Consumer Directed Plans
Implications For Stakeholders

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Agenda

- Why Consumer directed plans
- Market reaction/Early Results
- Expected impact on
  - Employers
  - Employees
  - Providers

About Sterling HSA…

- **PRIVATE COMPANY FOCUSED EXCLUSIVELY ON HSAs**
- **DEEP DOMAIN EXPERTISE IN HEALTH INSURANCE**
- **INDEPENDENT; SUPPORTS ALL HEALTH PLANS**
- **REVIEW MEDICAL BILLS**
- **RECORD-KEEPING FOR CLIENTS**

About Sterling HSA. ..

- **ALLOWS SELF-DIRECTED INVESTMENTS**
- **SUPPORTS EMPLOYER AND EMPLOYEE RECORDKEEPING/ACCOUNTING**
- **FIRST TO ENROLL TAFT HARTLEY GROUP (TEAMSTERS)**

Defining CDHP

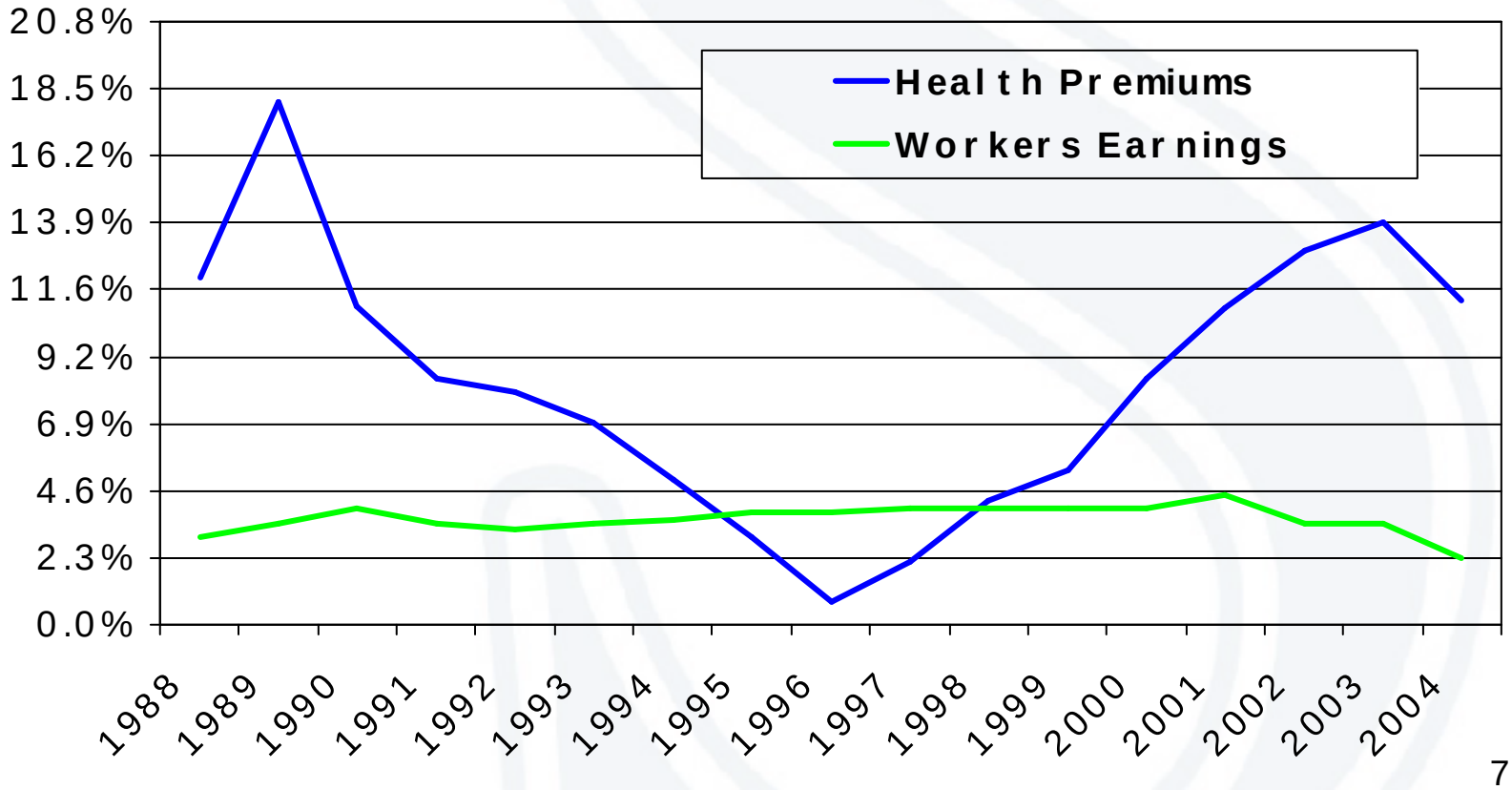
- Financial Incentives to Control Utilization/improve health status
- Customized Benefit Design, including networks
- Self Service (decision support tools)
- Internet as a Key Enabler for decision-making
- **Not just a product!**

Forces Behind CDHP

- HEALTH CARE COST INFLATION
- REDUCE EMPLOYER COST/LIABILITY
- ENCOURAGE CONSUMER COST-CONSCIOUS BEHAVIOR
- EMPLOYER INTEREST IN RE-ENGINEERING HEALTH CARE
- PROVIDER BACKLASH AGAINST MANAGED CARE

Spiraling Health Care Costs

Average Annual Growth Rates
Health Insurance Premiums vs. Workers Earnings



Questionable Medical Spending

- 44,000 to 98,000 avoidable deaths each year

  Source: Institute of Medicine, 1999

- "Our study suggests that perhaps a third of medical spending is now devoted to services that don't appear to improve health or the quality of care – and may make things worse."

  Elliot S. Fisher, Professor of Medicine, Dartmouth Study, 2003

Health Status Determined Predominantly by Behaviors

- **6% - 14% of medical costs attributed to smoking**
- **49% lower cost if:**
  - Non-Smoker
  - Non-Obese
  - Engage in physical activity 3 days/week

Source: National center of Policy analysis, May 2003; Journal of the American Medical Association, 1999

Transforming Medical Care Financing

From Supply to Demand Economics

Supply	**Demand**
Impact Providers	Impact consumers
Strategies designed To control MD/ Hospital utilization	Financial incentives to control use

CDHP Features

- Offered as full replacement or “slice” business
- Financed by insurance or self-funding
- Benefit structure includes:
  - High Deductibles
  - Maximum Out-of-Pocket
  - Link to Financial Vehicles (HRAs, HSAs, FSAs)
  - Preventive Care Incentives
  - Individual Choice

Shift in Role of Medical Providers

FROM	**TO**
Contracted supplier	competing at the consumer level
One Network Tier	Choosing to participate at a specific network tier

Shift in Role of Employer

FROM	TO
primary purchaser	financial contributor
vendor selection/ management	information provider
extensive benefits	promote self service

Shift in Role of Employees

FROM	TO
Passive Participant	Empowered Consumer
Compliant Patient	Active Partner in Own Health Care

Funding Vehicles

- HRAs (Health Reimbursement Accounts)
- HSAs (Health Savings Accounts)
- FSAs (Flexible Spending Accounts)

HSAs, HRAs & FSAs

	Health Savings Accounts	Health Reimbursement Accounts	Flexible Spending Accounts
Who regulates?	Treasury Title IV	Dept. of Labor Title I	Dept. of Labor Title I
Who owns the money?	Employee	Employer	Employer
Can employees invest the proceeds?	Yes	No	No
Can employees take the money if they leave?	Yes	No	No
Do funds roll over?	Yes	Yes	No
Who can contribute?	Employer & Employee	Employer	Employer & Employee
What kind of health plan do you need?	High Deductible	Any Qualified	Any Qualified

HSAs

Advantages of HSAs

- Employee control of funds
- fosters cost-conscious behavior, leading to lower insurance rates
- portable
- triple tax advantages
- No ERISA requirement
- Non-medical expense OK (long term care premium, dental, vision services, alternative care, etc.)

Disadvantages of HSAs

- Tied to HDHP
- Employer has no control over funds

Market Reaction

Adoption Rates of CDHP

2004	1%
2005	3%
2006	12%
2010	24%

40% will come from PPOs; 20% from HMOs

Source: Forrester Research, 2004

Market Trends

National Market Potential of HSAs

2005:	1.5 million accounts*
2006:	3.5 million accounts*
2007:	5.5 million accounts*
2008:	12 million accounts **

Adoption curve similar to IRAs and 401(k)s

*United Health Care Investor Presentation Q3 2004

** HSAInsider, February 2005

Early Results with HRAs

Employers sponsoring CDHP with HRAs

- 50% report decreased overall medical spend
- 46% report medical claims/cost decreased
- 54% report RX cost declined
- 65% report increase in generics
- 29% report decreased Physician visits

Source: May, 2005 Segal Company survey of 27 large employers employing 680,000 employees

Early Results with CDHPs

- HDHP spend (even without spending accounts) Results in a One-Time Reduction in Utilization of about 4% to 15%
- 10% of businesses today offer plans with at least $1,000 deductible
- 75% of insurers offer HSA compatible Plans

Source: Rand Study of Consumer Driven Plans, June 2005

Healthcare Utilization

Among Aetna's consumer directed plans:

– Adult Preventive Services	Up 23%
– Specialist office visit	up 3%
– ER Visit	down 3%
– Inpatient Admissions	Down 5%
– # of Rx	down 13%
– Use of generic drugs	up 7%

Source: Aetna, "managing Benefit Plans", September 2004

Early Consumer Survey

- Most Appealing Features of HSAs
  - Keep Unspent Funds
  - Tax Deductibility
  - Funds Accumulate Over Time
  - Personal Control Over Investments
  - Personal Control Over Spending
- Least Appealing Features
  - High Deductible

Source: Highmark Study, 2005

Early market responses to HSAs

- 7 out of 10 Americans with Private Health insurance favor HSAs
  Source: AHIP study 2004
- 7% of 360 Employers surveyed offer HSAs in 2005; 36% plan to offer in 2006 Source: Mellon Financial Corp, May 2005
- What do consumers like about HSA?
  - Personal Control
  - Choice
  - Lower Cost Source: AHIP Study 2004

HSA-Compatible Plan Members Demographics (June 2005)

45.0% are over 40 years old (19% are 50 or over)

42.9% are Families

42.3% have incomes of $50,000 or less

49.5% previously uninsured **(**with incomes less than $15,000)

15.0% reduction in overall monthly premiums for HSA eligible plans (from 2004)

Source: eHealthInsurance: Health Savings Accounts: The First Six Months of 2005

Sterling HSA Demographics. . .

By Age

25 or younger	6.50%
26-40 yrs old	28.46%
41-55	45.49%
56-64	19.55%
Total	100.00%

How Often Are Sterling HSA Funds Disbursed...

# of Disbursements/Accountholder	
0	71%
3 or less	14%
4 to 6	9%
Over 7	6%

Use Of Sterling HSA Funds. . .

Meets HP Deductible	39%
Meets IRS Med Expense Criteria	50%
Does Not Meet IRS Med Criteria	11%

How Are Sterling HSA Funds Used. . .

In Order of Frequency

- Drugs
- Doctors
- Dental
- Hospitals

Sterling Employer Support . . .

% of Accountholders by Level of Employer Contribution Towards the Deductible

No Contribution	18.65%
25% of Deductible or Less	34.28%
50%	36.69%
75%	4.38%
100%	6.00%

Where Are Sterling HSA Funds Being Invested. . .

Liquid instruments 98%
(CDs, passbook accounts)

Possible conclusions:

- Clients not willing to risk first year's deductible savings
- Deposit size too small to engage in investment planning/execution

Employer Funding of HSA. . .

Decision rests on:

- Size of employer group
- Expected savings from switching to CDHP
- Employer interest in speeding adoption of CDHP

Employer Contribution

- If savings realized through lower cost HDHP, employers often willing to share some or all of the savings with employees
- Employer contribution to employee's HSA speeds adoption
- Over half of Sterling employer clients fund in one lump sum

CDHP Impact on Employees

Empowered but confused

- Need to invest time/energy to understand CDHP
- Will force transparency in pricing/outcomes
- Older employees likely to use savings accounts for asset accumulation/long term care needs

CDHP Impact on employers

- **May need to provide financial subsidy to accelerate movement to CDHP, e.g., contribute to HSA**
- **Requires investment in ongoing education of employees**
- **For the short term, may need to provide employee support to navigate among choices**

CDHP Impact on Providers

- Compel transparency in pricing/quality outcomes to attract patients
- Forced to deal with variations in outcomes
- Foster pay- for- performance programs
- Expect more direct-to-consumer advertising

Summary

- CDHP IN THE VANGUARD OF TRANSFORMING MEDICAL CARE FINANCING
- PROMISE OF COST SAVINGS/GREATER INDIVIDUAL ACCOUNTABILITY MUST BE TEMPERED BY NEED FOR EDUCATION/CONSUMER SUPPORT
- Empowered but confused consumers will retard growth
- PROVIDER COMPETITION AT THE CONSUMER LEVEL IS A GOOD THING
- WILL FORCE SHIFTS IN THE ROLES OF EMPLOYER/PROVIDER/PAYOR (NOT A BAD THING!)

Questions?

Thank You!

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