far more likely to contribute

HRAs Are Favored by Jumbo Employers, but Full Replacements Are Still Rare

Number of Employees	Offered HRA-Based Plan for 2005*	Offered HRA-Based Plan for 2006	Will Offer HRA-Based Plan for 2007	% of Those That Will Be Full Replacements	Will Offer HRA- and HSA-Based Plans for 2007
Fewer Than 500	1.5%	3.6%	6.0%	22.3%	1.9%
500 to 2,500	5.8%	5.0%	7.8%	15.3%	2.8%
2,501 to 10,000	4.6%	5.5%	6.2%	9.4%	3.8%
More Than 10,000	8.8%	8.4%	10.9%	6.9%	5.8%

*Based on 2005 survey results
SOURCE: Compiled by *ICDC* and ISCEBS, October 2006

Small Employers Embrace HSAs, but Large Employers Are More Likely to Contribute to Accounts

Number of Employees	Offered HSA-Based Plan for 2005*	Offered HSA-Based Plan for 2006	Will Offer HSA-Based Plan for 2007	Offered an HSA Contribution in 2006	Will Offer an HSA Contribution in 2007
Fewer than 500	2.5%	11.4%	17.5%	61.7%	61.5%
500 to 2,500	3.7%	4.6%	7.0%	50.0%	46.0%
2,501 to 10,000	1.8%	4.1%	6.1%	54.0%	71.1%
More Than 10,000	4.6%	3.3%	6.9%	40.6%	81.4%

*Based on 2005 survey results
SOURCE: Compiled by *ICDC* and ISCEBS, October 2006

funds to the employee-owned accounts. Of employers that intend to offer an HSA-compatible plan for 2007, 81.4% of jumbo employers will offer employees an HSA contribution — up from just 40.6% last year. By contrast, consultants say 61.5% of their smallest clients would contribute HSA dollars in 2007 — virtually unchanged from 61.7% this year.

Employers with fewer than 500 employees are the most likely to eliminate their more traditional health plans in favor of CDH plans. Of small employers that intend to offer an HSA-based plan, 28% will be full replacements, according to survey respondents. Among the largest employers, just 3.7% said options would be limited to HSA-based plans. Of the jumbo employers that will offer an HRA-based plan, 6.9% will be full replacements.

Rx Costs, Communication Remain Top Barriers

Several survey respondents said the inability of human resources departments and company leaders to effectively communicate the plans remains one of the key impediments in the adoption of HSA-based plans. Employees must be able to access tools to determine if there are alternative drugs or treatments available. For example, "we want every employee to be checking the cost of antibiotics before they take their kids in for ear infections," says Eric Hammill, a consultant with The Rains Group, Bingham Farms, Mich. "Carrier tools, customer service and reaching out to employees to help [them] control conditions are what give employees the tools to make these decisions."

Others said their employer clients didn't like the rule that requires that the cost of pharmaceuticals be included in the deductible for HSA-based plans. Some respondents suggested that employers might be more receptive to the plans if they could carve out prescription drugs used to treat chronic conditions. "Nobody wants to tell their employees that they have no [prescription drug] coverage until they meet a high deductible," said one respondent.

Randy Abbott, a consultant in the Boston office of Watson Wyatt, predicts that a growing number of employers will incorporate strategies that include both HRA- and HSA-based options. An HRA paired with a lower-deductible health plan, he suggests, could be offered as a more affordable option for employees "who may not be able to make the leap into an HDHP." According to survey respondents, 5.8% of jumbo employers will offer HRA- and HSA-based options for 2007.

Contact Storms at rick.a.storms@mercer.com, Savan at jay.savan@towersperrin.com, Abbott at randall.abbott@watsonwyatt.com or Hammill at eric.hammill@therainsgroup.com. For more information about the survey results, contact *ICDC* Managing Editor Steve Davis @ sdavis@aispub.com. ✧

Customer Service, Experience, Web Tools Count When Employers Are Choosing CDH Plans

Criteria Considered by Employers When Selecting a Health Plan/Carrier for CDH*	Not Important at All	Somewhat Important	Moderately Important	Very Important	Extremely Important
Customer Service	4%	2%	13%	33%	49%
Consumer Web Tools	2%	4%	24%	38%	33%
Experience	0%	6%	15%	56%	24%
Account Service	2%	4%	25%	41%	29%
Health Coaching Program	5%	5%	44%	36%	9%
Disease-Management Program	2%	13%	25%	40%	20%
Administrative Fees (self-insured employers)	6%	29%	25%	31%	8%

*Respondents were asked to rate the importance of each item on a scale of 1 to 5.
SOURCE: Compiled by *ICDC* and ISCEBS, October 2006

Ability to Control Costs Continues as Top Reason Employers Offer CDH

What Do Employers Most Hope to Achieve Through a CDH Plan?*	Not Important at All	Somewhat Important	Moderately Important	Very Important	Extremely Important
Control Health Coverage Costs	2%	4%	9%	24%	62%
Improve Employee Satisfaction	9%	20%	36%	22%	13%
Address Quality-of-Care Concerns	20%	27%	27%	20%	5%
Reduce Administrative Burdens	33%	33%	22%	7%	4%

*Respondents were asked to rate the importance of each item on a scale of 1 to 5.
SOURCE: Compiled by *ICDC* and ISCEBS, October 2006

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