BENEFIT Plan Developments

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High Costs Discourage Participation In Disease Management Programs

When copayments are levied for participation in disease management programs, patients may underuse recommended services, thereby decreasing the effectiveness of these programs, according to a study published in the March issue of the *American Journal of Managed Care.*

In "Rising Out-of-pocket Costs in Disease Management Programs," researchers Michael E. Chernew, Allison B. Rosen, and A. Mark Fendrick observed that the rise in cost sharing for patients at the point of service and the proliferation of disease management programs are two of the most prominent trends in health benefit design. Cost reduction is among the primary aims of each of these approaches. The authors expect increased cost sharing to lower premiums and encourage more cost-effective choices by consumers, while they predict disease management programs will reduce aggregate expenditures by improving health.

The study was based on data collected from two large health plans with large, well-established disease management programs. From one plan, researchers examined longitudinal data from 2001–2003 for participants in the plan's congestive heart failure (CHF) and asthma disease management programs, as well as from the plan's overall population. From the second plan, the authors looked at 2003 data from participants in the plan's diabetes mellitus management program and from other plan members. The authors said they chose to focus on copayments for prescription pharmaceuticals because medications are an important component of therapy for the chronic illnesses targeted by disease management programs, and the trend toward patient cost sharing has been particularly pronounced in the area of prescription drugs.

The analysis showed that, for the first plan studied, the proportion of prescriptions with a copayment of more than $10 rose steadily between 2001 and 2003 from about 25% to 40%; a comparable upward trend for copayments was observed in the $5 to $10 range for the purchase of generic medications. The authors concluded that there was no evidence to suggest that disease management program participants in the first plan had appreciably lower copayments than other plan members. For the second plan studied, disease management

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Of the employers surveyed who opted to receive the federal subsidy in 2006, 82% said they are using the subsidy to reduce their own costs, while 14% said they are using the subsidy to reduce the cost for retirees.

program participants were found to pay only slightly less for medications than individuals not enrolled in programs.

Researchers added that, when they contacted experts in the disease management and insurance industries to ask whether they believed copayments for disease management program participants differed from copayments for plan members outside the programs, the overwhelming response was that the copayments were the same with the exception of a few individual employers.

The authors observed that, while there may be merit in cost sharing in certain instances, it does not make economic sense to combine greater cost sharing with disease management. "If patients in the groups targeted by disease management face greater cost sharing, their consumption will be farther from the efficient level, and more disease management resources will be needed to move them to the appropriate level of care," the authors said. "Hence, cost sharing and disease management result in conflicting approaches to benefit design, effectively working against each other."

The optimal benefit design, researchers concluded, would align the incentives created by cost sharing and disease management. Economic models would suggest, the authors added, that copayment rates for individuals in the high-risk subgroups should be set to zero. It may even be beneficial for disease management programs to offer financial incentives.

Employers To Adjust Retiree Drug Benefits In Response To Medicare Part D

Companies sponsoring retiree medical programs for former employees age 65 and older are reconsidering their prescription drug benefits for 2007 in light of the new benefits available through Medicare Part D, according to a survey developed by Towers Perrin and conducted by the International Society of Certified Employee Benefits Specialists (ISCEBS).

Of the 169 companies and nonprofit organizations surveyed in January, nearly two-thirds (65%) said they had chosen to collect the federal subsidy and continue to offer their prescription drug plans in 2006, the first year in which Medicare Part D has been available. The remainder of respondents reported taking a variety of approaches in 2006: 10% are continuing the plan without the subsidy; 10% are integrating their plans with Part D plans; 5% have arranged to offer a specific Part D plan; 3% are eliminating drug coverage and are instead offering Medicare Parts A and B coverage; 1% are eliminating their plan and reimbursing premium payments; and 1% have eliminated all retiree medical benefits.

Results also showed the following: 41% of the employers surveyed informed their Medicare-eligible retirees prior to the launch of Part D that they could not continue to qualify for the employer-sponsored medical plan if they enrolled in a Medicare drug plan; 25% told retirees they could continue receiving medical benefits, but not prescription drug benefits, if they participated in a Part D plan; and 28% told retirees they could continue in the employer-provided plan even if they enrolled in a Medicare prescription drug plan.

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When asked about their strategy for 2007, 63% of respondents said they had yet to make up their minds about how to respond to Medicare Part D beyond 2006, while 37% of respondents indicated they had reached a decision.

Companies that have a Part D strategy for 2007 indicated the following: 42% intend to maintain current benefits and collect the federal subsidy; 20% will offer a supplemental plan that will integrate with Part D plans; 13% will offer a specific Part D plan; 7% will eliminate their drug coverage and instead offer coverage through Medicare Parts A and B; 5% will continue the plan without a subsidy; 5% will eliminate all retiree medical benefits; and 3% will eliminate the employer plan and reimburse premium payments.

When asked about the potential impact of the Financial Accounting Standards Board's (FASB) proposed accounting changes for pension and other post-retirement benefits, most respondents said they anticipate the changes will have at least some effect on earnings volatility.

Mental Health Benefits Do Not Add To Cost Of Health Insurance

Expanding mental health and substance abuse insurance benefits may be possible without increasing the overall cost of employer-provided health insurance, according to a study published in the March 30, 2006 issue of *The New England Journal of Medicine*.

The study, led by Howard H. Goldman, a professor of psychiatry at the University of Maryland School of Medicine, evaluated the Federal Employees Health Benefit (FEHB) Program, which has provided behavioral health parity since 2001. Under parity, coverage for mental health and substance abuse services is comparable to coverage for other health problems. Researchers noted that many policymakers and legislators have long opposed parity on the grounds that offering equal levels of coverage for disorders such as depression and schizophrenia would be too costly.

Prior to the introduction of mental health parity, federal employees often had to pay as much as 30% to 40% of the cost of mental disorder treatment. After parity came into effect, the study found, out-of-pocket costs for patients seeking treatment for mental disorders fell. Researchers said one of the main reasons benefit costs did not increase despite these more generous benefits was due to the cost controls imposed by managed care. The study found that use of mental health services rose after the introduction of the parity policy, but researchers attributed this increase to a general trend also seen in comparison plans.

"The main argument against parity has been a concern that more generous coverage of mental health services would result in large increases in spending," said Goldman. "We found, however, that when coupled with managed care, parity between insurance benefits for mental health care and general medical care can be accomplished with improved insurance protection and without increasing total costs."

Employers Should Encourage Purchase Of Disability Insurance

Because most workers underestimate their chances of becoming disabled, employers should consider sponsoring group disability insurance plans and do more to educate their employees about the need for income protection, a study by The Hartford Financial Services Group recommended.

Based on a survey of 600 working Americans between the ages of 18 and 65, the study showed that most respondents lack an understanding of both the risk of becoming disabled and the cost of disability income protection insurance. While 85% of respondents said they have health care coverage and 72% indicated they have life insurance, just 42% reported having short-term disability (STD) insurance, and 34% said they have

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long-term disability (LTD) coverage. The survey showed that relatively few workers pay for LTD and STD coverage themselves: 8% of respondents said they had employee-paid STD insurance, and 7% reported having employee-paid LTD benefits.

Results also revealed that employees have distorted perceptions about the causes of disability. When asked what they believe are the most common disorders associated with short-term disability, respondents estimated on average that 74% of claims are caused by accident or injury, 14% by musculoskeletal or back problems, 9% by pregnancy, and 3% by other conditions. In fact, researchers said, statistics show that accidents and injuries account for 13% of STD claims, musculoskeletal or back problems for 19%, pregnancy for 21%, cancer for 7%, circulatory system problems for 6%, digestive system problems for 6%, and other conditions for 28%.

Respondents were also shown to have misperceptions about the causes of long-term disability, tending to overestimate the role of accident and injury and underestimate the occurrence of more obscure ailments. Researchers observed that associating disability primarily with accidents can give a false sense of security to people who do not work in a dangerous environment or believe themselves to be careful.

In addition, the study found that many people assume they can draw upon sources of income in disability that are unlikely to be available to them. When asked how they expect to replace their income in the event that they become disabled due to non-work-related causes, 49% said through disability insurance, 27% through unemployment benefits, 23% through Social Security, 21% through medical insurance, 18% through workers compensation, and 12% through their employers. Researchers said these results indicate that many people misunderstand the role of certain types of benefits, believing they offer forms of protection that they do not, in fact, provide. When employees put their trust in the wrong program, researchers added, they leave themselves and their families vulnerable, without even knowing it.

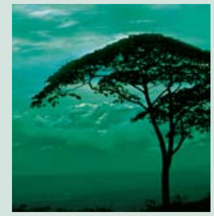
When asked why they lacked disability coverage, 42% of respondents with no STD or LTD insurance cited cost, 17% said their employers do not provide it, 16% said they consider themselves to be healthy and unlikely to become disabled, and 11% said they do not know enough about disability insurance to make a decision. Researchers said these results suggest that respondents tend to overestimate the cost of disability insurance and underestimate the percentage of income that is typically replaced by disability coverage.

However, when respondents were offered a hypothetical disability insurance plan providing 60% to 70% replacement of pre-tax income at a cost of $180 a year, more than three-quarters of employees surveyed indicated they were likely to purchase the insurance.

Researchers recommended that employers not only offer a group disability plan to their employees, but that they make efforts to educate workers about the actual costs and benefits associated with income protection products.

Commenting on the study, Dick Mucci, executive vice president of The Hartford's group benefits division, said, "Consumers' confusion about disability is a cause for concern because nearly one-third of us will suffer a serious disability in our lifetime. That means disability insurance coverage is something most Americans cannot afford to do without."

The study suggests, Mucci added, "that Americans consider disability insurance a valuable financial protection tool when they understand its true value and cost."



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