# Health Plan Operations in the New World Of Health Care Financing

If new consumer-directed health plan products and systems can continue to be effectively implemented and supported by payer organizations, they could prove to be the sought-after solution to the health care cost dilemma.

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## Introduction

Very few market dynamics over the last 20 years have garnered the attention of the health care payer community as has consumer-directed health care. Over the last four to five years, much has been written – positive and negative – about the concept designed to put health care consumers in control of the health care buying decision, and whether or not it could work in the current health care delivery system.

Today, in mid-2004, it is obvious that consumer-directed health care is gaining momentum. Preliminary evidence suggests that the model has had some success in helping to control utilization costs. Most forecasts are predicting broad market acceptance for consumer-directed health plans (CDHP), given the recent legislation creating health savings accounts (HSAs) – a concept expected to expand the CDHP market to small and mid sized employer groups.

In this paper, we explore the history of consumer-directed health care, from its creation to service the employer market to becoming a major component of a health plan's product strategy. We will also look at how the market will evolve and how health plans need to strategically plan and adapt in order to maintain a competitive position in this new environment, now and well into the future.

## The Beginning

In the late 1990s, several health care innovators had varying visions about the future of the industry, although the fundamental concepts were very much the same. These visions were fueled by excellent economic conditions, including one of the greatest bull markets in history, and the belief that the current health care system was poised for innovation not seen since the development of the HMO and other managed care initiatives.

By the year 2000, employers were faced with double-digit premium increases, due to increasing utilization rates and rising prescription drug costs. Most of the insured had only nominal copays as their contribution to the financial risk in the health care decision process. The thinking behind the CDHP concept was to make the insured more responsible for how their health care dollars were spent. They were provided with incentives to find a balance between seeking cost-conscious, necessary care versus the all-too-familiar, scattered utilization approach. This new philosophy ensured that consumer-purchasing dynamics would finally be brought to the health care industry.

To achieve this goal, consumers were armed with decision-support tools to better manage their own health care needs. They were given access to health care content, provider cost data, their own claims and encounter data, and a funded account to subsidize health care expenditures.

It was on these grounds that HealthMarket and Lumenos® were founded, and consumer-directed health care was born. The major CDHP players had their own unique twist on the market. HealthMarket sought state licensure and marketed themselves as an insurance company. Lumenos contracted exclusively with the ERISA-exempt, self-funded employer market. Each had slight variations on product design.

By midyear 2001, Lumenos was gathering sales momentum with the signings of Novartis and Radnor Holdings. HealthMarket was also experiencing significant membership growth. The companies continued gaining momentum and attempted to further promote the benefits of the new consumer-directed concept by joining forces, along with other companies, to create the Consumer Driven Health Care Association.

As more and more large employers started adopting full replacement options with the consumer-directed upstarts, it

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