



CONSUMER DIRECTED HEALTH PLANS: The Alcoa Experience

**American Enterprise Institute
July 17, 2007**

Corporate opportunities to reduce burden of health care cost

- Improve / promote / select for better health
- Shop for lowest cost provider in every market
- Cost-shift

Cost Shifting:

Two very distinct components

- Direct reduction in employee compensation by premium increases (i.e. no change in actual plan)
- Change in plan to put employee at more direct financial risk for health purchases
 - Deductible / co-insurance schemes
 - Consumer-directed health plans

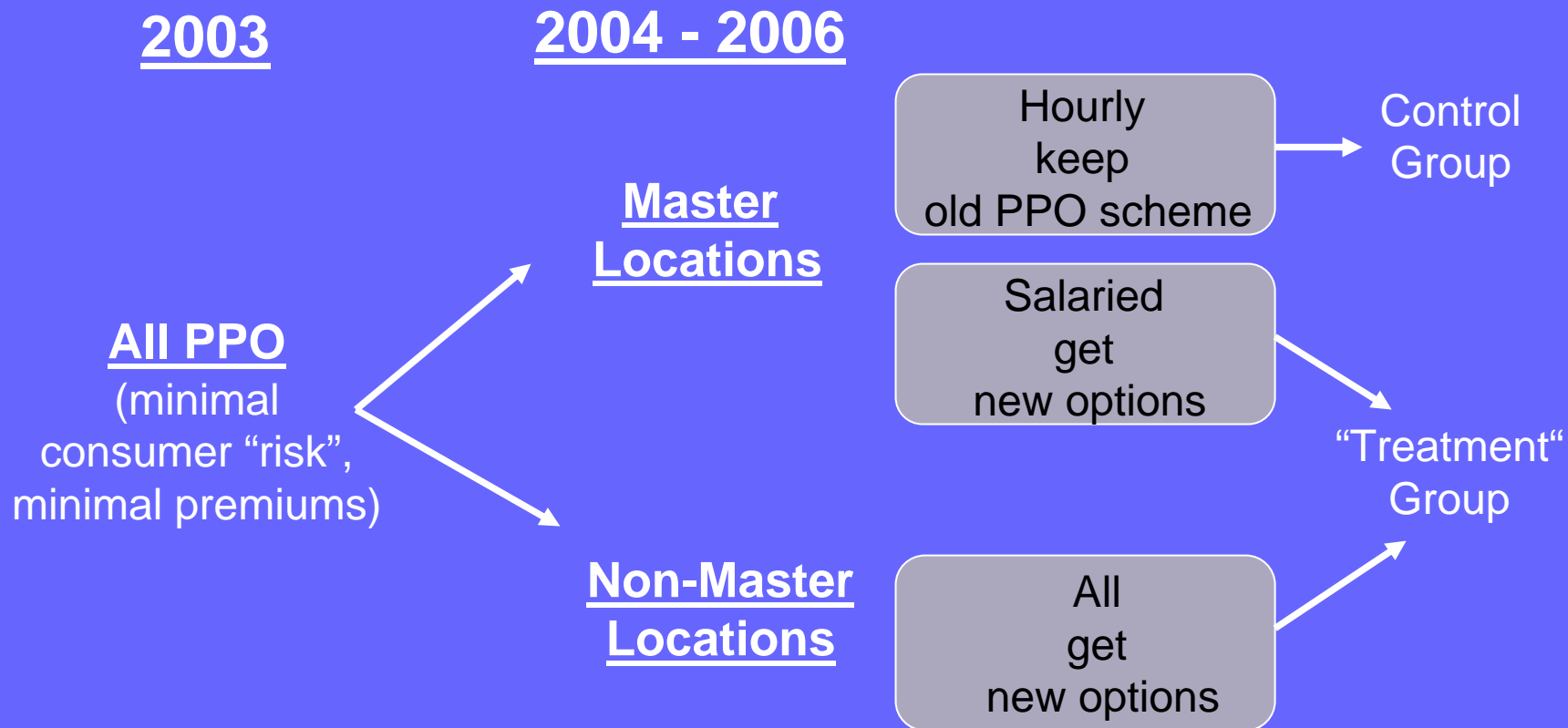
Theoretical concerns about consumer financial risk offerings

- Risk selection
- Non-specific reduction in utilization of care resulting in consumer “mistakes” (the “RAND prediction”)

Alcoa Pre 2004/Post 2004 Design

- Minimal premiums
- Very low deductibles
- Small co-pays for services and drugs
- No HRA or HSA
- Higher premiums for non-HRA options
- Variable but higher deductibles
- Co-insurance for services and drugs
- HRA option with very low premium

“Natural Experiment”



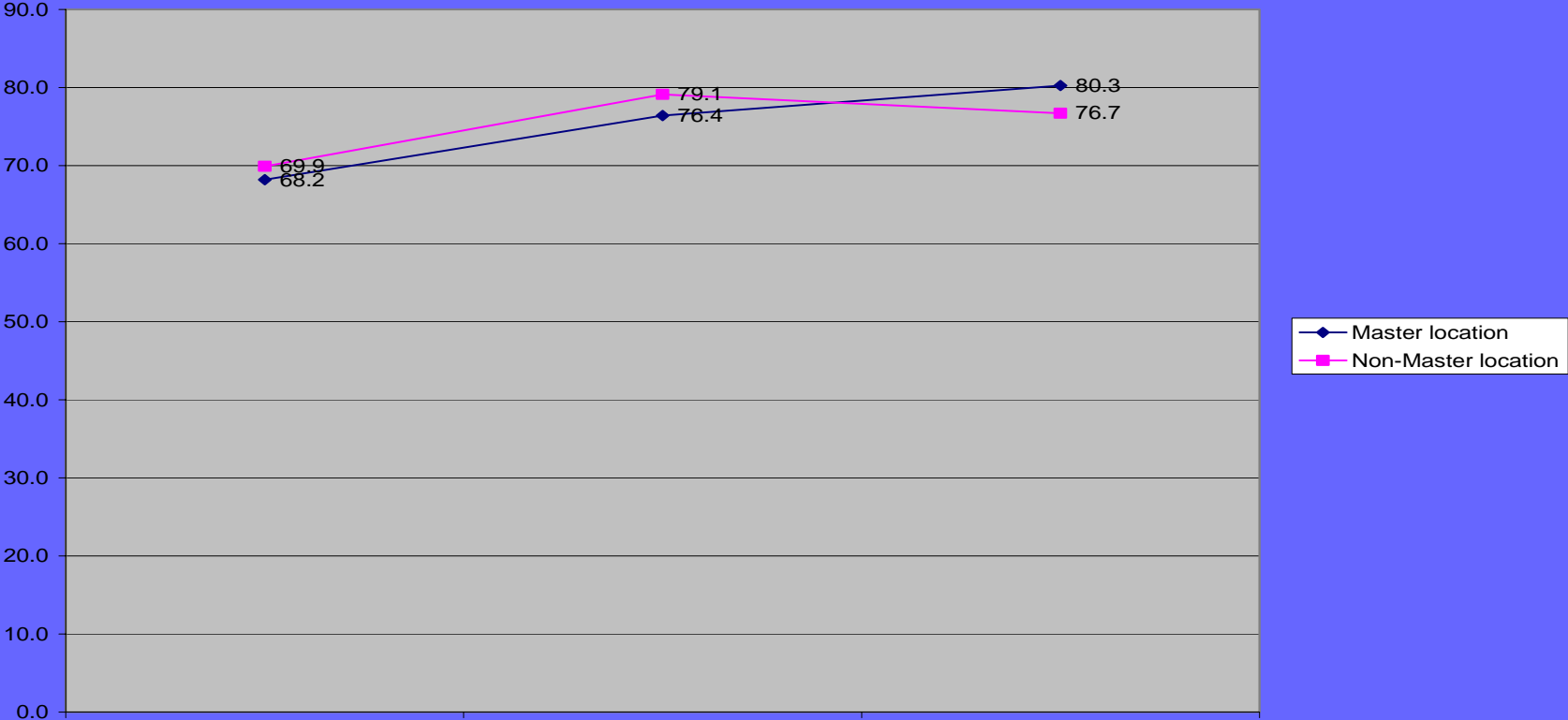
**First, the good news:
At-risk preventive services can be maintained by
exemption from co-insurance or deductible**

**Receipt of Preventive Health Care Exams Among Hourly Alcoa Workers
and Their Dependents, 2003-2004**

	Treatment group (%) (N=15,827)		Comparison group (%) (N=18,700)	
	Pre (2003)	Post (2004)	Pre (2003)	Post (2004)
Women				
Cervical cancer screening (ages 21-64)	37	38	38	39
Colorectal cancer screening (ages 50-64)	25	25	28	28
Men				
Colorectal cancer screening (ages 50-64)	17	15	19	19
Children				
Well-child visits (ages 3-6)	27	28	33	34
Adolescent well care (ages 12-21)	20	21	27	28

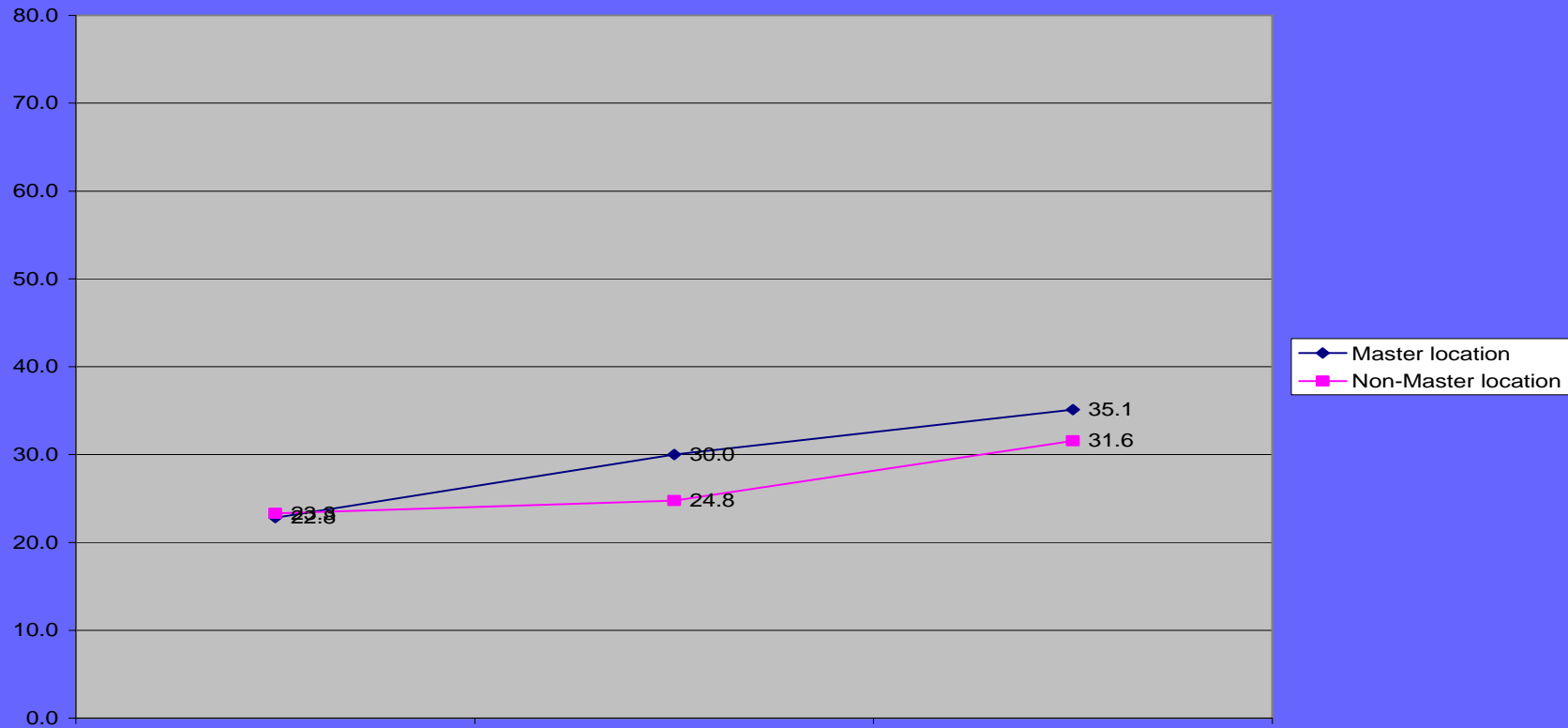
More good news:

Diabetics - A1c
Hourly Employees



Even more good news:

Diabetics - Microalbumin
Hourly Employees



Now, the bad news:

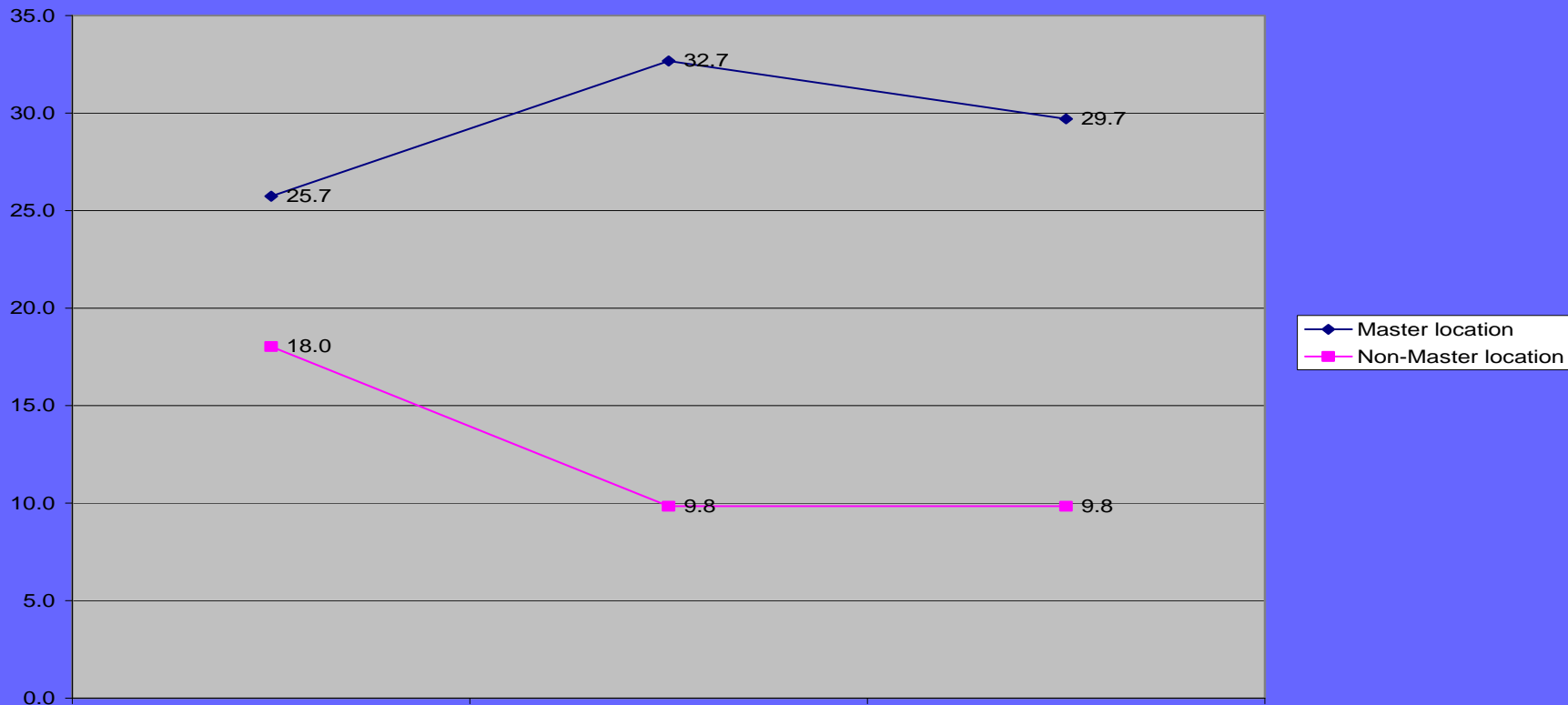
Only 14% opted for CDHP in 2004

- They were:
 - Younger
 - Richer
 - “Singler”
 - Better educated
 - Far less likely to have a chronic disease
- CDHP choosers accounted for only 8% of health care spend in 2003
- 2005, 2006 show continued risk selection

The most worrisome observation:

Even though few with chronic disease chose the most risky options (CDHP), the “RAND prediction” appears to hold regarding pharmacy use

Asthmatics- Controllers
Hourly Employees
(N=162)



Two potential remedies:

- Get off this train!
- Value-based premiums and designs