AMI Market Transition Insights (MTI) Series

**CDHPs vs. HDHPs**

**Background**
A High Deductible Health Plan (HDHP) is a health insurance plan with lower premiums and higher deductibles than a traditional health plan. A Consumer Driven Health Plan (CDHP) also has lower premiums and higher deductibles; however the deductible is improved with a funding account.

Consumer-Directed Health Plans (CDHPs) consist of two components:

- A High Deductible Health Plan (HDHP) is a health insurance policy that requires consumers to pay an amount of money—the "deductible"—before coverage kicks in. The goal of the HDHP is to cover more expensive, emergency medical care. Monthly premiums are lower than those in traditional health plans. (HDHPs can also be purchased outside of CDHPs.)
- A medical savings account to cover routine medical costs.

A CDHP typically is offered with a combination of the following tax-favored account types:
- Health Savings Account (HSA), which is the predominant account used with CDHPs
- Flexible Spending Arrangement (FSA)
- Health Reimbursement Arrangement (HRA)

To be eligible for an HSA, consumers must have a HDHP with a deductible set by Federal Law at a minimum of $1,300 for an individual and $2,600 for a family plan. Consumers who have an HSA cannot carry a traditional plan at the same time.

Health Savings Accounts are private tax-free savings accounts that can:
- Earn typical savings interest at 1%-4%, depending on the bank that sponsors it;
- Be invested in stocks, bonds or mutual funds.
The money in an HSA is used to pay for:

1. Medical expenses until the health plan's deductible is met; and
2. Out-of-pocket expenses once the plan starts paying its portion of the health care bills. The maximum amount of out-of-pocket expenses for which an HSA-qualified HDHP holder is liable:

- $6,450 for an individual
- $12,900 for a family

3. Or, consumers can set aside these savings for future health care needs.

HSAs are designed to be used to pay for "qualified medical expenses", expenses "primarily" used for medical care that is not covered by the HDHP.

CDHPs are similar to, but not equal to high deductible health plans in that an HDHP may or may not offer a tax-advantaged savings account. CDHPs always combine a high deductible with a tax-favored savings account.

The main feature of CDHPs is that they offer purchasers lower premiums than other plan types and enrollees usually pay a substantially higher average deductible.

- The health benefit usually provides medical and prescription drug benefits.
- Preventative services are not subject to the deductible.
- They are often associated with PPO plans and there is a relatively low level of utilization management.
- Enrollees may be eligible to use tax-advantaged accounts, which allow them to make tax-free withdrawals to pay for covered medical care that's not covered by the plan.
- CDHPs also have a maximum limit for the enrollees' out-of-pocket expense.
Health plans and employers have a choice whether or not to carve out the pharmacy benefit from the medical benefit. When the pharmacy benefit is separate from the medical benefit, the enrollee in a CDHP may or may not have a deductible and the out of pocket expenses for generics and brand drugs will be determined by the PBM formulary.

CDHPs are not equal to High Deductible Health Plans. HDHPs combine a high deductible with a Health Savings Account (HSAs). HDHP is distinguished from CDHP by the following features:

- Tax-advantaged fund may not allow for employee contributions
- Tax-advantaged fund will not necessarily ‘belong’ to employee, so assets aren’t automatically theirs if they leave employment
- Benefit plan may not meet Internal Revenue Service / Dept. of Labor standards for HDHP (e.g., deductible amount may be lower; CDHP may require use of fund assets first, where a HDHP may not).

**CDHPs vs. HDHPs Chart**

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<thead>
<tr>
<th>Feature</th>
<th>CDHP</th>
<th>HDHP</th>
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<tr>
<td>Lower premiums</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Higher deductible</td>
<td>X</td>
<td>X</td>
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<td>Improved deductible with funding account</td>
<td>X</td>
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<tr>
<td>Tax-advantaged fund allows for employee contributions</td>
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<tr>
<td>Tax-advantaged fund ‘belongs’ to employee</td>
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Current Market Landscape

With a consumer-directed health plan, employers are offering a high-deductible health plan that is generally tied to some form of personal health care spending account and possibly an employer contribution that can be used toward the deductible.

Graph – HDHP Enrollment

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits

There has been a sharp increase in offerings of CDHPs by employers.
Graph – Firms Offering HDHPs

Graph - There has been a sharp increase in offerings of CDHPs by employers.

Graph - Nearly 17.4 million Americans are covered by Health Savings Account (HSA)-eligible insurance plans, an increase of nearly 12 percent since 2013, according to a census by America's Health Insurance Plans (AHIP). The census showed that enrollment in HSA plans grew on average 15 percent annually since 2011.
Future Market Drivers

Employees, as empowered consumers of medical care, will become...

By using their own money,...

Employers are switching to consumer-directed health plans (CDHPs)

Graph - The majority of large employers reported...
AMI Insight

CDHPs help employers share healthcare costs and foster behavioral changes by bringing the enrollee into the financial decision-making process with the high deductible.

The Cadillac tax takes effect in 2018 and employers plan to use consumer-directed health plans as a way to avoid paying the tax.

Medical benefits play a stronger role than pharmacy benefits play in CDHPs. PBMs have had a large role in determining coverage strategy for Employers and their EBCs.

Department of Treasury guidelines indicate that pharmacy coverage must be included under the deductible in an HSA. There is a gray area with prescription drugs considered preventive, which are not restricted by these guidelines and can be covered outside the deductible. Employers, often overwhelmed by the health benefit process, rely on their PBMs for recommendations.

Employers are looking more for tools to provide their employees to help them make decisions on drugs as they take on more accountability for those decisions.

Employers must also develop a strategy when designing their pharmacy benefit to allow employees to make smarter pharmacy choices.

Partnerships between healthcare stakeholders such as pharmacy chains and companies that manufacture wearables, at-home biometrics, virtual visits, and app tools, will grow quickly.

Employees in the CDHP with pharmaceuticals subject to the deductible use more low cost drugs and shift the timing of drug purchases to periods with lower cost sharing. The trend is to reduce overall drug utilization.

Employees possess some awareness of benefit design and availability of low cost drugs, but also either discount or are not cognizant of the adverse consequences of poor adherence.
Sources

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AMI Market Transition Insights (MTI) and Advisory Call (MAC) Series

Market Transition Insights (MTI) reports, available for $195, identifies leading pharmaceutical and healthcare issues and the implications affecting healthcare stakeholders.

Reports include:
- Background
- Current Market Landscape
- Future Market Drivers
- AMI Key Insights

Market Advisory Call Service (MAC), available for $200, offers purchasers the opportunity to participate in a 30-minute consulting call on CDHPs vs. HDHPs with AMI’s Principals, Dr. Randy Vogenberg and John Santilli.

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