



Promoting Healthcare Consumerism to Retirees

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By SHPS
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The concept of healthcare consumerism currently has center stage in the employee benefit marketplace, and it follows a simple premise: If you empower consumers with better health information and decision-making tools and motivate them by providing financial incentives to spend wisely, they will make better health decisions at lower costs.

For active employees, SHPS has developed sophisticated, carrier-neutral solutions that support healthcare consumerism, including customizable products that may be used individually or together to best suit each benefit plan. These include: benefit eligibility and enrollment; benefit selection tools; provider selection tools; health spending accounts; and personal health and wellness programs.

But what about today's retirees?

Open any newspaper in America and you can read about the dire financial situation facing today's seniors. Companies are faced with the reality that they can't support the rising costs of maintaining their retiree health programs. As such, companies are forced to consider shifting a greater share of the health expense to their retirees or, in many cases, terminating the retiree benefit altogether. With many retired Americans on fixed incomes already eroded by inflation, it will be an indescribably large challenge if they are further saddled with unexpected costs and are unable to afford the healthcare they have long depended on.

Why is this happening?

- More than 11 million retirees now get their health insurance coverage from private-sector employers. Because Americans are living longer, and the baby boom generation is nearing retirement age, seniors are the fastest-growing segment of the American population.
- Overall healthcare costs have risen by double-digit inflation rates for several years. For example, prescription drug expenses have risen by an average of 15 percent.
- Individuals are consuming more healthcare, with some estimates putting increased consumption of pharmaceuticals at about 7.5 percent per year.
- To meet current accounting requirements, employers must project and include retiree healthcare inflation – a moving target – in their audited financial statements.
- The expanding global economy is forcing American companies to be competitive in price with foreign companies that seldom have the burden of legacy healthcare benefits and owe billions less in retiree healthcare costs.

Not surprisingly, to fight inflation and its accounting expense, employers are asking for solutions to the high cost of retiree healthcare. They seek flat trends and predictable future costs.

Their requests may be a harbinger of a defined-contribution approach for retiree healthcare, where employers set aside a certain amount of money each year for retirees' future healthcare spending – rather than simply guaranteeing open-ended and potentially exorbitant coverage. This approach would let employers keep their

commitment and continue to provide a retiree health benefit, while precisely defining current and future financial liability.

But whether current and future retirees keep their coverage from their former employer, shift to Medicare, or rejoin the workforce in a new capacity, their response to healthcare consumerism will be critical. What decision tools will be most helpful to them? Will they consider consumerism as a help or a hindrance?

SHPS has gained an understanding of seniors through contacts with more than half a million retirees each year on behalf of our clients. We provide them a variety of health solutions, from care management services, to retiree premium billing, Medicare Part D prescription drug communications and health reimbursement arrangements.

The early signs show consumerism may be a viable answer to the rising costs of retiree healthcare, but it is a complicated problem.

Part of the challenge is that consumer-based health solutions require significant coordination of provider technology to empower participants with decision tools. Consumers need to understand their insurance coverage, get price and quality information on their providers, access their spending accounts and improve their personal health – quickly and with minimal hassle. Most existing technology platforms are just beginning to serve active employees; they don't address the needs of retirees.

Moreover, recent studies show that about 75 percent of seniors don't use computers, posing an end-user challenge for communicating health information. It's widely agreed that seniors tend to be less likely to change. The current over-65 generation has lived through the era of pre-computerized benefits administration, the introduction of Medicare and managed care, and is still largely a paper-based, person-to-person generation. Thus, their willingness to adopt individual health spending accounts and work with web tools is unclear.

Many individuals in the existing retiree population also have multiple diseases or conditions, making the coordination of care – and payment for it – highly challenging. A December 2004 *New England Journal of Medicine* editorial notes that 20 percent of Medicare beneficiaries has five or more chronic conditions, and half take five or more medications. Providing these retirees useful information and decision tools, including those for disease management, is complex and the reward for employers is limited to reducing future healthcare costs, not increased productivity. Arguably, the medical community is not yet prepared to advocate best standards of care for seniors in situations where multiple disease states exist. The research simply doesn't exist. And there is the added challenge that in an aging population, "quality of care" may be defined differently, as some consider it to mean one's overall quality of life and others interpret it with narrowly defined specific health outcomes.

Medical providers serving retirees may be reluctant to embrace consumer-directed health. Doctors have always been concerned about the potential impact of high-deductible plans on their revenue stream, and their concerns over prompt payment have received the lion's share of public discussion. Less openly discussed, however, are the challenges of managing the newly empowered elderly patient, who now has financial incentives to ask difficult questions about their treatment – especially around coordination of care across multiple conditions. Because many of these questions have yet been answered by definitive research, it is likely that they raise anxiety for both patients and physicians, without necessarily improving care.

Given these significant considerations, it may well be that moving toward consumer-directed retiree healthcare will be an evolutionary, rather than revolutionary, development. Interestingly, a recent study suggests that 55- to 65-year-olds are substantially more computer literate than their senior predecessors, and more willing to use web-based tools and information. This group is more familiar with defined-contribution retirement tools, and the potential loss of retiree health coverage, and is more willing to consider new plan-design options, including defined contributions vs. defined benefits for retiree healthcare.

SHPS' Solution: Retiree Health Administration

The good news for both retirees and employers is that there may be an evolving solution, and SHPS alone has the means to implement it. Our expanded Medicare support services bring new benefit options to both employers and their retirees. SHPS' consumer-directed retiree health plans (coined CDRHP™s) offer employers the ability to limit or freeze healthcare cost increases while providing ample benefits to their retirees. And CDRHPs – designed and validated by health actuaries – are more than a creative new funding mechanism. Simply put, a CDRHP may include:

- An integrated, defined health reimbursement arrangement, coupled with a consumer prescription drug plan;
- Integrated enrollment, premium billing, an online and telephone retiree resource center with decision-support tools;
- Care management services to maintain and improve retiree health; and
- A strong retiree communications program to promote optimal use of the plan's benefits and retiree resource center tools.

The potential benefits of CDRHPs to employers and eligible retirees are impressive. The immediate reduction in Government Accounting Standards Board (GASB) or Federal Accounting Standards (FAS)106 calculations of future liabilities are seen as an enormous relief for employers, while the lower costs of CDRHPs provide manageable solutions that employers can continue to support. And providing this valuable benefit, along with appropriate information and a prescription drug plan, will help companies to attract and retain qualified workers while reducing the overall financial healthcare trend of their retirees.

This innovative idea provides the closest thing to a win-win solution for employers and retirees. By integrating its services, its messages and their delivery, and actuarially validated reporting of its suite of retiree healthcare products, SHPS provides employers and individuals a valuable health-management strategy in a market previously underserved.

Learn more at www.shps.com.