

ORANGE COUNTY BUSINESS JOURNAL

Consumers in Spotlight

Can Higher-Deductible Plans Dent HMOs' Hold on Market?

By JANE YU

Rising healthcare costs for employers and the increasing rate of inflation is prompting some Orange County employers to consider offering alternative healthcare plans referred to as consumer-driven.

Employers across Southern California have generally been hesitant to consider consumer-driven plans, which run on a three-tier payment system that combines a pre-tax savings account, out-of-pocket payments and insurance.

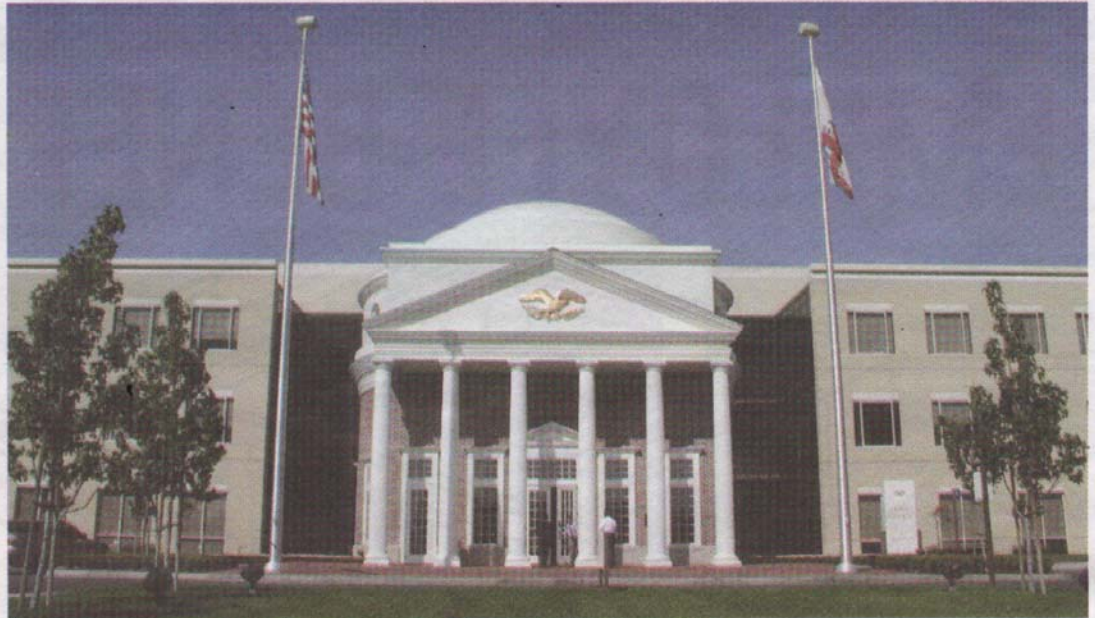
The reason for reluctance is "that in Southern California, we're primarily an HMO market," said Doug Ramsthal, vice president of Irvine-based insurance brokerage firm **Burnham Benefits Insurance Services**.



Ramsthal: more interest among employees

HMOs, or health maintenance organizations, have held onto market share in Orange County and the rest of the region for several reasons. HMOs have a longer history here—they first became popular in the 1970s. The region's large population also helps, offering larger pools of enrollees that allow the plans to keep prices and deductibles relatively low by spreading costs.

Consumer-driven plans provide more choice for members, with higher deductibles and out-of-pocket cost. That's gaining some traction with employers and customers here.



First American in Santa Ana: first offered consumer-driven plan after it split off CoreLogic Inc.

"It's an attempt to address the increasing cost of healthcare," Ramsthal said. "For anything else we buy, we usually shop around, ask between quality and price, and carefully select how much we're going to buy."

The room for choice also makes employers and workers more cost-conscious as they see deductibles increase and health savings

accounts become more common.

Consumer-driven plans were popular in the early 2000s until a rash of premium increases, according to Kelly Moore, president of **Moore Benefits Inc.** in Irvine, which provides brokerage and administration services for small- and mid-sized companies.

Rates went up "20% to 30% year over

year," Moore said. "It got to the point where it just wasn't the awesome deal it set out to be—you really had to pencil it out."

Employers in Southern California have largely stayed away from offering such plans as the rest of the U.S. has embraced it more.

A steady string of annual increases on the

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Consumer-Driven Plans

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costs of HMOs has put consumer-driven plans back on the table here.

According to a survey done by Burnham Benefits, 11% of Southern California participants said they offered some type of consumer-driven plan this year. 12% of respondents indicated they are considering offering one in 2012.

Another survey by the Washington, DC-based nonprofit National Business Group on Health showed that 61% of respondents nationwide offered a consumer-driven health plan this year. More than 70% of respondents will offer it next year, according to the survey.

Ed Bray, director of compliance at Burnham Benefits, said that many employers here don't need to make the switch from HMOs yet.

"We're still able to operate this way," he said, "but how much longer with this inflation rate?"

Wade Olson, chief executive of Irvine-based benefit consulting provider **Precept Group** said that there is "a lot of pressure on the current HMOs, especially with the health-care reform, where the cost and service structures for HMOs will be challenged."

About 20% of Precept's clients offer consumer-driven plans, according to Olson.

Enrollees who typically account for less than \$1,000 a year in claims cost "should probably be in a consumer-driven plan," he said.

For the smaller percentage of the population that typically has more than \$50,000 a year worth of claims, "it's better to be in a fixed exposure," he said.

Olson said the generally low numbers of consumer-driven plans here stem from a "lack of understanding about benefits and risks."

"I think the consumer-driven plans will be looked at more, and they will become a more valuable option because the traditional models are having to react to reforms that put pressure on them for cost," he said.

Asking

Ramsthal said Burnham Benefits has seen more employees asking "How do I implement this? How do I help employees be better consumers and introduce a consumer-driven plan?"

Burnham Benefits' Bray said he helped implement a consumer-driven plan for Santa Ana-based **First American Corp.**—where he directed employee benefits programs before joining Burnham Benefits—when the company split into **First American Financial Corp.** and **CoreLogic Inc.**

"It actually cost less than the HMO plan," he said.

He added that the plans "could cost less sometimes because of the high deductible," and that it could take some "explaining to the employees that this might be better than an HMO."

Santa Ana-based investment banking and business valuation firm **Strategic Equity Group** has been providing a high-deductible, consumer-driven plan for about three years.

"It's worked out very well for us," Managing Director Chris Kramer said.

The company has about 10 full-time employees many of whom are young.

"They don't have to go to the doctors as much, and with this plan, the employee is at least a bit more motivated to be more judicious about what kind of care they get."

Kramer said the plan's high deductible—\$3,000—pushed down the premium.

Strategic Equity gives that back to its employees by making \$500 contributions into their health savings accounts, which "offsets any out-of-pocket cost that would have been covered by a copay" under a traditional plan, according to Kramer. ■



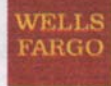
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—Ed Bray, director of compliance, Burnham Benefits



Consumer-driven plans derailed by rate increases a decade ago.

—Kelly Moore, president, Moore Benefits



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