STATE PERSONNEL DEPARTMENT
402 W. Washington St., Rm. W161
Indianapolis, Indiana 46204-2261
Telephone: (317) 232-0200

Mitchell E. Daniels, Jr.
Governor

Daniel L. Hackler
State Personnel Director

In 2005, when newly elected Governor Mitch Daniels added a consumer-directed health insurance plan (CDHP) and Health Savings Account (HSA) option to the conventional health care plans available to state employees, some 4% signed up for it. Today, more than 70 percent of our eligible state workforce participates in the CDHP/HSA option. The average use of HSAs in the public sector across the country is just two percent.

The intent of the option was that participants would become more cost-conscious and careful about overpayment or overutilization. State employees enrolled in the CDHP/HSA will save more than $8 million in 2010, compared to their coworkers in the old-fashioned preferred provider organization (PPO) alternative. The state is saving, too. Indiana will save at least $20 million in 2010 because of the high CDHP/HSA enrollment.

The state is also seeing significant changes in behavior, and consequently lower total costs. In 2009, for example, state workers with a CDHP/HSA visited emergency rooms and physicians 67 percent less frequently than co-workers with traditional health care. They were much more likely to use generic drugs than those enrolled in the conventional plan, resulting in an average lower cost per prescription of $18. They were admitted to hospitals less than half as frequently as their colleagues. Differences in health status between the groups account for part of this disparity, but consumer decision-making is also a major factor.

Overall, participants in Indiana's new plan ran up only $65 in cost for every $100 incurred by their associates under the old coverage.

NASPE Eugene H. Rooney, Jr. Award Nomination

Submission Title: Consumer Driven Health Care Plan
Submission Category: Innovative State Human Resource Management Program
State: Indiana
Contact Person: Ms. Jerry Malooley
Title: Director of Benefits & Health Care Policy
Agency: Indiana State Personnel Department
Mailing Address: 402 West Washington Street, Room W161
Indianapolis, Indiana 46204
Telephone: 317.232.8828
Fax: 317.233.1979
E-mail: jmalooley@spd.in.gov

1. Please provide a brief description of the submission. In 2005, Indiana Governor Mitch Daniels introduced an innovative, consumer-driven health care option for eligible state employees for plan year 2006. The goal of the consumer-driven health care plan (CDHP) was to improve health outcomes and make more efficient use of health care dollars over the long term by empowering employees to keep themselves and their families healthier.

2. How long has the submission been in existence? It was implemented January 1, 2006.

3. Why was the submission created? Governor Daniels offered CDHPs and Health Savings Accounts (HSAs) for two reasons: to empower employees to take control of their health and the dollars they spend on health care. State employees and their dependents were no different than others who historically have been largely insensitive to and insulated from the actual costs of health care services. With little or no out-of-pocket cost or knowledge thereof, employees easily viewed these services as free because they "had no skin in the game." There was a lack of engagement and personal accountability for cost or utilization by the actual consumers of health care. As a result, the state's health care costs were ever-increasing and doing so

significantly faster than the rate of inflation or the consumer price index. Among the state's goals for embracing the CDHP/HSA concept and providing a sizeable incentive: Encourage long-term improvement in the health status of the employee population and their families, learn to efficiently utilize personal funds for the purchase of medical services, safe for future and retirement health care needs, increase the personal interest of employees and their dependents to make informed health care decisions and lower the state's ever-rising trend line.

4. How does this submission support the goals and objectives of your agenda/department? Our CDHPs are offered in addition to the traditional plans put in place many years prior to 2006. Historically, traditional plans have low deductibles, some with first-dollar coverage, co-pays not subject to a deductible, little or no emphasis on preventive care and/or prescriptions not subject to the plan deductible. The CDHPs are HSA-qualified, meaning they meet certain federal criteria set forth in the Medicare Modernization Act of 2003. Examples include, but are not limited to: minimum and maximum deductibles, maximum out-of-pocket limitations, services allowed prior to deductible being met, coverage eligibility covered benefits subject to meeting the plan deductible (include prescription drugs), preventive care services coverage limitations and defined and limited purpose plans. These accounts are used in conjunction with a CDHP. There are strict eligibility requirements for HSAs and CDHPs; both are very much intertwined. There is a triple tax advantage to the HSA. It is funded with pre-tax dollars, disbursements for qualified medical expenses are made with pre-tax funds, and the interest in the account is accumulated tax-free. The accounts are owned by the employee and are fully portable. Because the employee owns the HSA, s/he has a vested interest in how s/he spends those funds.

Account balances roll over each successive year and continue to accu7mulate as long as the employee is enrolled in an HSA-qualified health plan.

5. Have you been able to measure the effectiveness of this submission? If so, how? Our only direct out-of-pocket cost for this initiative was $70,000 for an actuarial valuation of the 2005 plans, as well as possible designs for our new consumer-driven effort. We identified three designs to be used as models and had them evaluated for cost, migration pattern probabilities and employee appeal. Legal and legislative researches were completed internally, as were the design and development of direct and indirect employee communication pieces and educational pieces, and the identification of an experienced banking partner. Plan design consultation was provided pro bono. By mid-2005, we decided to eliminate two small regional HMO plans. With their termination on December 31, 2005, we were able to shift employee responsibilities to the CDHPs. Hardware was in plan and current software was programmed to accommodate the new plan and HSA choices. Our IT team has been outstanding in making software changes of all new HSA accounts with our banking partner's Web site. The team has created several programs that enable detailed data capture for data mining and analysis.

6. What are the program's operational costs? N/A. This was never a stand-alone program, but an additional offering to an ever-changing benefits menu.

7. How is this program funded? The program is funded through employee and employee premiums.

8. Did this program originate in your state? No.

9. Are you aware of similar programs in other states? If yes, how does this program differ? We know that Georgia was working on a similar program and that other states may have adopted the offering, but we do not know the details. What we do know is that across the country, the state of Indiana has the greatest participation rate. The national average participation rate for public sector employees is two percent. Seventy percent of our eligible employees participate in the CHDP/HSA program.

10. How do you measure the success of this program? A study has been completed to ascertain the effectiveness of our CDHPs over the four years the plans have been in existence. Preliminary information is impressive on several fronts: The state has saved 10.7 percent through CDHP participation; the state's health risk scores have improved, which is contrary to expectations of an aging state workforce; CDHP participants have less frequent use of emergency rooms; fewer physician's office and outpatient visits; greater use of generic drugs; shorter hospital stays and fewer hospital admissions. Also, the utilization differences are very consistent across the continuum of plans. PPO participants have the highest health care utilization rates. Of two CDHPs we offer, CDHP2 (the less strong consumer design) has lower health care utilization rates than the PPO and CDHP1 (the stronger consumer design) has the lowest health care utilization rates.

11. How has the program grown and/or changed since its inception? The program has only grown in numbers of enrollees. The number of enrollees has skyrocketed from four percent in the first year to an astounding 70 percent today (four years later). Changes are made only in accordance with federal guidelines, regulations and legislation.