MarketWatch

Are California's Large Employers Moving To Catastrophic Health Insurance Coverage?

Results from a study of large California employers finds that high-deductible PPOs and consumer-driven plans are making inroads but are nowhere near dominant.

by James Maxwell, Peter Temin, Saminaz Zaman, and Tanaz Petigara

ABSTRACT: Large employers in California are experimenting with new health benefit and insurance options as premium rates continue to escalate. This study examines the offer and penetration rates of catastrophic coverage insurance products, including high-deductible PPO and consumer-driven health plans, among large California employers before the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 was passed. Only a few employers offered these plans, and they did not provide adequate incentives for their workers to accept. California employers, like the rest of the nation, implemented these plans as alternatives rather than replacements to their current plan choices.

Escalating premiums and consumer backlash against managed care have resulted in higher employee contributions and deductibles and the broadening of provider networks during the past five years. Bob Hurley and colleagues have documented the recent growth in enrollment in preferred provider organization (PPO) plans, which contain greater cost sharing and a wider choice of providers than health maintenance organizations (HMOs).[1] Jon Gabel and colleagues report that although HMOs are still the least costly plans in California, they experienced higher premium increases than PPOs in 2003 (12 percent versus 10 percent).[2] With little cost relief expected in the future, employers in California and across the country are considering new health benefit and insurance options.

California employers led the movement to managed care; even today the California landscape remains dominated by HMOs. However, many employers are debating whether to reinvent managed care or move to catastrophic models of insurance. If they decide to do the latter, employers have two general options: They can offer high-deductible PPOs or newer consumer-driven health plans. Consumer-driven plans may use either a health reimbursement arrangement (HRA) or a health savings account (HSA). HRAs are often accompanied by a high-deductible insurance policy for catastrophic care, but this is not required.[3] Most consumer-driven health plans are accompanied by Web-driven information and tools to empower consumers' decision making.[4]

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This research represents a particular snapshot in time, before the Medicare Prescription Drug, Improvement, and Modernization Act (MMA) of 2003 implicitly endorsed the concept of consumer-driven health plans and created HSAs. This paper defines a consumer-driven health product as an HRA that can be rolled over, with catastrophic coverage and a choice of providers. It examines the adoption and implementation of high-deductible plans—both PPOs and consumer-driven health plans—among large public and private employers in California.

This is an important group in which to gauge early reactions to these plans. They purchase for more than three million employees in the state and millions more dependents and retirees. Private employers in our study also purchase for more than three million employees in other states—on average, 75 percent of these employers' total workforce. In addition, the California marketplace is dominated by a small number of private and public employer coalitions such as the Pacific Business Group on Health (PBGH), the California Public Employees' Retirement System (CalPERS), and the Self-Insured Schools of California (SISC) that together purchase health insurance for a sizable share of the employee population in California. Their reaction to high-deductible PPOs and consumer-driven health plans would determine the strength of this movement in California. If they enrolled their employees in consumer-driven health plans, this would send a strong message to other employers, both in California and across the country.

Unlike previous surveys, this survey considers both public and private employers. Although it concentrates on California, this paper describes the views and reactions of a set of employers that have served as bellwethers for employers across the country in the past and will likely continue to do so in the future.

Study Data And Methods

■ **Data.** Data for this study were collected from fall 2002 through spring 2003. Our research instrument was a half-hour telephone interview that targeted the official at each firm with the most responsibility and detailed knowledge of health benefits. In-depth in-person and telephone interviews were also conducted with all of the major California health insurance carriers, large public and private employers, and consultants. Supplementary interviews were conducted following the survey in April and November 2003, and again in the winter of 2004–05. During 2003 we interviewed fifty representatives from carriers and employers. We returned to seven interviewees in the 2004–05 follow-up.

We obtained a list of the 400 largest employers in California from InfoUSA, using a cutoff point of 1,500 employees for private employers and 1,000 employees for public employers. Twenty-six employers were later excluded because they fell below the cutoff points. We surveyed 318 out of 374 employers for a response rate of 85 percent, a rate higher than many comparable employer surveys. Employers were classified as private firms if the firms were either privately held or publicly traded. Agencies that do not contract with CalPERS, such as local governments, state universities, community colleges, or school districts, were classified as public agencies. CalPERS and those entities that contract with CalPERS were considered one case within the public agency sample. We also collected information on hospitals but do not report it here.

Large private and public employers in our survey purchase health benefits on behalf of 3,349,155 employees in California and millions more dependents and retirees. However, 92 percent of the private employers in our sample were national employers with employees across the country. On average, those employers had a larger workforce outside California than in the state. Many telephone interviews were conducted outside of California, because these large employers' benefit departments were often located out of state.

■ **Measures.** We relied upon many of the same measures used in our earlier studies of state governments, manufacturing firms, and the Fortune 500.[5] To determine the prevalence of emerging strategies to contain costs, we asked about employers' use of high-deductible

PPO options, consumer-driven health plans, and tiered hospital networks. Each of these questions focused on current and future implementation. We asked employers whether they offered a PPO option with a deductible that exceeded $1,000 for individual coverage and $2,000 for family coverage. Employers that did not offer any of these options were asked whether they planned to do so in 2005. Supplementary interviews were conducted with employers that offered high-deductible PPOs, to document the number of years that the plan had been offered and whether there had been any changes in the deductible.

We also asked about both the current level of enrollment in high-deductible PPOs and the level of enrollment during the past three years. Finally, we asked whether employers viewed high-deductible PPO plans as a tool in making the transition to consumer-driven health plans, whether they offered such a plan (as defined previously), and for the percentage of employees enrolled. For employers not offering such a plan, we asked whether they had specific plans to do so by 2005.

Study Results

■ **PPOs and high-deductible PPOs.** Although the California market traditionally has been dominated by HMOs, we found that nearly nine-tenths of private employers and two-thirds of public employers in California now offer a PPO option to their employees (Exhibit 1). Although a majority of large employers offered PPO plans, most of their employees were still enrolled in HMOs. Employers with more than two-thirds of their workforce in California had more than half of their employees enrolled in HMOs.

Although PPOs have become a standard option for most large employers in California, high-deductible PPOs are not widely offered. The offer rate was higher among private than public employers, although the opposite was true for percentage enrollment (Exhibit 1). Percentage enrollment was slightly higher for family than individual policies, especially among public employers. However, fewer employers offered a high-deductible PPO to families.

Twice as many private employers as public employers reported that they planned to move to high-deductible PPO products by 2005 (Exhibit 1). If these employers do so, then nearly one-third of our sample would offer a high-deductible PPO plan. Although offer rates for such plans were relatively low, our data show that the offer rates increased most in the three years prior to the survey. More than one-third of firms offering high-deductible PPOs had introduced them in the past three years (Exhibit 2). The increase in offer rates was also accompanied by a slight increase in enrollment, probably because of an increase in the number of employers offering these plans.

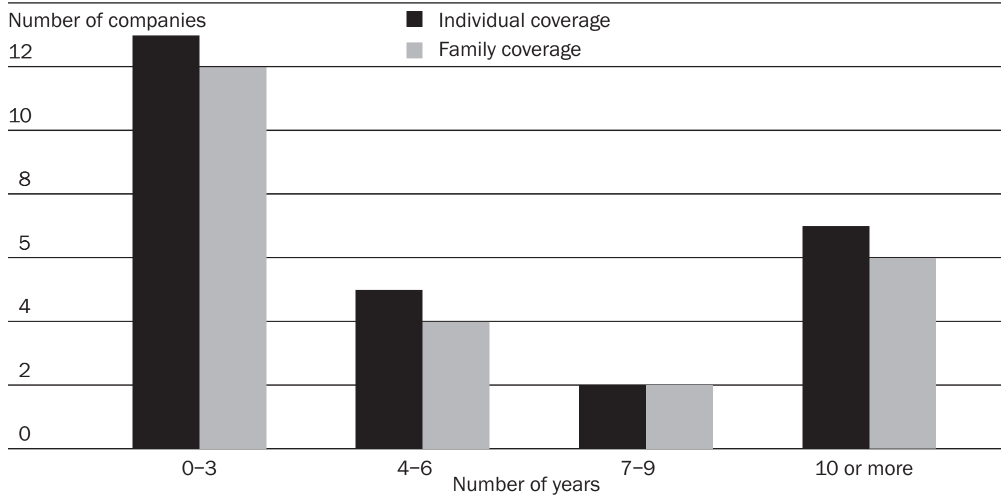
We could not determine from our survey whether deductibles for PPOs in general are increasing and, if so, at what rate throughout the PPO market. However, other national sur-

EXHIBIT 1
Extent To Which Large California Private And Public Employers Are Offering PPOs And High-Deductible PPOs, 2003

	Private (%)	Public (%)
Percent of employers offering PPOs to employees	86	67
Median percent enrolled when offered	41	44
Percent of employers offering high-deductible PPO	12	5
Median percent enrolled when offered	15	18
Of those not yet offering a high-deductible PPO, percent planning to in next 2 years	22	10

SOURCE: JSI Survey of Large California Employers, 2003.
NOTE: PPO is preferred provider organization.

EXHIBIT 2
Number Of Years Large California Employers Have Offered High-Deductible Preferred Provider Organization (PPO) Plans, 2003



SOURCE: JSI Survey of Large California Employers, 2003.

veys have shown that the average annual PPO deductible for individual coverage increased steadily from 1988 to 2002, from $106 to $276. Between 2001 and 2002 alone it rose 37 percent.[6] Our results show that deductibles also rose in the high-deductible PPO market from 2000 to 2003: from $1,168 to $1,802 for individual coverage and from $2,858 to $3,541 for family plans.

■ **Consumer-driven health plans.** Much has been written about consumer-driven health plans, and whether they are the future of U.S. health care. California has been the site of early innovation in the area of consumer-driven health products. In 2001 the PBGH, a coalition of more than 200 large California employers, issued a request for proposals for a "breakthrough plan" that combined financial incentives for disease management with consumer support tools.[7] The PBGH ultimately awarded the contract to Definity Health, a Minnesota-based start-up firm. A number of important California employers such as Wells Fargo and Varian rapidly adopted Definity as a plan choice. Other carriers, including Aetna, Blue Cross of California, PacifiCare, and HealthNet, quickly followed by offering consumer-driven health products in California.[8] Despite the endorsement of the PBGH and the rapid movement by health carriers, however, only 5 percent of private employers in our survey offered these plans, and even a smaller fraction of public employers did so.

The level of enrollment in consumer-driven health plans was modest, with a median enrollment of 14 percent of employees among private firms and 12 percent among public employers. Five percent of private firms and 2 percent of public firms were offering consumer-driven plans to employees at the time of our survey; 16 percent of private and 12 percent of public employers had a strategy in place for adopting these plans by 2005. The percentage of enrollees was 14 percent in private firms and 13 percent in public firms. Our results resemble the findings of Gabel and colleagues, who reported that 12 percent of all California firms were "very likely" to begin offering a high-deductible plan with an HRA by 2005.[9] If the employers in our survey implemented such plans, then nearly one-fifth of our sample would offer consumer-driven health plans. One-third of private employers and one-fifth of public employers plan to offer either high-deductible PPO or consumer-driven health plans by 2005.

In supplementary interviews with early experimenters, employers reported a variety of reasons for adopting these plans. These included immediate reductions in premiums, the need to gain experience with new types of insurance products, and the benefits of an open-choice product without the restrictions imposed by managed care. Employers also reported a number of reasons for not adopting these plans. First, they were not priced low enough—that is, 15–20 percent less than other plans—to promote their widespread adoption. Even if they did produce cost savings in the short run, there is still no evidence of long-term cost savings. Employers also expressed concern over the financial stability of small start-ups such as Definity and Lumenos. These plans were often unable to guarantee the same breadth of provider networks as mainstream health carriers, and they did not enjoy the same discounts as the major carriers. Also, large employers with a unionized workforce must gain union acceptance before they can change benefit design. Unions may view consumer-driven health plans as takeaways that curtail the level of health benefits.

Large public employers were the most resistant to consumer-driven health plans. Therefore, CalPERS, California's largest employer, has not even considered this option but has focused instead on other cost-cutting initiatives.[10] Most large public employers continue to favor comprehensive first-dollar coverage, which is reflected in lower copayments and employee contribution rates than in the private sector.[11] Their strategies are also influenced by large public-sector unions' opposition to high-deductible plans.

■ **Comparing high-deductible PPOs with consumer-driven plans.** In supplementary interviews, some employers thought that consumer-driven health plans were innovative insurance products that were completely different in concept and implementation and should not be compared with high-deductible PPO plans. Others considered high-deductible PPOs as a possible transitional device toward consumer-driven health plans. This is important because the rate of enrollment in PPOs has increased over the years.

We documented that one-third of employers that offered high-deductible PPO plans considered them a bridge to consumer-driven health plans. They thought that it would be easier to educate employees about consumer-driven health plans if they already had experience with high-deductible PPOs. One employer felt that its healthier and younger employees currently in the high-deductible PPO would make better health-related decisions when given the information available in a consumer-driven plan. Others did not view the PPOs as a bridge to consumer-driven health plans and viewed the options separately.

Both large employers and carriers agreed that high-deductible PPOs had cost advantages over consumer-driven health plans in the short term because the employer did not have to fund an HRA. In response, several carriers in California offered employers the option of not funding an HRA if they wanted to adopt a lower-price plan.

Discussion And Policy Implications

The results of this study show that in the period before MMA was passed, only a few large California employers offered either a high-deductible PPO or consumer-driven health plans. On a percentage basis, enrollment was even lower. Large employers neither mandated enrollment in these plans nor offered adequate financial incentives for enrollment. Overall, we found equal interest in both plans, with employers citing both advantages and disadvantages.

These findings complement and extend the results from previous studies of PPOs and consumer-driven plans in California and nationally.[12] However, few studies have looked at the enrollment in high-deductible PPOs. One exception is the Kaiser/Health Research and Educational Trust (HRET) survey, which found slightly lower but comparable offer rates for high-deductible PPOs.[13] Our study adds new information on large public purchasers' reaction to catastrophic health plans. Large public employers in California, including CalPERS, tend to be more reluctant than their private-

sector counterparts to adopt high-deductible plans. Our results on consumer-driven health plans are also comparable to other studies conducted in the same period, showing relatively modest offer and enrollment rates.[14]

Even though the private employers in our study are largely national firms, their reaction to high-deductible plans could have been influenced to some degree by the continued dominance of HMOs in California. Firms with a large proportion of their workforce in California seem slightly less likely to move to high-deductible plans because of their California-based regional purchasing strategy. HMOs continue to be less costly than PPOs in California, and a high penetration in HMOs produces additional value for employers.[15] We found that employers with more than 85 percent of their employees enrolled in HMOs had lower overall costs, as well as lower rates of premium increase.[16] Large California employers may not be ready to abandon all of the trappings of managed care.

Since the completion of our survey, there have been major changes in policy regarding consumer-driven health plans. In November 2003 MMA provided a further incentive by introducing portable HSAs. One of the HSA's advantages is that it is owned by the individual, not the employer. Unlike the HRA, where only the employer may contribute to the account, the employer or employee may contribute to the HSA. For 2005, a minimum high deductible of $1,000 for individual coverage and $2,000 for family coverage is required to qualify as an HSA-compatible plan. The HSA can be easily combined with high-deductible PPOs that meet these deductible limits.

MMA also implicitly endorsed consumer-driven health plans by adopting a "doughnut hole" plan design for the Medicare drug benefit, which provided a corridor of partial coverage, a corridor without coverage, and catastrophic coverage for expenses exceeding $5,100 per year. A few months after MMA was passed, President Bush explicitly endorsed consumer-driven health plans in his January 2004 remarks on access to care.[17]

After these recent developments, one might expect a swift rise in the implementation of consumer-driven health plans. Although one national study shows that enrollment in these plans has risen, recent figures from PBGH, cited by California HealthCare Foundation/HRET, show that only seven of the PBGH's 211 member companies have offered consumer-driven health plans with HRAs, compared with four at the time of this survey.[18] The major carriers confirm that there has been limited interest in HRA-compatible consumer-driven plans among large employers in California.

As many as one-third of employers may now be offering HSA-compatible PPO plans. Consistent with our survey data, the PBGH estimates that nearly a quarter of its member companies offer such plans. An important question is whether this segment of large employers already offering high-deductible PPOs will offer consumer-driven health plans with HSAs and actively promote them in the future. HSAs are relatively easy to add to existing high-deductible plans and can be offered without an employer contribution.[19] Only one PBGH employer now offers a consumer-driven health plan with an HSA, although some employees of PBGH companies might have signed up on their own. Peter Lee, president of the PBGH, explains that "the MMA led some large employers to hold off on implementing health plans with 'spending accounts' since they were faced with the choice between HRA and the still-being-clarified HSA options."[20] Instead of accelerating the movement to consumer-driven plans, MMA might have actually delayed their introduction among large employers in the immediate future.

In this environment of experimentation, large employers now may choose among a wide variety of PPO plan designs, compatible with either HSAs or HRAs, and a wide variety of Web-based tools. A few employers are experimenting with these plans to gain early experience, but most have adopted a wait-and-see approach, closely monitoring the innovators' experiences. Our survey and supplementary interviews found that most employers were in this category.

Perhaps the most striking finding is these

plans' influence on the health care market. All of the mainstream health carriers now offer catastrophic high-deductible plans compatible with either HRA or HSAs. Even traditional managed care plans such as Kaiser have introduced deductibles for the first time. One large employer reported that it would not contract with Kaiser unless it had a high-deductible PPO compatible with HSAs even though this employer had no immediate plans to offer consumer-driven health plans. Web-based tools for health care information—a defining feature of early consumer-driven health plans—have become a standard feature of many health insurance products. Our results thus show that although catastrophic care plans have transformed the market and dominated debate, they have not become a principal insurance offering for large California employers.

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16. Ibid.
17. U.S. Newswire, "Remarks by the President on Access to Health Care," 28 January 2004.
18. Kaiser/HRET, *Employee Health Benefits*.
19. Tom Davies, Verizon; Matt McCormick, Aetna; and Walt Meyers, Kaiser, personal communication, February 2005. Employers and carriers emphasize that HRAs and HSAs have different cost and human resources implications, which large employers are currently weighing.
20. Peter Lee, president, PBGH, personal communication, 4 March 2005.