Fidelity Benefits Consulting

Is consumerism the silver bullet you hoped for?

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The high stakes of health care now require supporting strategies.

Several years into the "grand consumerism experiment," employers continue to express concern over the never-ending cycle of rising health care costs. An increasingly larger portion of an employer's benefits budget (and an organization's bottom line) is taken up by health care financing. And there are mounting worries that health care debt is affecting employee productivity.[1]

For years, employers had hoped that making employees "consumers" would result in higher quality and lower costs. But that hasn't really happened. Employees are not shopping for health care like they would for other purchases. Why? Barriers to traditional free market behavior prevent them from doing so.

Market forces constrain participants with incomplete information and little transparency

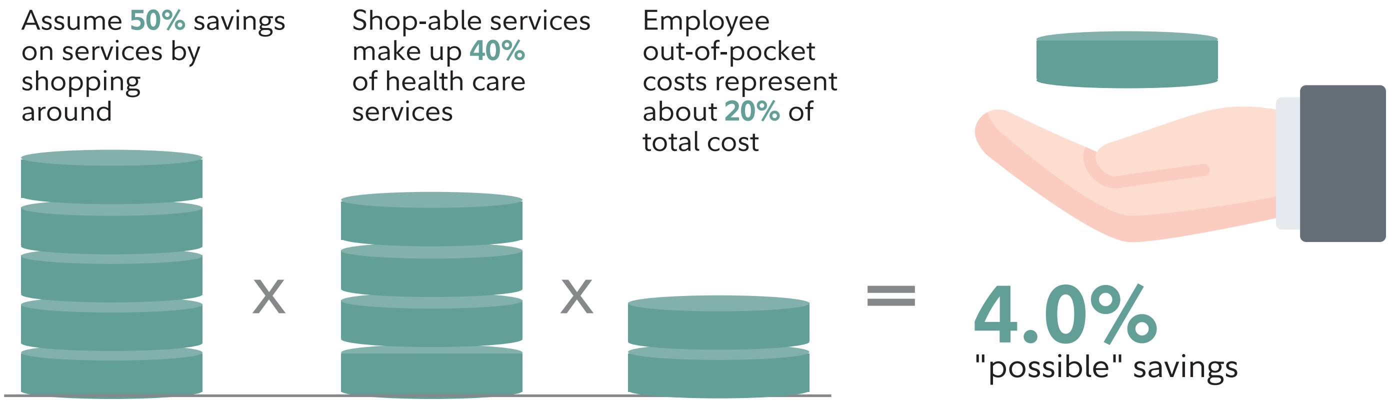
"For years we've been attempting to apply a free market framework to health care, but when you really look at it, it's not a free market," says Hope Manion, Senior Vice President, Fidelity Benefits Consulting. "When individuals need health care, they're not really acting as rational buyers. They're worried, of course, and at the mercy of the system." She adds, "The economic theories that govern markets for other consumer products, like cars and shampoo, just don't apply when your health is at stake."

Key takeaways:

- Market realities constrain health care consumers from making informed decisions. It may be time to revisit and enhance your consumerism approach to fortify your health plan management.
- Fidelity Benefits Consulting can help you assess your program and optimize your strategy.

Even if we can get consumers to optimize value, it would have limited impact

One hurdle is that health care consumers have been conditioned to assume that there simply aren't enough savings opportunities -- even when services are "shop-able"-- to make a compelling difference in out-of-pocket costs. Consider the hypothetical scenario below that illustrates how, even if individuals had access to perfect information about the provider value, there just isn't enough "bang for the buck" from the consumer point of view to drive behavior change.



Research conducted by the National Bureau of Economic Research (NBER) supports Manion's view.[2] Harvard economist Amitabh Chandra, co-author of the NBER study, says that individuals face three primary challenges when trying to navigate the health care system. These challenges apply even when a high-deductible health plan (HDHP) is in place to encourage price sensitivity for participants.

1. **Price shopping may work for commodities, but health care doesn't yet offer participants enough information or transparency to guide consumer decisions.**

   According to the NBER study, there is no evidence that participants have learned to price shop after two years in a high-deductible health plan.[2] Another study found that very few Americans are price shopping for health care primarily because they cannot obtain pricing information and they don't want to disrupt existing provider relationships.[3]

2. **Individuals still struggle to identify the most important health care services, and don't know what care is valuable and what isn't.**

   The NBER study found that when participants did decrease their utilization of health care services, they did so across all categories of services, including potentially valuable preventive care.[2] This is worrisome because a reduction in certain services, and avoidance of preventive care, can actually worsen health outcomes.

3. **Price definitely resonates with individuals, but they react to the wrong prices, lacking a clear understanding of HDHP design.**

   Fidelity research found that 69% of HDHP participants surveyed said that at least once in the past they had avoided going to the doctor because of the costs, and 60% had left prescriptions unfilled due to cost.[4] The NBER study also showed that consumers didn't understand how cost-sharing and out-of-pocket maximums came into play after the deductible was reached.[3]

It’s time to combine consumerism with new strategies

If your organization is searching for answers to this ongoing challenge, it may be time to add additional strategies to strengthen your health plan management. At Fidelity Benefits Consulting, we’ve been discussing a two-pronged approach with employers:

Push your consumer-directed plan into “overdrive”

- **Promote HSAs to cover health care expenses.** Fidelity’s actuaries estimate that a couple who retires at age 65 will need $280,000 to pay for out-of-pocket expenses in retirement.[5] That means your employees need to leverage every opportunity they can to save effectively for these expenses, especially in a health savings account (HSA). But HSAs require ongoing education and access to pricing transparency tools. By helping your employees understand the true cost of health care services, they may be more open to putting money aside in this type of savings vehicle.

- **Tap into Navigators/Concierge/Health Care Education Services.** Newly emerging services are available to help direct employees to best value, highest quality providers and networks. Other programs are beginning to offer better employee support and pricing tools, along with education to help them understand certain benefits and the value of using specific networks.

- **Focus on condition-specific programs.** With certain conditions driving up your overall claim costs, be sure your plan is providing support to direct patients with chronic conditions to high value services that can help them better manage both their health and your costs. You should be able to tailor these options to the needs of your specific employee population.

Start restricting choice, *requiring* employees to make the right decision

- **Narrow networks with traditional carriers.** While choice has long been a central theme in benefits strategy, allowing employees access the universe of options isn’t optimal. Behavioral economists have long touted the merits of “prescribed choices” to influence certain employee behavior. Consider creating “tiered” or “high performing network” designs with your current health insurance carrier to steer the right decision-making by your employees.

- **Prescription drug management.** Use prior authorization as a technique for minimizing costs, especially when very expensive medications prescribed by a physician may ignore cheaper alternatives that are available. Use step therapy (using a lower-priced medication first before a more expensive one) to the fullest extent possible.

- **Alternative Health Plans.** Consider the new generation of start-up venture capital-backed health plans who are looking to disrupt the traditional market with data science-driven approaches to building provider networks.

At Fidelity, we have a unique view into this issue

Fidelity has a different lens into the complexity of the challenge facing employers. Let us help you explore the issues affecting your employee population and your specific health care cost drivers. We’ll assess your situation, unique populations and claims data, and help you formulate a strategy to address your specific objectives.

For more information related to newly emerging health care cost management models to supplement your consumerism strategy, please contact your Fidelity relationship manager, or email Fidelity Benefits Consulting at fidelitybenefitsconsulting@fmr.com.

[1] Fidelity Investments Total Well-Being Research online survey of 9,315 active Fidelity 401(k) and 403(b) participants from across the United States. The survey was conducted by Greenwald and Associates, an independent third-party research firm, on behalf of Fidelity in September 2017. A debt score of 40 or below out of 100 is considered to be in the "at risk" category.

[2] Forbes, "A Nuanced Take On Healthcare Consumerism", December 14, 2015, interview with Amitabh Chandra, health economist, Harvard University, and "What Does a Deductible Do? The Impact of Cost-Sharing on Health Care Prices, Quantities, and Spending Dynamics," National Bureau of Economic Research, October, 2015

[3] Ateev Mehrotra, Katie M. Dean, Anna D. Sinaiko, and Neeraj Sood, "Americans Support Price Shopping For Health Care, But Few Actually Seek Out Price Information," HEALTH AFFAIRS, August, 2017

[4] Recent Fidelity HSA survey. Except where noted, this presents the findings of an online survey conducted among a demographically representative U.S. sample consisting of 4,015 adults, 18 years of age and older. Interviewing for this CARAVAN® Survey was completed in October 2018, by ORC International, which is not affiliated with Fidelity Investments. 1,128 respondents enrolled in an HSA-eligible health care plan were included in the analysis. The results of this survey may not be representative of all adults meeting the same criteria as those surveyed for this study.

[5] Estimate based on a hypothetical couple retiring in 2018, 65-years-old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates with Mortality Improvements Scale MP-2016. Actual assets needed may be more or less depending on actual health status, area of residence, and longevity. Estimate is net of taxes: cost basis is assumed to equal market value. Estimate is calculated as the assets required today in a taxable account with an effective tax in retirement of 5%, an asset allocation of 30% equity, 50% bonds, and 20% cash, such that there is a 90% chance of being able to pay for healthcare expenses through life expectancy. The Fidelity Retiree Health Care Costs Estimate assumes individuals do not have employer-provided retiree health care coverage, but do qualify for the federal government's insurance program, Original Medicare. The calculation takes into account cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by Original Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services and long-term care.