



AMERICAN ASSOCIATION OF PREFERRED PROVIDER ORGANIZATIONS

2008 STUDY OF CONSUMER-DIRECTED HEALTH PLANS

Overview

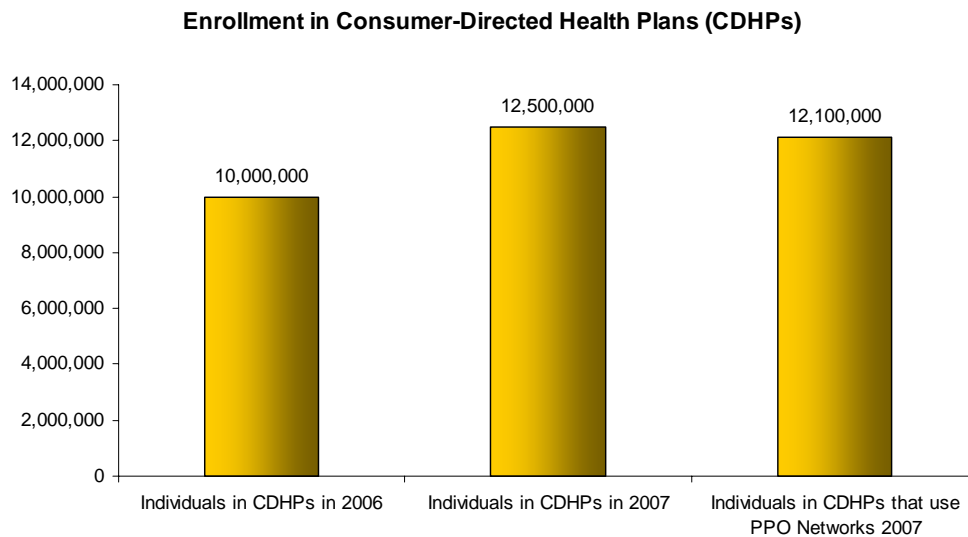
The American Association of Preferred Provider Organizations' (AAPPO) commissioned its second annual study of Consumer-Directed Health Plans and found that many of the same key trends from 2006 carried over to 2007. Virtually all CDHPs, which includes health savings accounts (HSAs) and health reimbursement accounts (HRAs), are based on PPO networks. *The hallmarks of the PPO delivery system – choice, access and flexibility – clearly are a factor in enhancing the CDHP model and promoting continued growth in CDHP enrollments.*

Additionally, there was continued growth in the number of employers offering CDHPs. While the plans were first embraced by large employers, in 2007 growth was strongest among small employers (10-499 employees). Several other components were added to this year's survey, including employee satisfaction with CDHPs and a comparison of health information tools offered by employers with a CDHP product versus those without.

Growth in CDHPs Continues, Reliance on PPO Networks Becomes Status Quo

The 2007 CDHP study commissioned by AAPPO found the number of CDHPs built on a PPO network grew by 2 percentage points to 97 percent. The fact that virtually all CDHPs are built on a PPO delivery model confirms that PPOs are the ideal delivery system for these innovative products. Both PPOs and CDHPs play a vital role in providing more choice, access and affordability for consumers in their health care decisions. PPOs are an effective platform to spur growth in CDHP enrollments due to the flexibility and choice inherent to the PPO model.

Enrollment in CDHPs grew by 25 percent in 2007, from 10 million Americans to 12.5 million. Enrollment in HRAs, the first CDHP product introduced, grew to 7.5 million compared to HSAs which grew to 5 million in 2007.



Source: Mercer National Survey of Employer-Sponsored Health Plans 2007



Employers Embracing CDHPs, Developing Innovative Options for Employees

Health care continues to be a major issue facing Americans – from affordability and quality of care to access and control. Employers gravitate toward consumerism as they look for affordable health care options and programs for their employees. More than 165 million Americans are enrolled in PPOs – two-thirds of all insured Americans.

To leverage more of the flexibility PPOs afford, employers are increasingly offering both HSAs and HRAs. In 2007, 7 percent of all employers offered a CDHP, and 11 percent are very likely to offer CDHPs in 2008. While CDHPs are still most common among the largest employers (41 percent of employers with 20,000 or more employees offered one in 2007), it is significant to note that CDHP offerings grew most strongly among small employers in 2007 (from 5 percent to 7 percent). Given that compensation levels are generally lower among smaller employers, this trend illustrates that HRAs and HSAs are not just products for highly compensated individuals. In fact, CDHPs are viable options for all employees regardless of income level.

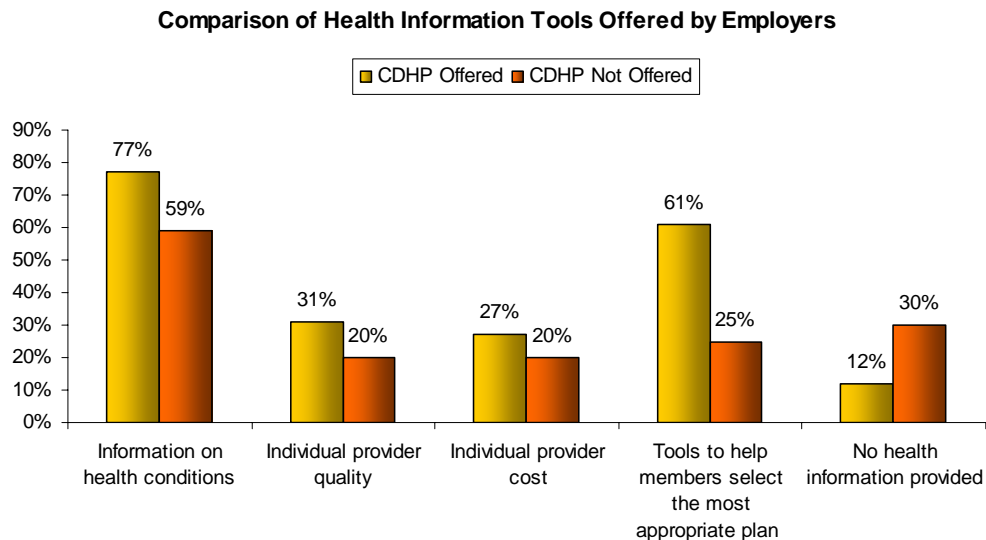
Employers cite a variety of reasons for choosing to offer a CDHP. Both employers that offer HSAs and those that offer HRAs cite lowering the organization’s benefit cost (61 percent for HSAs, 55 percent for HRAs) and promoting consumerism (57 percent for HSAs, 62 percent for HRAs) as the top two reasons for offering these products.

Consumerism hinges on information and education, which supports employees making informed decisions about their medical services. The study commissioned by AAPPO shows that employers who offer CDHPs also provide more and better health information tools to their employees, which can only lead to employees making more informed health care choices and decisions for themselves and their families in selecting medical services.

Almost 90 percent of employers offering a CDHP provide a health information tool, with close to two-thirds giving

employees tools to help them select the most appropriate plan based on expected utilization.

Survey results suggest that employee use of these health information



Source: Mercer National Survey of Employer-Sponsored Health Plans 2007



tools increases over time: 60 percent of large CDHP sponsors indicate that they have seen increased employee utilization of health information tools over the past two years.

Employers are increasingly taking consumerism to the next level by utilizing tiered or limited network platforms. Nearly one-fourth of large employers offering an HSA-based CDHPs have a tiered network with incentives to steer employees toward the most efficient providers, while 7 percent offer a limited network of providers, selected based on either cost-efficiency or quality.

Employee Acceptance of CDHPs on the Rise

As more employees are experiencing the direct benefits of enrolling in a CDHP, the demand for employers to offer these products is growing. In 2007, over 60 percent of enrollees in HSAs or HRAs felt positively about choosing CDHPs as their health care program. Important to note is that plan design plays a key role in employee satisfaction. Employees are more likely to feel positive about HRAs (69 percent) than HSAs (61 percent), likely due to HRAs including an employer account contribution. Fewer than two-thirds of HSA sponsors make an account contribution.

Once an employer implements a CDHP, enrollment tends to grow over time, which is another indication of employee satisfaction with HSAs and HRAs. Among those companies that offered an HSA for three years, average enrollment grew significantly each year, reaching an impressive 29 percent in the third year.

The majority of CDHPs have only been offered for one (29 percent) or two years (55 percent). This sets the stage for ongoing growth in CDHP enrollment among employers that have already implemented plans, as well as those implementing plans for the first time.

Most of the data for this study was collected through Mercer's National Survey of Employer-Sponsored Health Plans 2007, which included nearly 3,000 organizations with 10 or more employees. For further information on the survey, please call Pat Coffey at (502) 403-1122 x 100 or visit www.aappo.org.