Consumer Directed Plans
Implications For Stakeholders

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President, Sterling HSA™

Department of Managed Health Care
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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

<table>
<thead>
<tr>
<th>Supply</th>
<th>Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact Providers</td>
<td>Impact consumers</td>
</tr>
<tr>
<td>Strategies designed</td>
<td>Financial incentives</td>
</tr>
<tr>
<td>To control MD/</td>
<td>to control use</td>
</tr>
<tr>
<td>Hospital utilization</td>
<td></td>
</tr>
</tbody>
</table>
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

Contracted supplier

One Network Tier

TO

competing at the consumer level

Choosing to participate at a specific network tier
Shift in Role of Employer

<table>
<thead>
<tr>
<th>FROM</th>
<th>TO</th>
</tr>
</thead>
<tbody>
<tr>
<td>primary purchaser</td>
<td>financial contributor</td>
</tr>
<tr>
<td>vendor selection/management</td>
<td>information provider</td>
</tr>
<tr>
<td>extensive benefits</td>
<td>promote self service</td>
</tr>
</tbody>
</table>
## Shift in Role of Employees

<table>
<thead>
<tr>
<th>FROM</th>
<th>TO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passive Participant</td>
<td>Empowered Consumer</td>
</tr>
<tr>
<td>Compliant Patient</td>
<td>Active Partner in Own Health Care</td>
</tr>
</tbody>
</table>

![Image of two individuals]
Funding Vehicles

• HRAs (Health Reimbursement Accounts)

• HSAs (Health Savings Accounts)

• FSAs (Flexible Spending Accounts)
# HSAs, HRAs & FSAs

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

<table>
<thead>
<tr>
<th>Age</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>25 or younger</td>
<td>6.50%</td>
</tr>
<tr>
<td>26-40 yrs old</td>
<td>28.46%</td>
</tr>
<tr>
<td>41-55</td>
<td>45.49%</td>
</tr>
<tr>
<td>56-64</td>
<td>19.55%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>
How Often Are Sterling HSA Funds Disbursed...

<table>
<thead>
<tr>
<th># of Disbursements/Accountholder</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>71%</td>
</tr>
<tr>
<td>3 or less</td>
<td>14%</td>
</tr>
<tr>
<td>4 to 6</td>
<td>9%</td>
</tr>
<tr>
<td>Over 7</td>
<td>6%</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Contribution Level</th>
<th>% of Accountholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Contribution</td>
<td>18.65%</td>
</tr>
<tr>
<td>25% of Deductible or Less</td>
<td>34.28%</td>
</tr>
<tr>
<td>50%</td>
<td>36.69%</td>
</tr>
<tr>
<td>75%</td>
<td>4.38%</td>
</tr>
<tr>
<td>100%</td>
<td>6.00%</td>
</tr>
</tbody>
</table>
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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