

Citing Cost Concerns, More Workers Leave Firms' Health Plans

BY VANESSA FUHRMANS

FEWER AND FEWER workers can afford what once was the best bet for generous health insurance: the benefits offered by the country's biggest employers.

Large companies—those with at least 1,000 employees—have long been considered the best means of ensuring good, affordable medical benefits, even as soaring health-care costs have pushed more smaller businesses to drop coverage. While the number of small companies providing health benefits has fallen dramatically in recent years, 98% of these bigger companies still offer them.

But in recent years these big companies have

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Report on One Year of Experience with HSAs/HDHPs

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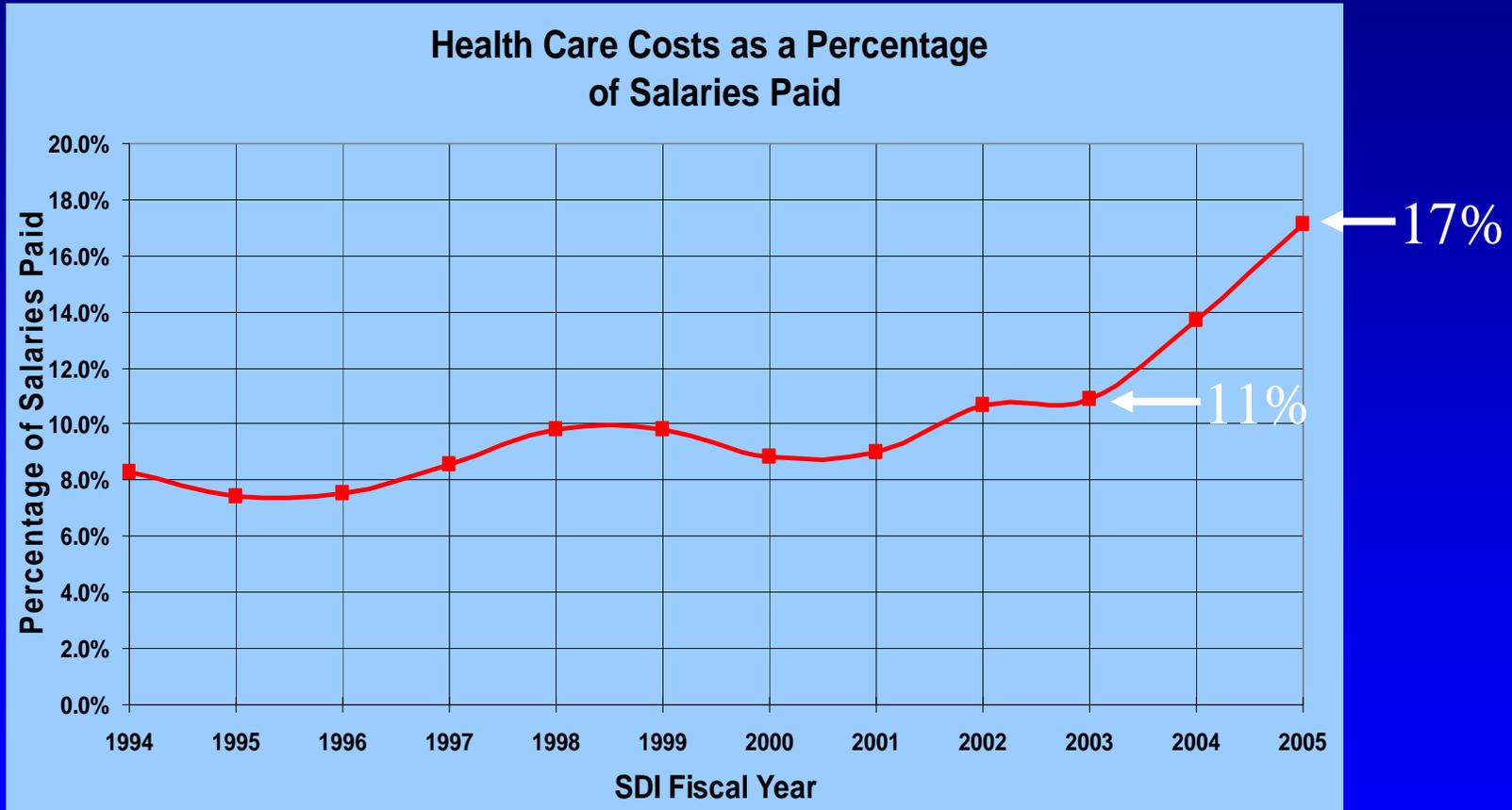
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Information on Silicon Designs

- **High Tech Electronics**
- **Started in 1983**
- **Products are Micromachined Sensors Using Integrated Circuit Technologies**
- **30 Full Time Employees**
- **100% Company-Paid Family PPO Plan (Regence Selections) from 1985 to 2005**

History of Company Health Care Costs to 2005



SDI Fiscal Year Ends in June

2003-2005 Increases Were Due to 1) Rate Increases and 2) Change in Employee Mix

Topics

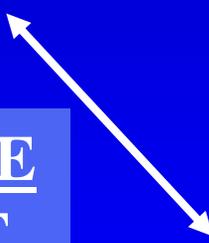
- **Describe the Experiment**
- **Analyze Expected Employee Out-of-Pocket Expenses**
- **Describe Actual Results**
 - **Attitude About HSAs Initially and After One Year of Experience**
 - **HSA Residuals**
- **Problems and Opportunities for Improvement**

Comparison of Two Health Care Approaches

Traditional PPO

- Regence Selections
 - No deductible
 - Max. Out of Pocket (OOP)
\$7,500/\$2,500 Family/Individual
 - Employee Pays \$20 Copay +
20% Coinsurance
- Est. Cost to SDI: \$174,757

ALMOST THE
SAME COST



HDHP + HSA

- HDHP (\$88,487)
 - \$5,000/\$2,500 deductible
 - \$500 preventive deductible
waiver per person
 - Employee pays 20% after
deductible is met with
\$10,000/\$5,000 OOP Max.
- HSAs at HSA Bank (\$88,000)
 - \$4,000 Family
 - \$2,000 Individual
- Est. Total Cost to SDI: \$176,487

Costs shown are 8/06 employee mix using 8/05 rates

Moved to HSA/HDHP in August 2005

- **In June-July, 2005**
 - Evaluated Insurers, Policies and Rates
 - Analyzed Expected Employee OOP Expenses with Alternatives
 - Reviewed New Plan at Employee Meeting
 - Opened Health Savings Accounts (HSAs) for 25 Employees
 - Contracted for a \$5,000/\$2,500 High Deductible Health Plan (HDHP) effective August 1, 2005 with Premera
 - Used Cost Savings (vs. PPO) to Company Fund HSAs to 80%
 - Offered Loans for HSA Start Up Expenses in the First Year
 - Provided Continuing Education on Minimizing Health Care Costs
- **After One Year ending July 31, 2006**
 - Surveyed Employees
 - Analyzed the Results

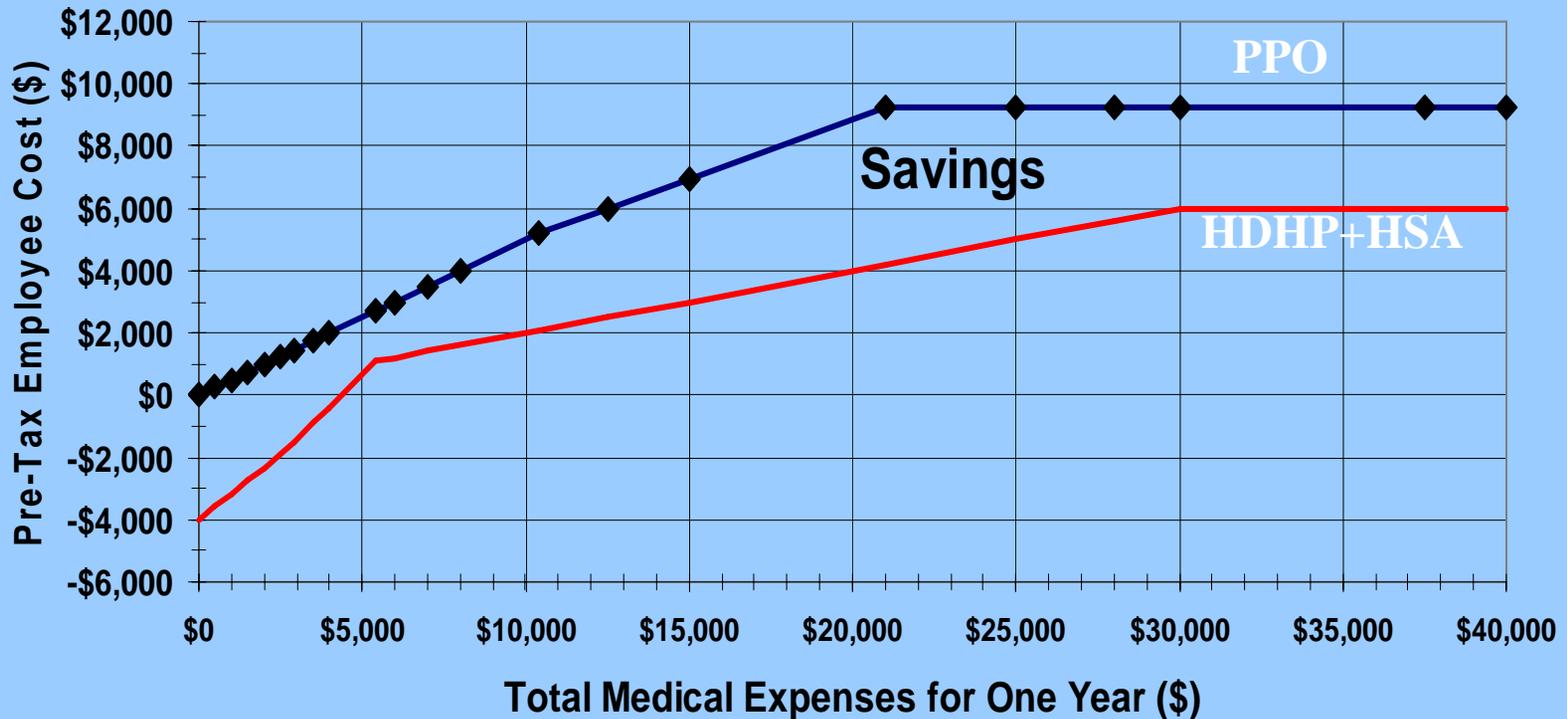
Analyze Employee Out-of-Pocket Costs as a Function of Total Medical Expenses

Assumptions

- Pre-tax dollars are used for comparison
- Effective tax rate of 27.65% and \$50,000 AGI
 - 7.65% FICA
 - 20% Income Tax Rate (Average of 15% and 25%)
 - \$3,750 Federal Tax Medical Deductibility Limit
- HSA (pre-tax) dollars are used to pay for the deductible and coinsurance (HDHP)
- Deductible is waived for preventive, which is 20% of total medical costs to a maximum of \$500 per family or individual (HDHP)
- One \$20 copay for each \$100 of medical costs (PPO)
- First \$3,750 used is post-tax, remainder is post-FICA (PPO)
- Company contribution to HSA is considered a negative OOP expense to the employee (HDHP)

Analysis Results for Family Plans

Family -- Out of Pocket Costs (Lower is Better)

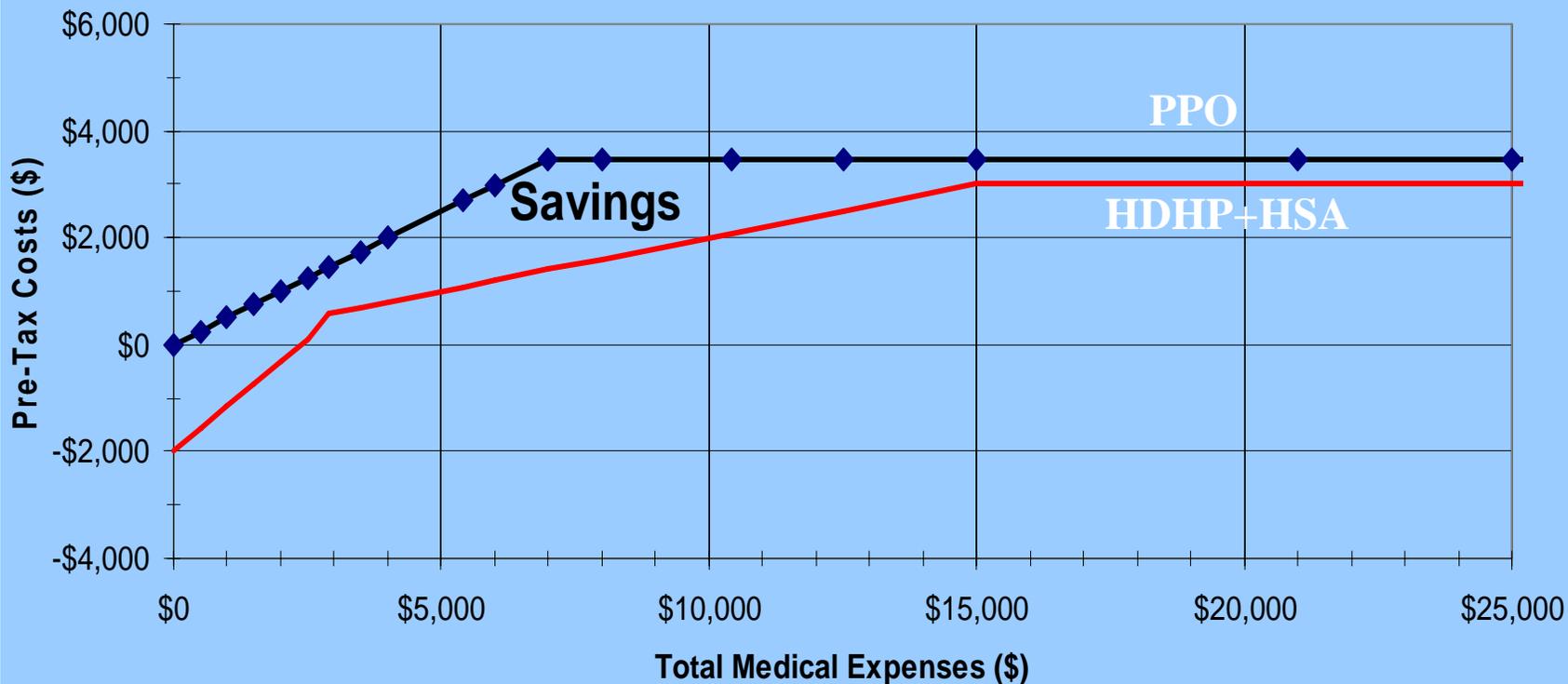


◆ Selections PPO (\$20 Copay + 20%, \$7500 OOP Max.)

— HSA (\$4000) + HDHP (\$5000 deductible, 20% to \$10,000 OOP Max.)

Analysis Results for Individuals

Employee Only -- Out of Pocket Costs (Lower is Better)



- ◆ Selections PPO (\$20 Copay + 20%, \$2500 OOP Max.)
- HSA(\$2000) + HDHP (\$2500 deductible, \$5000 OOP Max.)

Explanations for the Savings with HSA/HDHP Compared with PPO

- **More Cost-Sensitive Consumers**
- **Healthier Life Styles**
- **Higher Marginal Cost up to HDHP Deductible Limit**
- **OOP Limit is Reached at a Higher Total Expense for HDHPs (More “Skin in the Game” with HSAs)**
- **Tax Differences**

Employee Survey by Salary Quintile

<u>Salary Quintile</u>	<u>Lowest</u> <u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>Highest</u> <u>5</u>
Average Initial Opinion	3.4 ↓	4.6	4.4	3.4	4.8
Average Opinion After One Year	5.0	4.8	4.4	3.0	5.0
Average HSA One-Year Residual	73%	67%	74%	37%*	87%

Opinion Questions

- 1) “When we started last year, what was your opinion of HSAs and high deductible health plan, compared with the previous Regence (PPO) plan?” (Opinion was taken after the end of the year.)
- 2) “After one year, what is your current opinion, compared with the previous Regence plan?”

Opinion Values

1 = Much Less Valuable

2 = Slightly Less Valuable

3 = About the Same Value

4 = Slightly More Valuable

5 = Much More Valuable

* 24/25 HSA Balances Reported, 25/25 Opinions Reported

Actual Financial Results after One Year with HSA/HDHPs

- **HDHP Insurance**

- **Company Payments for Insurance** \$ 85,861
- **Insurance Company Payouts** \$ 5,000 (guess)
- **Value Remaining** \$ 0

- **HSAs**

- **Company Contributions to HSAs** \$ 84,800 (paid monthly)
- **HSAs Spent in First Year** \$ 28,300* (33% of SDI payments)
- **Value Retained by the Employees** \$ 56,500* (4.9% of salaries)

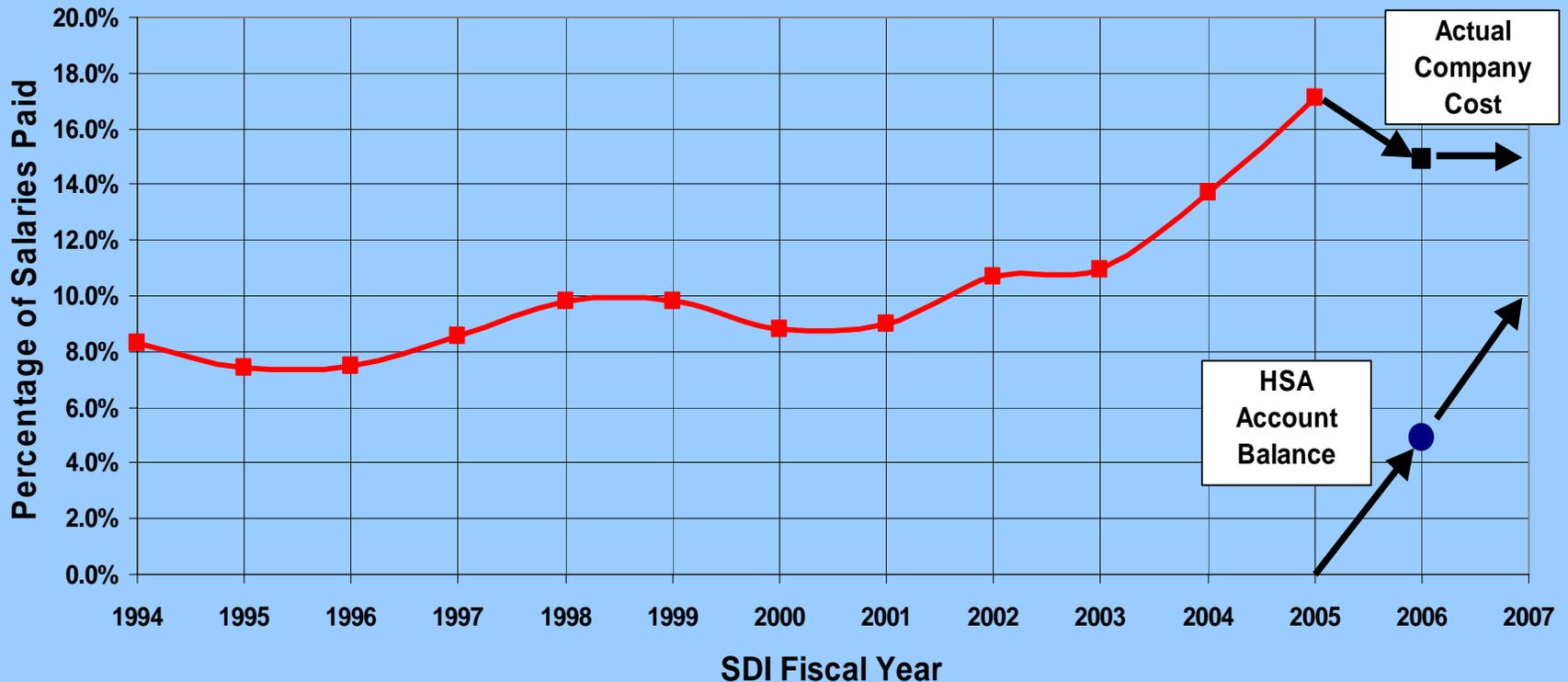
**Net Result: Employees received 4.9% tax free HSA residual that
can be used for future health care expenses**

* = Estimated Total with about 96% Reporting

HSAs Were Also Used for about \$5,000 of Dental Expenses
and Other Out-of-Network Expenses

Company Health Care Costs to 2007

Health Care Costs as a Percentage of Salaries Paid



Lower Actual Company Cost Was Due to Elimination of Double Coverage

HSA Observations after One Year

- Employees have **LOWER OUT-OF-POCKET COSTS, REGARDLESS** of their total medical costs, compared with a traditional PPO and the same company outlay
- **HSA RESIDUALS** increased employee tax free/deferred savings by about 4.9% of salaries
- Employees used HSAs for **100% FIRST \$ PAYMENT** for a wider range of expenses, such as dental, visual and out-of-network and out-of-state services, than covered by the PPO or HDHP
- Employees are now more **SENSITIVE TO COSTS**
- **HSA rules ELIMINATE DOUBLE COVERAGE**
- **HSA start up** was not a major problem to anyone

Problems Experienced/Observed

- **Insurance companies are unfamiliar with consumer-driven health care and dealing with HDHPs**
 - **Difficulty getting deductible waiver for preventive services**
 - **Overhead for all-deductible expenses (flood of EOBs)**
 - **Insurance company limits (30/90 day supply) on 100% consumer-paid prescription drugs**
- **Out-of-network, but otherwise allowable services, may not count against the deductible (same for PPO)**

What Can Insurance Companies Do ?

- **Simplify Control and Overhead of Deductible Expenses**
 - **Provide simpler mechanism for correcting payment errors**
 - **Send consolidated Explanation of Benefit (EOB) forms**
 - **Loosen control over consumer-paid prescription drugs**
 - **Give a 15-month window for submitting claims, so consumers can use Throw-It-in-a-Box accounting for one year and reconcile at the end of the year**

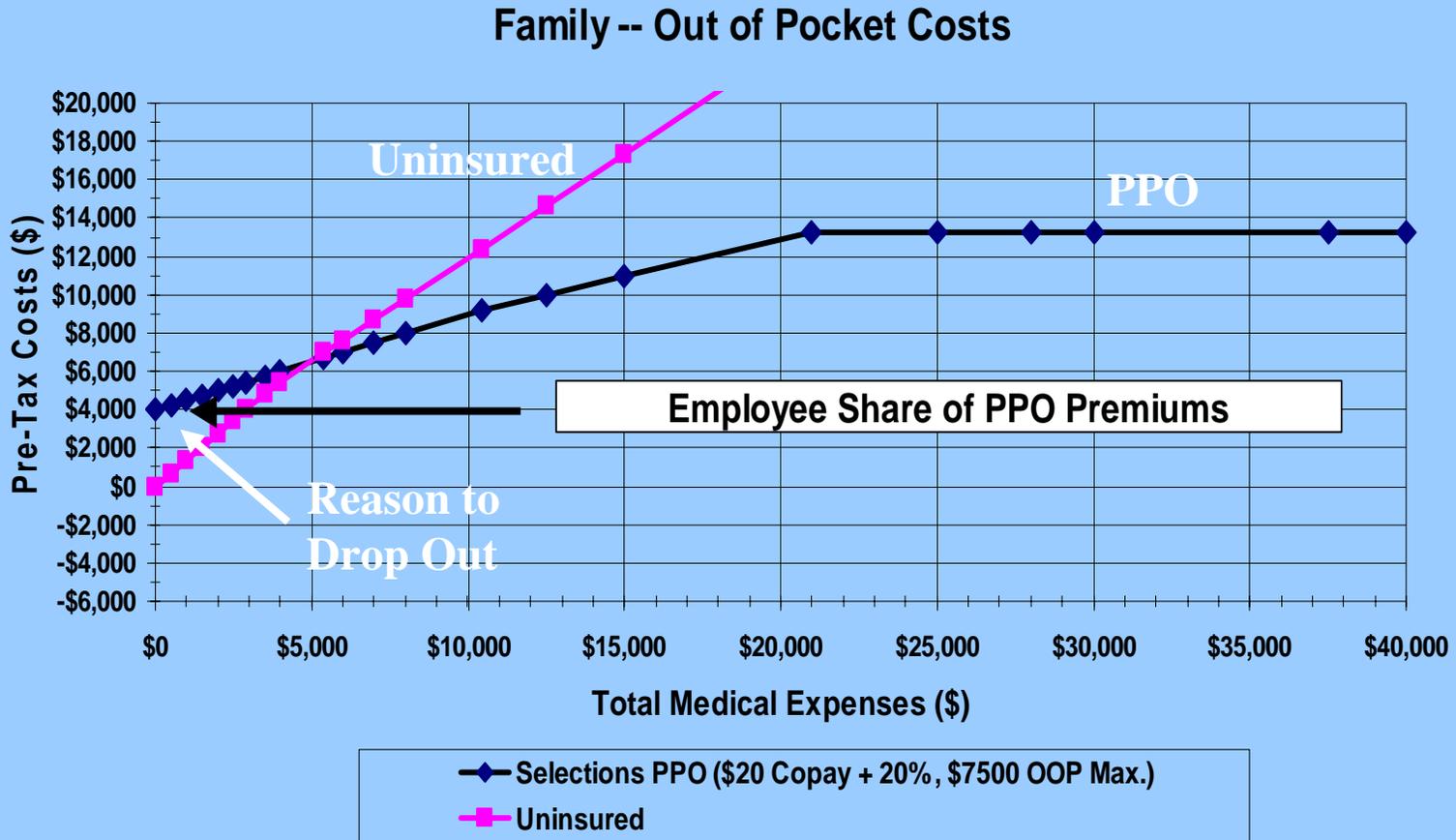
What Can the State Do ?

- **Make HDHPs More Affordable**
 - Reduce mandates on catastrophic policies
 - Reduce need for defensive medicine and cost of malpractice policies (Limit “Send-a-Message” awards)
- **Make Out-of-Network Costs More Affordable**
 - Reduce cost shifting (“Same cost for the same service”)

What Can the Federal Gov't Do ?

- **Shorten the time to keep medical receipts -
Maintain yearly running-total on IRS Form 8889 of HSA-qualified but un-reimbursed medical expenses**
- **Increase the HSA contribution limit from the HDHP deductible to the OOP limit to allow contributions for all out-of-pocket expenses**
- **Reduce HC costs and increase competition**
 - Association Health Plans
 - Tort Reform
 - Reduce cost of bringing new drugs to market

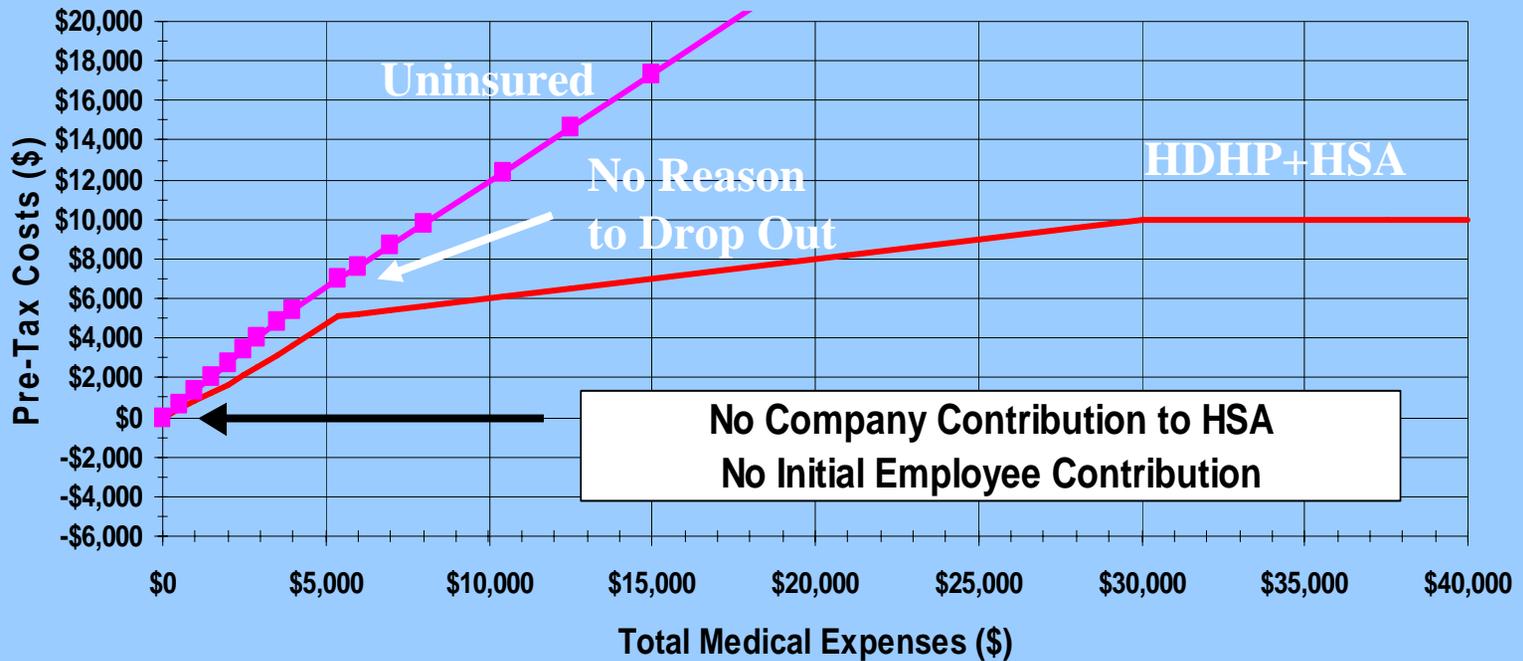
Example for Uninsured vs. PPO With \$4,000 Cost Sharing



Assumes the Same 2005 Insurance Cost Structure and 2006 Employee Mix as Before
 Same Curve as Earlier Shifted Up \$4,000

Example for Uninsured vs. HDHP+HSA With \$4,000 Cost Sharing

Family -- Out of Pocket Costs



—■ HSA (\$0) + HDHP (\$5000 deductible, \$10,000 OOP Max.)
—■ Uninsured

Experimental Results Summary

- **HSAs/HDHPs Are More Cost Efficient than PPOs**
 - Lower or same cost to business
 - Lower out-of-pocket for employees
 - Retained HSA residual by the employees averaging 4.9% of salary
 - With experience and continuing education, most employees were comfortable with HSAs and HDHPs
- **HSAs/HDHPs Create Cost-Sensitive Consumers**
- No Significant Disadvantages Were Found
- **HSAs and HDHPs Allow Cost Sharing Without Employee Dropout**

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