

Transforming Health Care through Consumer Engagement

National Health Policy Forum
July 28, 2005

Definity Health, a UnitedHealth Group company

Over one million individuals in consumer-driven health plans.

(includes individual business)

Offering consumer strategies to small, mid-sized and large employers

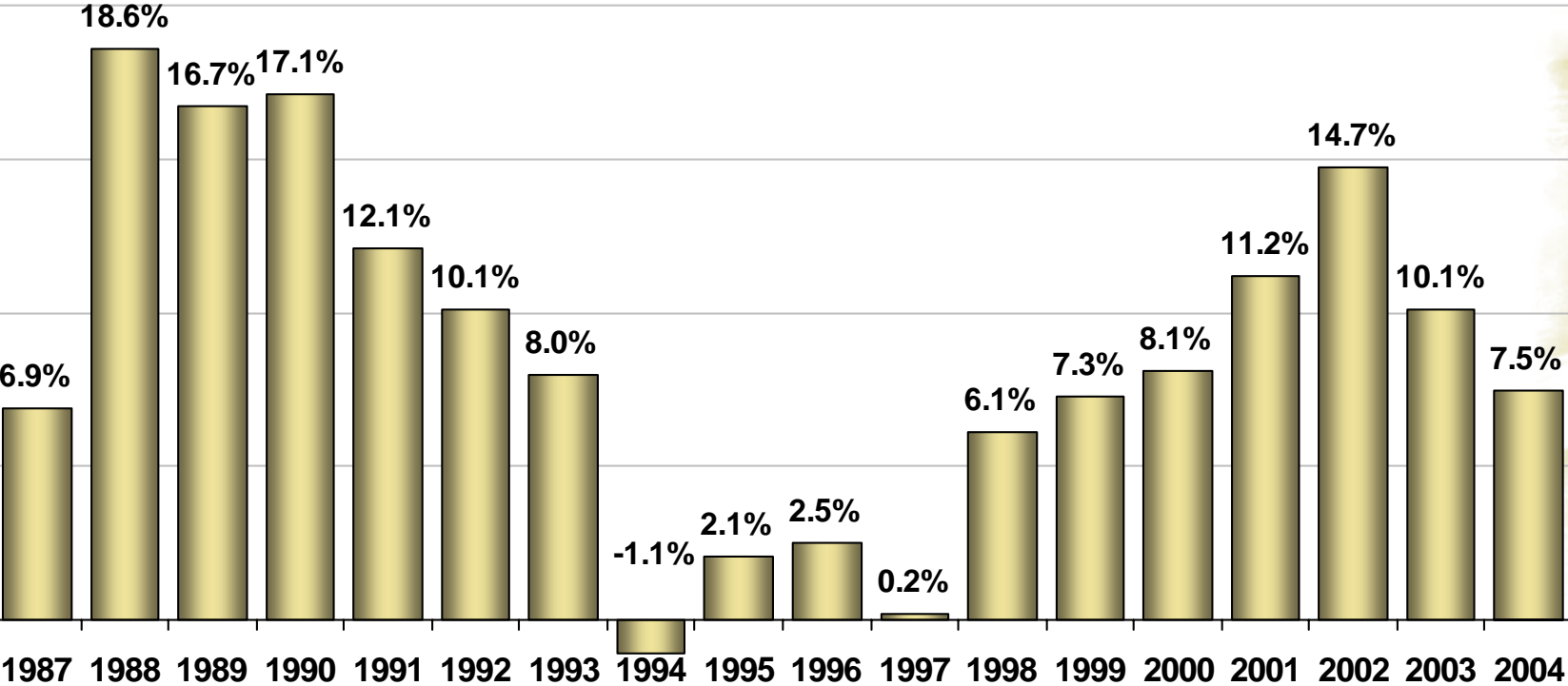
- > 5600 employer clients
- > 375,000 consumers in Health Savings Accounts (HSAs)
- > 675,000 consumers in Health Reimbursement Arrangements (HRAs)

Over 4 million consumers registered on web tools

.....completing approximately 70mm transactions in 2004.

Managed Care, Managed Costs.... Now What?

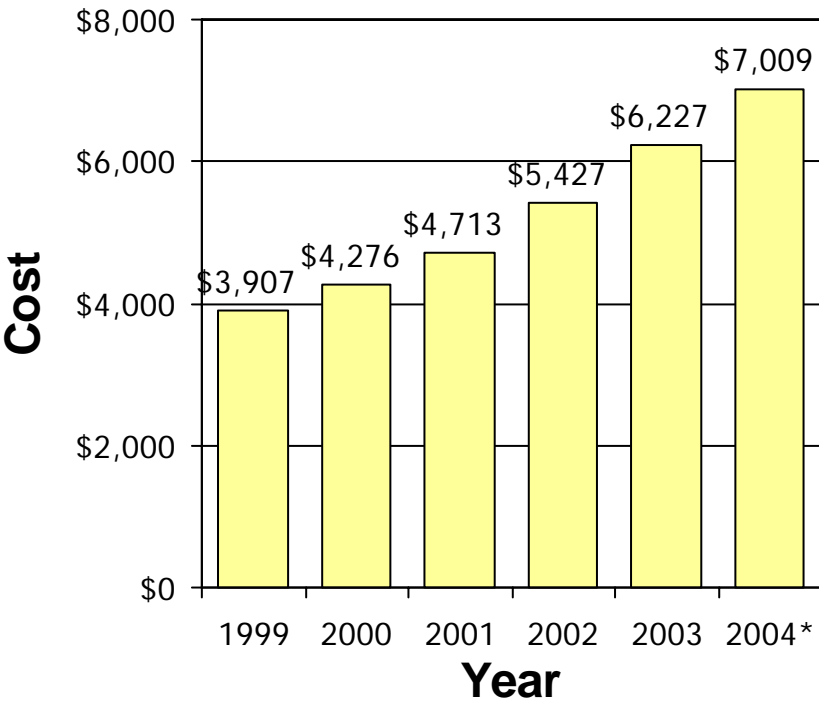
Health Plan Cost Increases - All employers



Source: Mercer's 2004 National Survey of Employer-Sponsored Health Plans

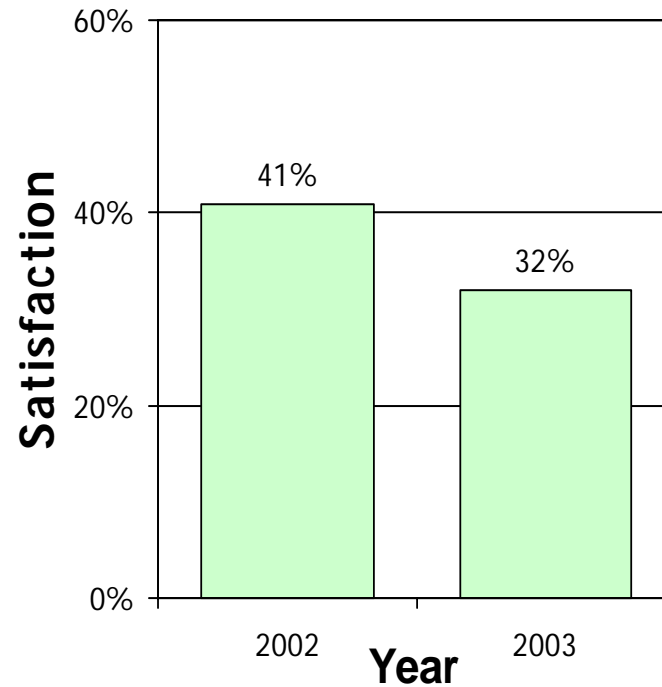
Plan Costs Are at Record Highs – But Member Satisfaction Is Dropping

National Average Healthcare Costs Per Employee



* Projected – Source: Hewitt Associates Health Value Initiative™ data.

Percent of Employees Highly Satisfied with Their Benefits



Source: Centers for Medicare and Medicaid Services



Our Discussion

A Consumer Focused Context

Health Savings Accounts

Actions employers are taking

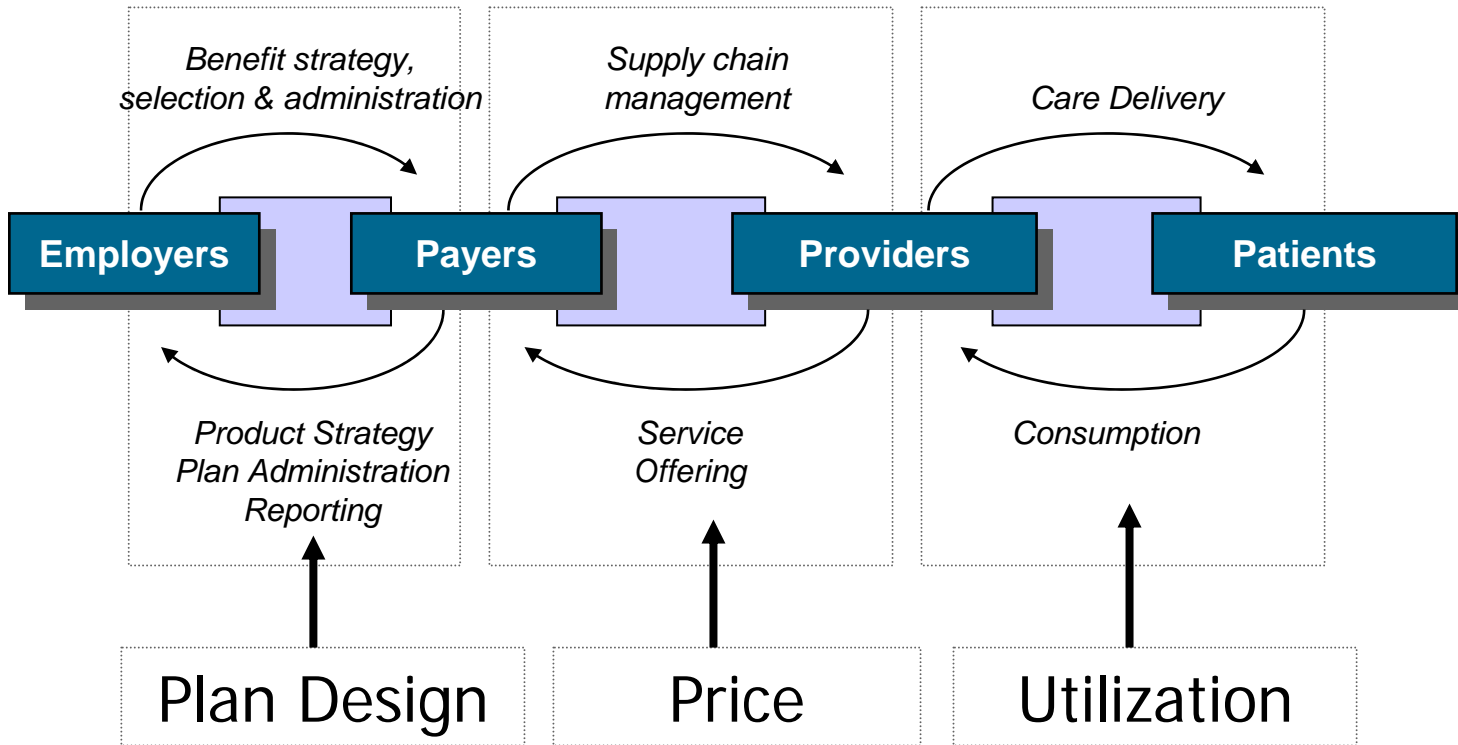
- > The year ahead
- > In 2006 and beyond

Perceptions and Misperceptions

Emerging Results



The Healthcare Value Chain – an irrational market structure



A Different Approach - The Road to Value-Conscious Healthcare Consumers

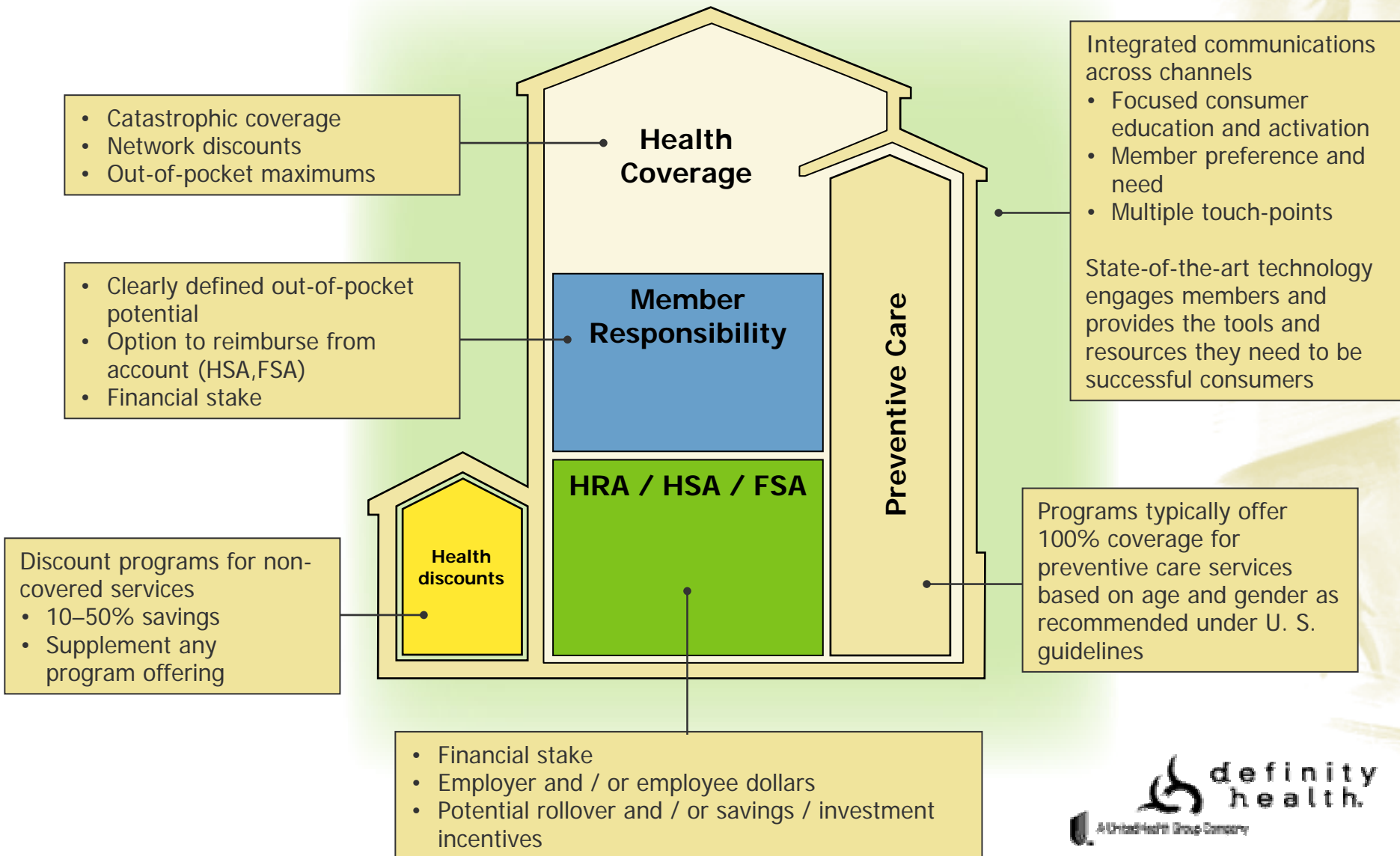


Foundation for Healthcare Consumerism

- Trust
- Simplicity
- Marketplace
- Accessibility

Account-Based Programs Engage Members as Consumers

Account-based consumer solutions initiate the transformation from passive health plan members into value-conscious consumers



HSA.....What Exactly Are They?

A Health Savings Account is a consumer-owned, tax-advantaged savings account, created to pay medical expenses, that is always combined with a high deductible health plan. The HSA is now more truly the consumer's money, a powerful incentive to better plan and use health care resources.

Health Savings Accounts allow for

- **Tax-free contributions** by employer or employee
- **Tax-free growth** of interest or investment earnings
- **Tax-free disbursements** of principal and interest to pay for qualified medical expenses
- **Accumulation** of unused funds and **portability** between employers
- **Flexible use** – consumers choose whether or when to use the account for health expenses, now or after employment

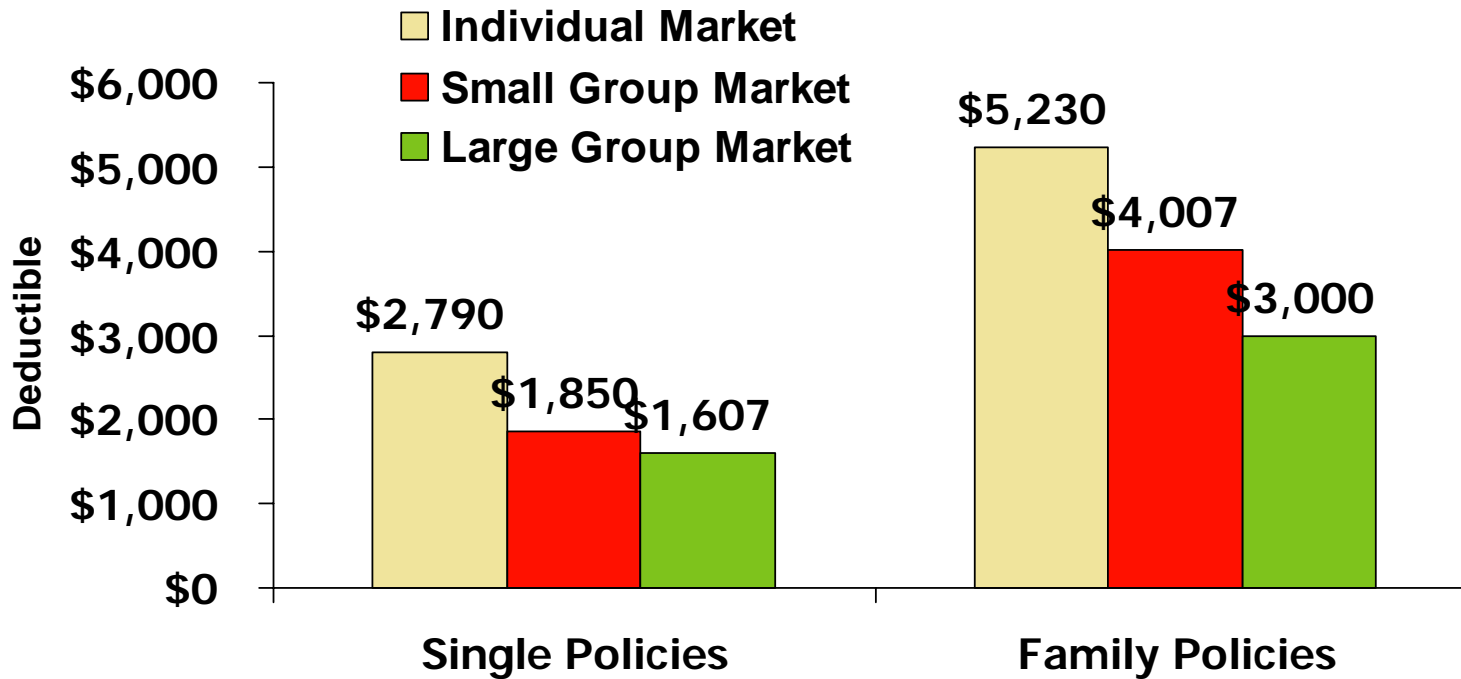
The High Deductible Health Plan (HDHP) (designed by Treasury)

	Single	Family
Minimum Deductible*	\$1,000**	\$2,000**
Maximum Out-of-Pocket	\$5,100**	\$10,200**
Preventive Care	100% First Dollar Coverage Allowed	
Rx Costs	Must apply to Deductible and Maximum Out-of-Pocket by 1/1/2006	
Annual Tax Deductible Contribution Limits	Lesser of In-network Deductible or \$2,650** Catch up contributions allowed \$600/individual age 55+	Lesser of In-network Deductible or \$5,250**

* *Deductible applies to the Maximum Out-of-Pocket*

** *The dollar amounts apply for 2005 and must be adjusted for cost of living increases each year*

Average Annual Deductible - Best Selling HSA/HDHP Industry-wide (3/05)



The Account

- Anyone can contribute on my behalf
- Employers are not required to contribute-but an employer paid deposit will encourage enrollment and participation.
- Older participants can make catch up contributions (\$500/yr through 2008; \$1000/yr thereafter)
- My annual contributions are limited by my deductible (or flat amount)
- 1/12th rule prorates annual contribution
- Can be offered as an integrated program or stand-alone component



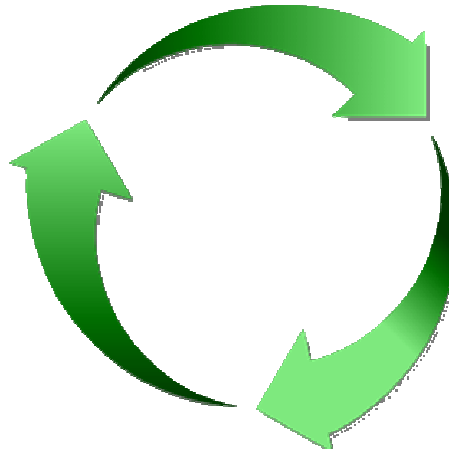
How Does It Work?

1
Fund the account via payroll deductions, mailing check, or ACH (Automated Clearing House) transfer from household checking account

2
Grow the account through 4% interest rate or investment options (tax free)

3
When accessing health services, consumers and physicians **submit the claim** first to ensure the consumer's correct financial responsibility is known*

4
Call one toll-free number or use one web site for service.



5
The consumer then **decides whether to access the account** to offset these expenses or to use disposable income to pay, leaving the HSA to continue to accumulate and grow.

6
End of the year **receive tax forms** (for claiming deduction on deposits outside of payroll deduction)

7
Receive monthly bank statement detailing deposits and withdrawals or view online at myuhc.com

8
Use debit card or on-line bill pay to pay the provider directly



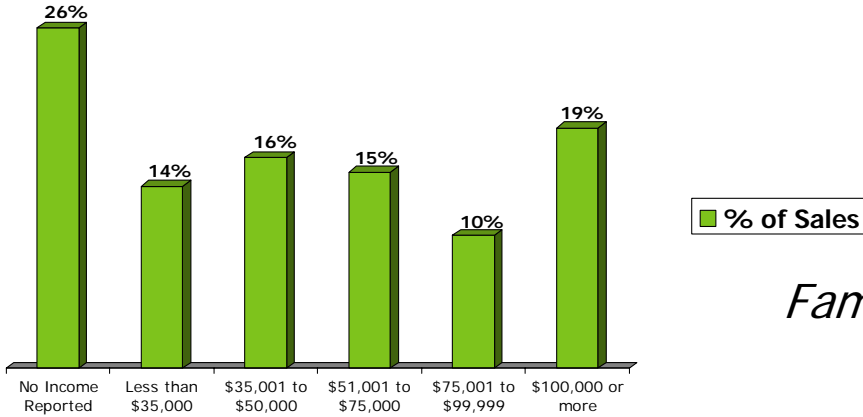
A Compelling Approach for Many

- High interest in a strategy just a year old
 - > ~ a third of 2005 employers started their review AFTER July 2004
 - > Includes retail, fast food, health systems
- Consultants predict 65 – 75% of employers will offer by 2006
- 140 customers introduced HSAs for 2005
 - > 5000+ by 7/1/05
- 50% of large employer consumer plan requests are for HSAs
- 2004 activity concentrated in the Midwest, rapidly expanding
- Reinforced by President Bush's proposed budget (2/7/05)

HSA's in 2004 – Busting the White Collar Myth

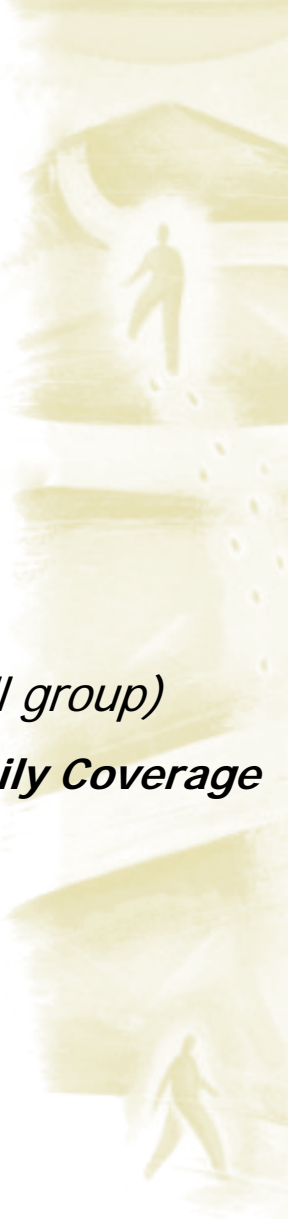
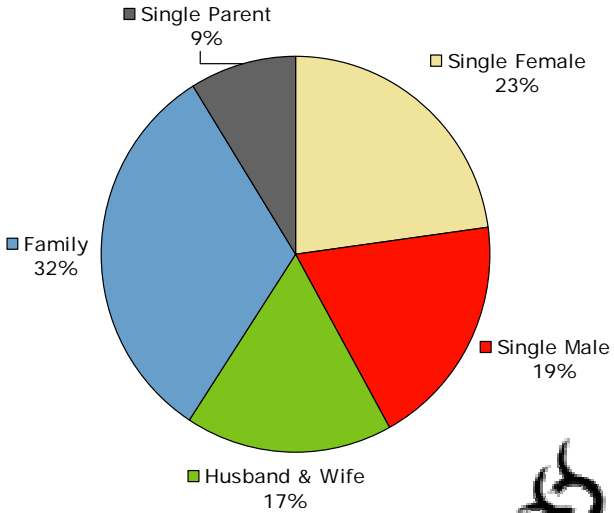
Income of Buyers (individual and small group)

- **30% of Purchasers Earn Under \$50,000**



Family Status (individual and small group)

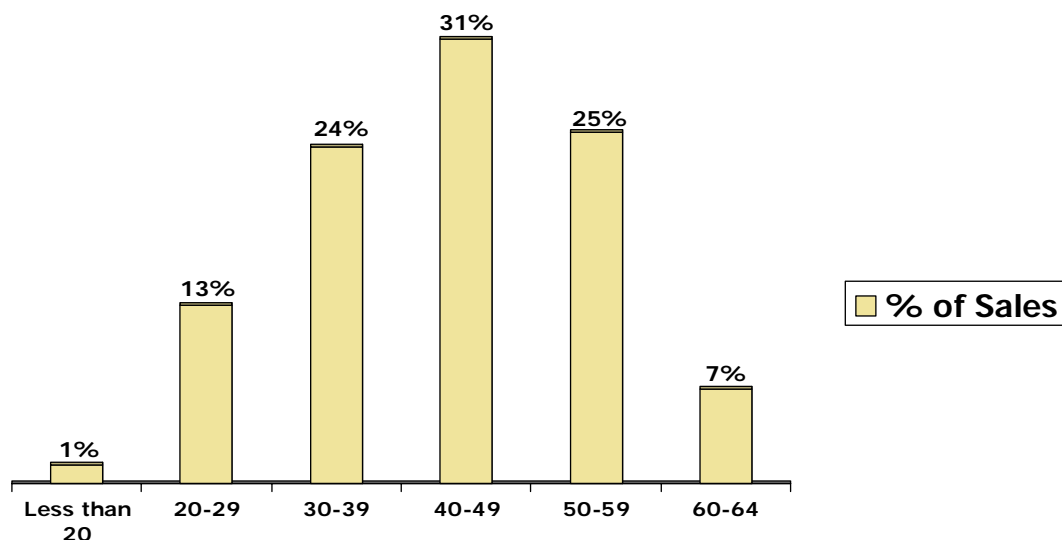
- **58% of Purchasers Buy Family Coverage**



HSAs in 2004

Age of Buyers (individual and small group)

- **63% of Purchasers Are Over Age 40**



Extending Access

- **17.8% of buyers were previously uninsured**
(early industry reports were 33%)

Who is Right for an HSA?

Separating Myth and Reality

Myth:

HSAs will really just be a small group product to start"

Reality:

Heavy interest and sales across all market segments

Myth:

"CDHP clients will be high tech, or accountants, or senior executives..."

Reality:

Industry mix -- includes retail, manufacturing, health care

Myth:

"People who enroll won't get the care they should"

Reality:

8-11% higher use of preventive care compared to peers

Myth:

"Just the young, single people will select an HSA"

Reality:

Demographically, there is little difference between HSA and non-HSA populations

HSAs –What We Learned

Employer Fun Facts

50 - 70% of those eligible opened HSA account at Exante

Contributions

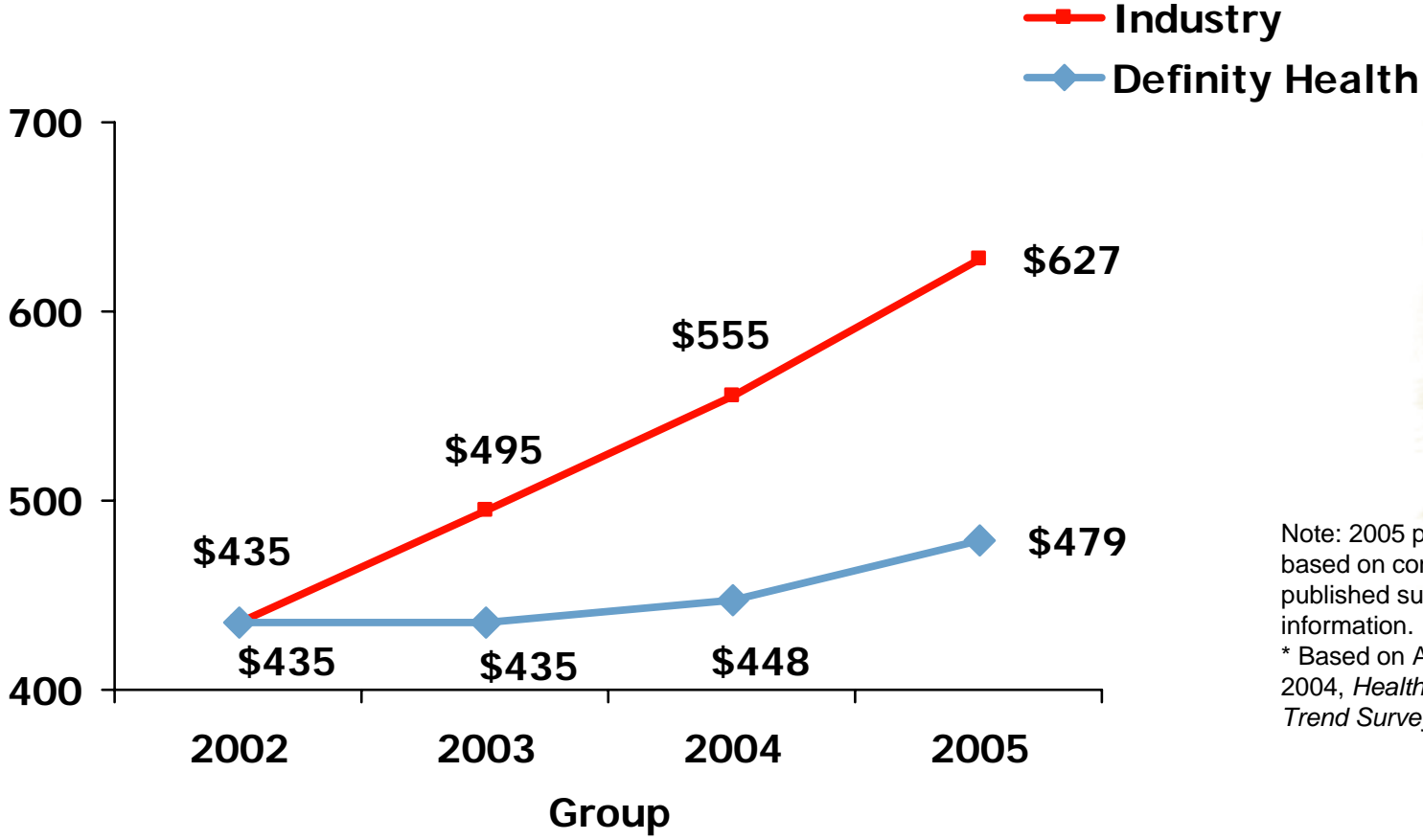
- > 60% of employers ARE contributing
- > Comparable to Mellon survey respondents: 2/3 indicated likelihood of contributing
- > Most contributing on a period basis rather than initial lump sum (close to fully funded for first 2 – 3 months)
- > Small professional firms making large early contributions: physicians, lawyers, builders, financial professionals, consultants, real estate firms

Account Balances

- > Account balances tracking to \$80 -100 million by 12/31/05

Short- and Long-Term Cost Control

Year-Over-Year Renewal Rate Comparison (PEPM)



Note: 2005 projections based on consensus of published survey information.
* Based on AON, Fall 2004, *Health Care Trend Survey*.



Specific Behavior Changes

Consumer health behavior change

- > Claimants/1000 decreased
- > Preventive care use was 8% higher than non-CDH peers
- > Emergency room visits/1000 decreased 15–18%
- > In 2 of 3 plans, outpatient services decreased 6 – 9%

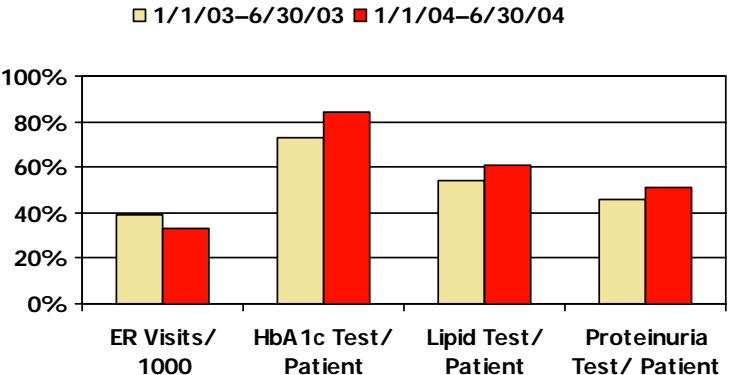
Consumers demonstrate ownership

- > Common reason for calls/web visits - “What’s the balance of my account?”
- > 85% carried an account balance into 2004
- > 55% report being more likely to think twice about going to the doctor for minor health needs

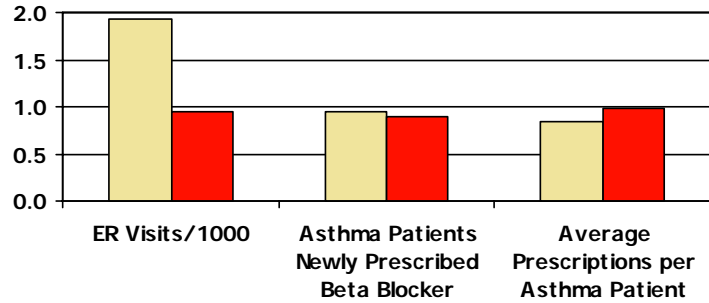
Results of iPlan CDHP plan, based on health reimbursement account.

Early Indications of Quality Improvement

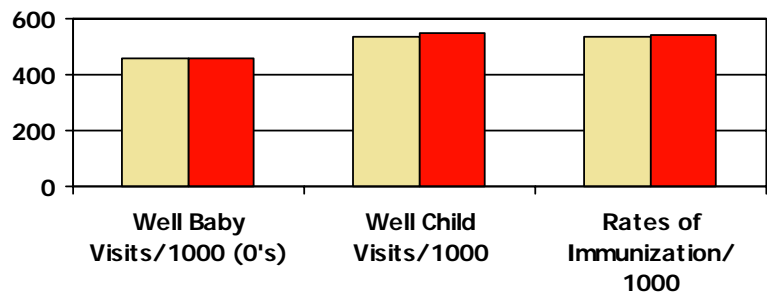
Diabetes Quality Measures



Asthma Quality Measures



Child Preventive Care



Utilization Change

- ER visits: ↓ 16.34%
- HbA1c Tst: ↑ 15.58%
- Lipid Tst: ↑ 13.02%
- Proteinuria Tst: ↑ 10.56%
- ER visits: ↓ 17.47%
- % Beta Blocker: ↓ 4.13%
- Asth Scripts: ↑ 17.02%
- Well Baby Visits: ↓ 0.42%
- Well Child Visits: ↑ 1.70%
- Early Child Immun: ↑ 0.77%



Current Employer Perceptions

- Kudos to Treasury for designing a horse, not a camel

- To really make it gallop:

Technical Corrections

- > Release indexing increases in time for employer planning
- > Align definition of covered dependent for HSA and health plan purposes

Policy Changes

- > Increase flexibility for conversion of early HRA plans to HSA
- > Allow coordination of HSA with HRA and FSA accounts
- > Revisions needed to make more useful for retiree health planning
- > Increase annual contributions allowed into the account

Appendix

Reference Material



Health Savings Accounts in Context

Feature	Flexible Spending Account	Health Reimbursement Account	Health Savings Account
Plan Design	Any type	Any type	Qualified HDHP
Employee Contributions	Pre-Tax	N/A	Pre-Tax
Employer Contributions	Pre-Tax but typically employee funded	No contributions – only “funds”	Pre-Tax
Funds Available Day One	Yes	Yes	As Deposited
Withdrawal	Tax-free for qualified expenses	Tax-free approved by sponsor	Tax-free for qualified expenses
Qualified Expenses	Section 213d	Section 213d or sponsor specific	Section 213d
Forfeiture	Yes, at end of year	Yes, upon term.	No
Portability	No	No, but some exceptions	Yes
Interest Bearing	No	No	Yes
Employer Contributions	Yes, but typically employee-funded	Yes	Yes
Balance at Risk from Investment	N/A	N/A	Yes
Expense Substantiation	Yes	Yes	No
Above-the-line Tax Deduction	N/A	N/A	Yes – no itemization required



How It Works – Cheryl and Family

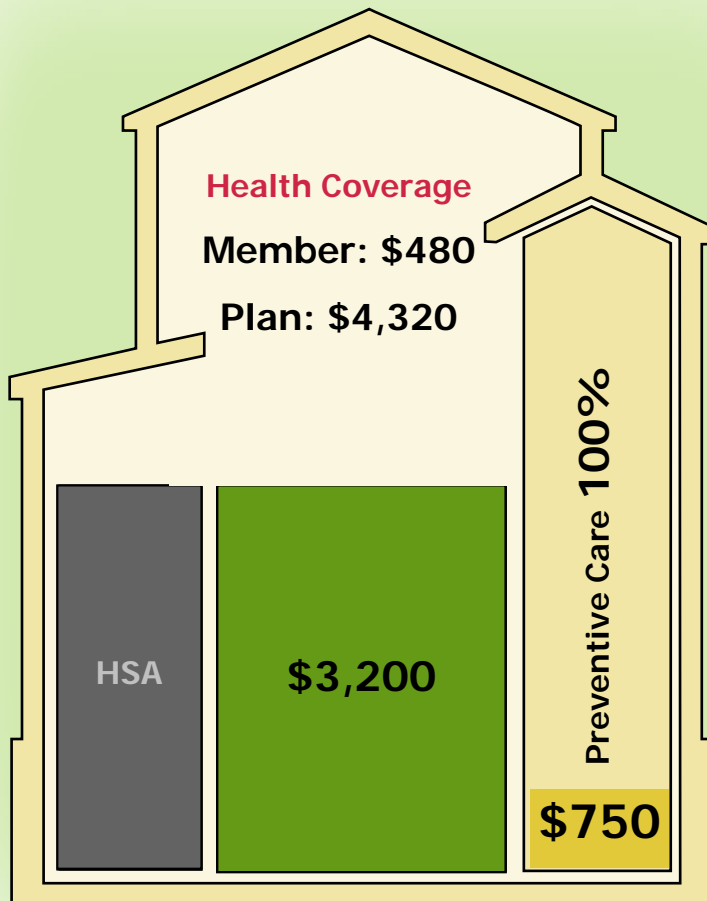
Meet Cheryl, a single mother of two children, Derek and Sarah. Definity Health gives her ...

- > Lower monthly premiums
- > Ability to keep her children's doctor
- > Possibility to invest and save

Cheryl's employee + children plan:

- **Health Savings Account: \$3,200**
- **Member Responsibility: \$3,200**
- **Health Coverage: 90% (in-network)**

Cheryl and Family – Year One



HSA funded \$ 3,200

Preventive Care \$ 750

Non-Preventive

1 ER Visit	\$ 1,250
Hospitalization	4,750
4 Physician's visits	500
11 Prescriptions	<u>1,500</u>
	\$ 8,000

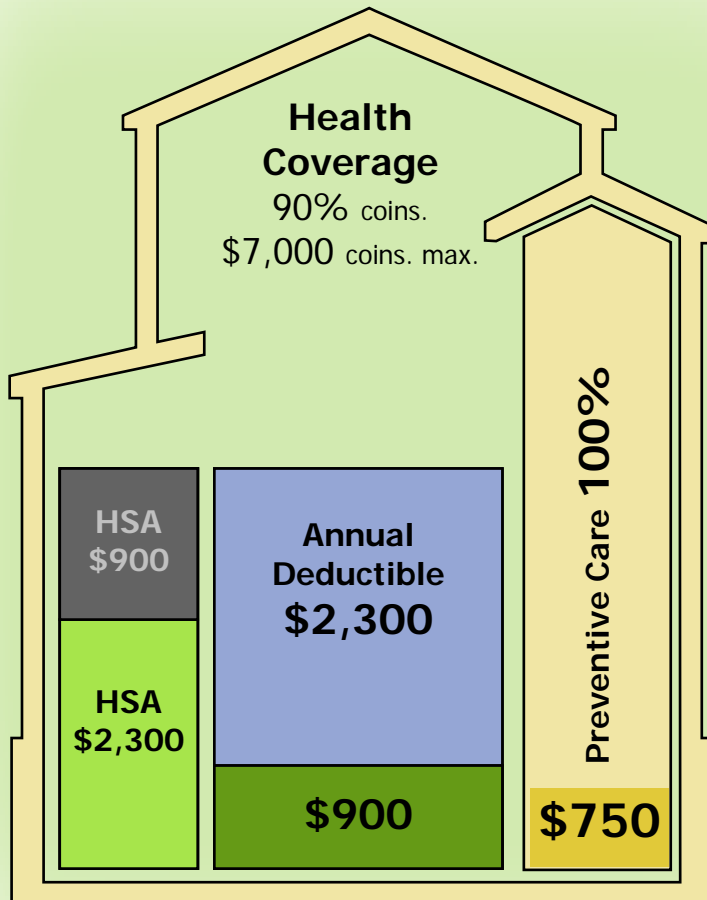
HSA Pays \$ 3,200

Health Coverage

Member	\$ 480
Health Plan	4,320

Note: Assumes all in-network care – different coinsurance levels on out-of-network care apply.

Cheryl and Family – Year Two



HSA funded \$ 3,200

Preventive Care \$ 750

Non-Preventive

5 Prescriptions \$ 250

Lab work 250

3 Physician's visits 400

\$ 900

HSA Pays \$ 900

Member Pays \$ 0

Remains in HSA for year three \$ 2,300