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

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>6.9%</td>
<td>16.7%</td>
<td>17.1%</td>
<td>18.6%</td>
<td>12.1%</td>
<td>10.1%</td>
<td>8.0%</td>
<td>-1.1%</td>
<td>2.1%</td>
<td>2.5%</td>
<td>0.2%</td>
<td>6.1%</td>
<td>7.3%</td>
<td>8.1%</td>
<td>11.2%</td>
<td>14.7%</td>
<td>10.1%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>$3,907</td>
<td>$4,276</td>
<td>$4,713</td>
<td>$5,427</td>
<td>$6,227</td>
<td>$7,009</td>
</tr>
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</table>

Percent of Employees Highly Satisfied with Their Benefits

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction</td>
<td>41%</td>
<td>32%</td>
</tr>
</tbody>
</table>

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

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

Employers

Benefit strategy, selection & administration

Product Strategy Plan Administration Reporting

Plan Design

Payers

Supply chain management

Service Offering

Price

Providers

Care Delivery

Consumption

Utilization

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

Foundation for Healthcare Consumerism

• Trust
• Simplicity
• Marketplace
• Accessibility
Account-based consumer solutions initiate the transformation from passive health plan members into value-conscious consumers.

**Health Coverage**
- Catastrophic coverage
- Network discounts
- Out-of-pocket maximums

**Member Responsibility**
- Clearly defined out-of-pocket potential
- Option to reimburse from account (HSA, FSA)
- Financial stake

**HRA / HSA / FSA**
- Health discounts
- Financial stake
- Employer and/or employee dollars
- Potential rollover and/or savings/investment incentives

**Preventive Care**
- Programs typically offer 100% coverage for preventive care services based on age and gender as recommended under U.S. guidelines

**Discount programs for non-covered services**
- 10–50% savings
- Supplement any program offering

**Integrated communications across channels**
- Focused consumer education and activation
- Member preference and need
- Multiple touch-points

**State-of-the-art technology engages members and provides the tools and resources they need to be successful consumers**

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HSAs.....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)

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

*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)

<table>
<thead>
<tr>
<th>Deductible</th>
<th>Single Policies</th>
<th>Family Policies</th>
</tr>
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<tbody>
<tr>
<td>$0</td>
<td>$2,790</td>
<td>$5,230</td>
</tr>
<tr>
<td>$1,000</td>
<td>$1,850</td>
<td>$4,007</td>
</tr>
<tr>
<td>$2,000</td>
<td>$1,607</td>
<td>$3,000</td>
</tr>
<tr>
<td>$3,000</td>
<td>$3,000</td>
<td></td>
</tr>
<tr>
<td>$4,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$6,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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?

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

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

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

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

**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.

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

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

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

*When accessing health services, consumers and physicians submit the claim first to ensure the consumer’s correct financial responsibility is known.*
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)
HSAs in 2004 - Busting the White Collar Myth

**Income of Buyers (individual and small group)**

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

![Bar graph showing income distribution of buyers]

**Family Status (individual and small group)**

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

![Pie chart showing family status distribution]

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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”

Myth:

“CDHP clients will be high tech, or accountants, or senior executives…”

Myth:

“People who enroll won’t get the care they should”

Myth:

“Just the young, single people will select an HSA”

Reality:

Heavy interest and sales across all market segments

Reality:

Industry mix -- includes retail, manufacturing, health care

Reality:

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

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)

- **Industry**
- **Definity Health**

<table>
<thead>
<tr>
<th>Year</th>
<th>Industry</th>
<th>Definity Health</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>$435</td>
<td>$435</td>
</tr>
<tr>
<td>2003</td>
<td>$495</td>
<td>$435</td>
</tr>
<tr>
<td>2004</td>
<td>$555</td>
<td>$448</td>
</tr>
<tr>
<td>2005</td>
<td>$627</td>
<td>$479</td>
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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**

- ER visits: ↓16.34%
- HbA1c Tst: ↑15.58%
- Lipid Tst: ↑13.02%
- Proteinuria Tst: ↑10.56%

**Utilization Change**

- 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%

**Asthma Quality Measures**

**Child Preventive Care**

- ER Visits/1000
- Asthma Patients Newly Prescribed Beta Blocker
- Average Prescriptions per Asthma Patient
- Well Baby Visits/1000 (0’s)
- Well Child Visits/1000
- Rates of Immunization/1000
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
<table>
<thead>
<tr>
<th>Feature</th>
<th>Flexible Spending Account</th>
<th>Health Reimbursement Account</th>
<th>Health Savings Account</th>
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<tbody>
<tr>
<td>Plan Design</td>
<td>Any type</td>
<td>Any type</td>
<td>Qualified HDHP</td>
</tr>
<tr>
<td>Employee Contributions</td>
<td>Pre-Tax</td>
<td>N/A</td>
<td>Pre-Tax</td>
</tr>
<tr>
<td>Employer Contributions</td>
<td>Pre-Tax but typically employee funded</td>
<td>No contributions - only “funds”</td>
<td>Pre-Tax</td>
</tr>
<tr>
<td>Funds Available Day One</td>
<td>Yes</td>
<td>Yes</td>
<td>As Deposited</td>
</tr>
<tr>
<td>Withdrawal</td>
<td>Tax-free for qualified expenses</td>
<td>Tax-free approved by sponsor</td>
<td>Tax-free for qualified expenses</td>
</tr>
<tr>
<td>Qualified Expenses</td>
<td>Section 213d</td>
<td>Section 213d or sponsor specific</td>
<td>Section 213d</td>
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<tr>
<td>Forfeiture</td>
<td>Yes, at end of year</td>
<td>Yes, upon term.</td>
<td>No</td>
</tr>
<tr>
<td>Portability</td>
<td>No</td>
<td>No, but some exceptions</td>
<td>Yes</td>
</tr>
<tr>
<td>Interest Bearing</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Employer Contributions</td>
<td>Yes, but typically employee-funded</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Balance at Risk from Investment</td>
<td>N/A</td>
<td>N/A</td>
<td>Yes</td>
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<tr>
<td>Expense Substantiation</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Above-the-line Tax Deduction</td>
<td>N/A</td>
<td>N/A</td>
<td>Yes - no itemization required</td>
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</table>
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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td><strong>HSA funded</strong></td>
<td>$3,200</td>
</tr>
<tr>
<td><strong>Preventive Care</strong></td>
<td>$750</td>
</tr>
<tr>
<td><strong>Non-Preventive</strong></td>
<td></td>
</tr>
<tr>
<td>1 ER Visit</td>
<td>$1,250</td>
</tr>
<tr>
<td>Hospitalization</td>
<td>4,750</td>
</tr>
<tr>
<td>4 Physician’s visits</td>
<td>500</td>
</tr>
<tr>
<td>11 Prescriptions</td>
<td>1,500</td>
</tr>
<tr>
<td><strong>Total Non-Preventive</strong></td>
<td>$8,000</td>
</tr>
<tr>
<td><strong>HSA Pays</strong></td>
<td>$3,200</td>
</tr>
<tr>
<td><strong>Health Coverage</strong></td>
<td></td>
</tr>
<tr>
<td>Member</td>
<td>$480</td>
</tr>
<tr>
<td>Health Plan</td>
<td>4,320</td>
</tr>
</tbody>
</table>

Note: Assumes all in-network care – different coinsurance levels on out-of-network care apply.
Cheryl and Family – Year Two

Preventive Care $ 750
Non-Preventive $ 900

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