Healthcare Consumerism

The Basis
of a
21st Century Intelligent Health System

2006

Healthcare Visions, Inc.

Creating the Possible ...

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The Basis of a 21st Century Intelligent Health System

Transformation to a 21st Century Intelligent Health System is much more than employers implementing high deductible Consumer-Driven healthcare (CDHC) plans with attached saving accounts. The future is about empowering individuals with information and financial responsibility to support a position of ownership. It's about supporting and rewarding healthy behaviors regardless of plan design. It's about engaging employees, employers, providers, carriers, and other stakeholders in a new relationship that deals with health rather than sickness and disease.

Recent legislation and regulations set the stage for transformation with Health Savings Accounts (HSAs) and Health Reimbursement Accounts (HRAs). These new accounts add to the previous use of Flexible Spending Accounts (FSAs). The current use of these accounts by high deductible CDHC plans is just the 1st generation of change leading to a new 21st Century Intelligent Health System based upon the ultimate form of CDHC - Healthcare Consumerism.

The existing health care system has a fundamental structural problem. Third-party reimbursements and the absence of individual financial responsibility foster an environment of entitlement and unlimited demand for healthcare services. The current system is based on a supply-control model. Because demand is assumed to be unlimited, to contain costs plans currently limit access to providers and control the supply of care (e.g. it's not medically necessary, it's not available, it's not covered, your not sick enough, you'll have to wait for that service).

The future of healthcare is based on a demand-control model with economic forces similar to those that affect the all other purchasing behaviors. Clearly, health and healthcare are not the same as purchasing other goods and services; however, certain mega trends have been impacting our economy and service industries that have a parallel in healthcare.

Mega Trends
Leading to Demand Control

1. **Personal Responsibility**
2. **Self-Help, Self-Care**
3. **Individual Ownership**
4. **Portability**
5. **Transparency (the Right to Know)**
6. **Consumerism (Empowerment)**

Healthcare Consumerism is about transforming an employer's health benefit plan into one that puts economic purchasing power—and decision-making—in the hands of participants. It's about supplying the information and decision support tools they need, along with financial incentives, rewards, and other benefits that encourage personal involvement in altering health and healthcare purchasing behaviors.

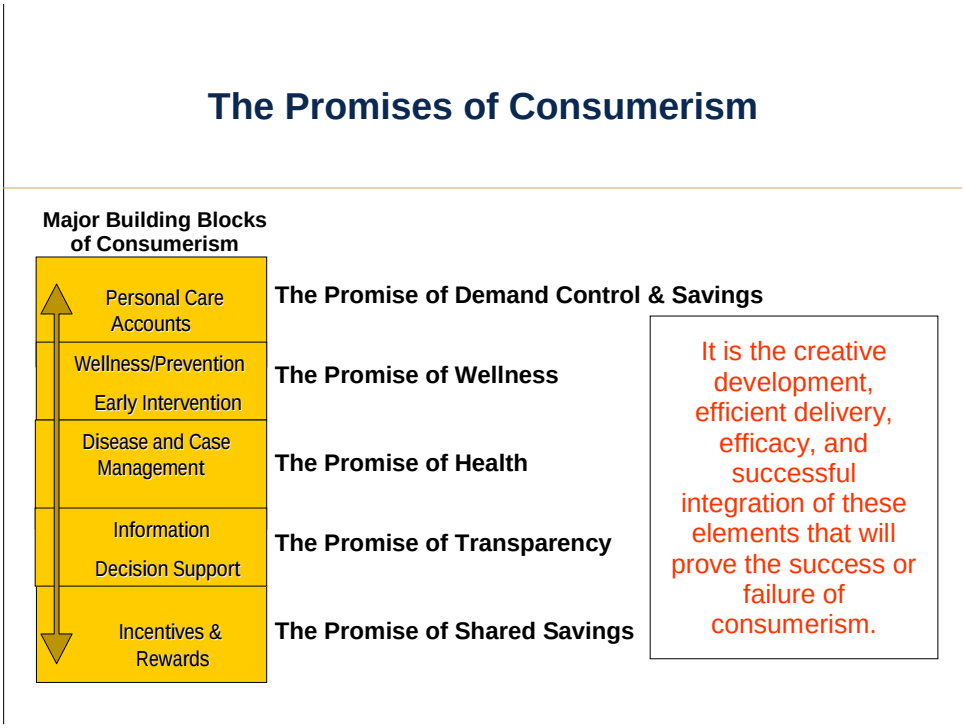
Healthcare Consumerism is independent of plan design. Healthcare Consumerism includes opportunities to accumulate funds through "shared-savings". That is, plan members can be financially rewarded for doing the right activities that improve their health and save money. Rewards can include activities such as, participation in a wellness assessment, compliance with a condition management program (e.g. taking medications, diet, exercise, office visits), and maintenance of good health characteristics (e.g. blood pressure, cholesterol, nicotine use, body mass index).

Healthcare Consumerism Building Blocks

The five (5) key building blocks of Healthcare Consumerism are:

1. Personal Accounts (FSAs, HRAs, HSAs)
2. Wellness/Prevention and Early Intervention Programs
3. Disease Management and Case Management Programs
4. Information and Decision Support Programs
5. Incentive and Compliance Reward Programs

The transformation is still in its early stages. Statistical analysis and proof of Healthcare Consumerism as a new way to save lives, improve health, and lower costs is incomplete. Numerous studies indicate that early adopters of the 1st generation CDHC plans are seeing positive results from greater use of preventive care services and lower year over year healthcare cost trends. The future generations and the ultimate forms of Healthcare Consumerism have yet to fully develop, as products and services are only now evolving to meet the challenges and promise of a 21st Century Intelligent Health System.



It is the creative development, efficient delivery, efficacy, and successful interaction of these elements that will prove the success or failure of Healthcare Consumerism. There are two basic requirements for a successful Healthcare Consumerism strategy. A plan based on Healthcare Consumerism must:

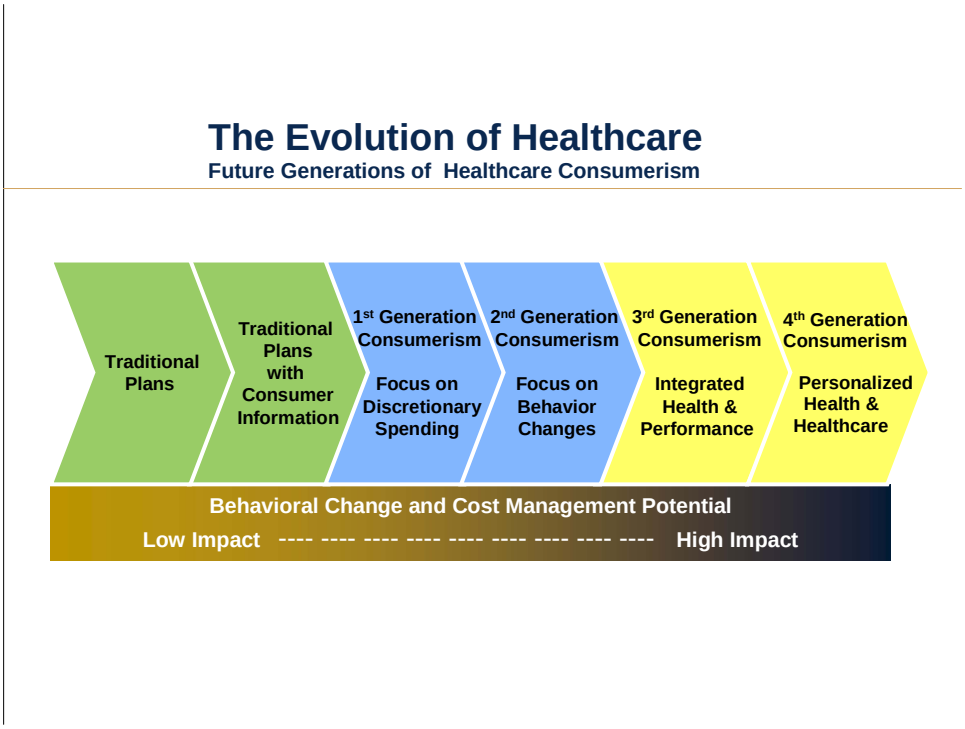
1. Encourage and attract enrollment from the sickest members, as well as the healthy, and
2. Work for those members not wanting to get involved in decision-making as well as those that do.

Many criticize CDHC as only benefiting the young, healthy, and wealthy. Those concerns will be mitigated as CDHC evolves beyond the 1st generation CDHC plans to more sustainable and effective future generations of Healthcare Consumerism.

Four Generations of Healthcare Consumerism

Experience from the early adopters of CDHC plans has formed the basis for improved versions, creative new ideas, and exciting product designs. 1st generation CDHC focuses on plan design and discretionary expenses (prescription drugs, office visits, and emergency room use). 1st generation plans mainly impact the 80% of members that generate only 20% of total healthcare costs. Second generation products are now available that focus on behavior changes, including chronic and persistent diagnoses (e.g. diabetes, asthma, congestive heart failure, depression). More improvements are rapidly on the way to effectively deal with the 20% of the population that generate 80% of total costs.

Greater awareness by employers, insurers, and a growing number of vendors are building a reservoir of thoughtful and creative new solutions. National and regional insurers have invested millions in new systems and product development. Second, third and even fourth generation products are being developed and envisioned as the transformation to Healthcare Consumerism is now well underway.



1st Generation Consumerism - Focus on high deductible plan designs, implementation of personal care accounts (HRAs, HSAs, FSAs), and basic decision support tools. Impact: Discretionary Expenses.

2nd Generation Consumerism - Focus on behavior changes and the use of all plan designs with individual and group incentives/rewards to effectively change health and healthcare purchasing behaviors. Impact: Chronic & Persistent Conditions, Pre-Natal, Wellness & Preventive care.

3rd Generation Consumerism - Focus on health and organizational performance and the integration with how consumerism and behavior change affects work performance and the corporate bottom line. Impact: Organizational health, turnover, absenteeism, productivity, disability, presenteeism, unscheduled sick days, creativity, and teaming.

4th Generation Consumerism - Focus on lifestyle, lifecycles, personal health needs, and the impact of how behavior change affects personal health and healthcare. Impact: Lifecycle needs, personal health, genetic predispositions, predictive modeling, healthy habits, and wellness.

It is important to recognize that each generation builds on and includes the previous generations. One generation of Healthcare Consumerism does not necessarily replace the prior generation. Also, no one stakeholder (e.g. employee, employer, insurer, provider) can advance too far into the future without the involvement and participation of the others. As such, we can expect a slow but methodical advancement over the next few years as the iterative process of demand for products and services are met and new demands are made and needs surface to challenge the entrepreneurial spirit of the market.

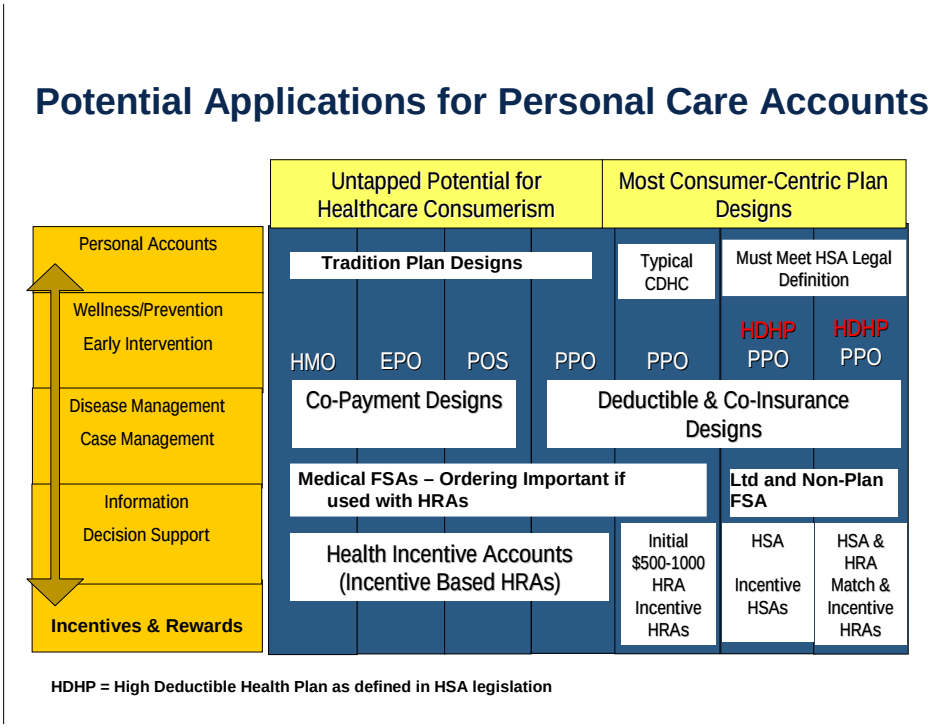
The Healthcare Consumerism Grid

A visual framework for viewing the future of healthcare is the combination of the four generations of Healthcare Consumerism and the five building blocks.

The Healthcare Consumerism Grid	1st Generation Consumerism Focus on Discretionary Spending	2nd Generation Consumerism Focus on Behavior Changes	3rd Generation Consumerism Integrated Health & Performance	4th Generation Consumerism Personalized Health & Healthcare
Personal Care Accounts	Initial Account Only	Activity & Compliance Rewards	Indiv. & Group Corporate Metric Rewards	Specialized Accts, Matching HRAs, Expanded QME
Wellness/Prevention Early Intervention	100% Basic Preventive Care	Web-based behavior change support programs	Worksite wellness, safety, stress & error reduction	Genomics, predictive modeling push technology
Disease and Case Management	Information, health coach	Compliance Awards, disease specific allowances	Population Mgmt, Integrated Hlth Mgmt, Integrated Back-to-Work	Wireless cyber – support, cultural DM, Holistic care
Information Decision Support	Passive Info Discretionary Expenses	Personal health mgmt, info with incentives to access	Health & performance info, integrated health work data	Arrive in time info and services, information therapy
Incentives & Rewards	Cash, tickets, Trinkets	Health Incentive Accts, activity based incentives	Non-health corporate metric driven incentives	Personal dev. plan incentives, health status related

The overall goal of Healthcare Consumerism is to assist individuals in making more informed health and healthcare decisions which will favorably impact clinical outcomes and lower the cost of healthcare.

Personal Care Accounts (HRAs, HSAs, and FSAs) can be attached to any plan design. Introduced under new Treasury regulations in 2002, the flexibility and accumulation feature of HRAs allows them to be creatively used with any plan design. Introduced in 2003 legislation, the desirable use of the triple tax advantaged HSAs is limited by the legal restriction requiring the underlying plan design to be a High Deductible Health Plan (HDHP). Introduced in 1978, Flexible Spending Accounts (FSAs) are of limited accumulation value due to the regulatory requirement of "use-it-or-lose-it." Creative combinations of HRAs, HSAs, and FSAs are possible, but limited due to certain legislative and regulatory prohibitions.



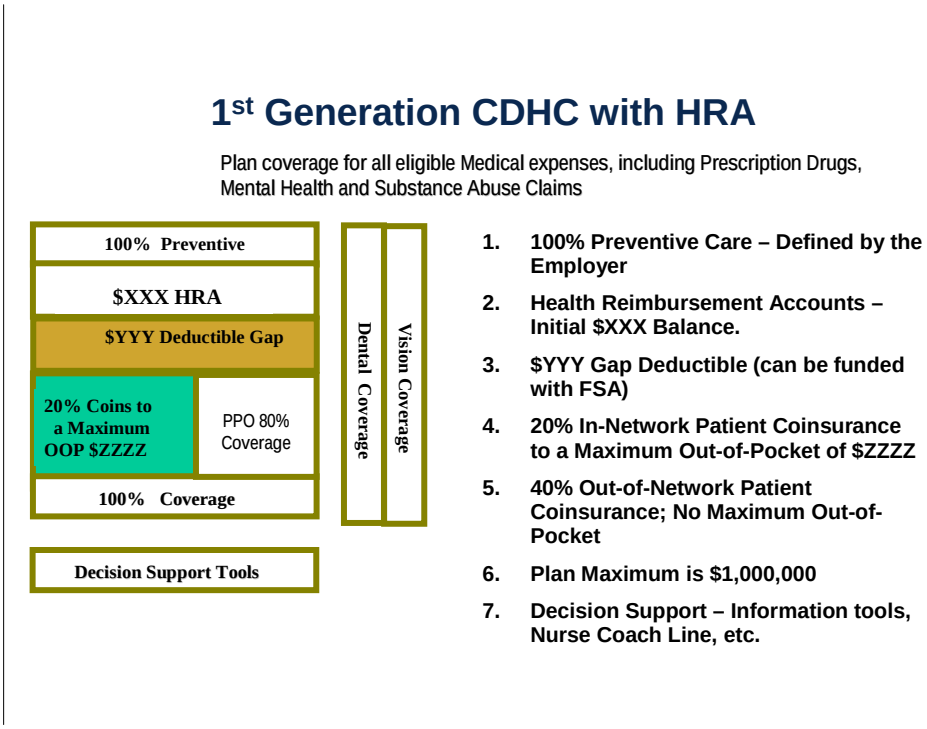
Regardless of the type of plan(s) used for benefit coverage (HMO, EPO, POS, or PPO), Healthcare Consumerism can be implemented to achieve the desired effect of consumer involvement, changed behavior, financial security, and member satisfaction.

1st Generation Healthcare Consumerism

CDHC with HRAs

1st generation Healthcare Consumerism is typically a high deductible CDHC plan with an HRA. Members receive an annual employer defined allocation of HRA funds that they can use to pay for covered medical services. These allocations generally range from $500 to $1,000 per year for a single employee (double for families). Unused funds can be rolled over into future years and added to the next annual HRA deposit. If during the year the HRA fund is exhausted, the member must meet a "deductible gap" before being able to receive payment under the plan. Network discounts apply to all services regardless of whether the source of payment is the HRA, employee out-of-pocket, or plan reimbursement.

First-dollar coverage is usually available for preventive services such as physicals, mammograms, and well-child care. HRA funds can be used to fill in plan deductibles or for coverage of copayments. If allowed by the employer, HRAs can be used for non-plan IRS-qualified medical expenses, and to purchase other health insurance coverages (e.g., long-term care). Below is a traditional CDHC plan design for a single employee. With extensive preventive care coverage there is a greater potential for carry-over of unused funds since the cost of preventive care services will not be deducted from HRA or HSA accounts.

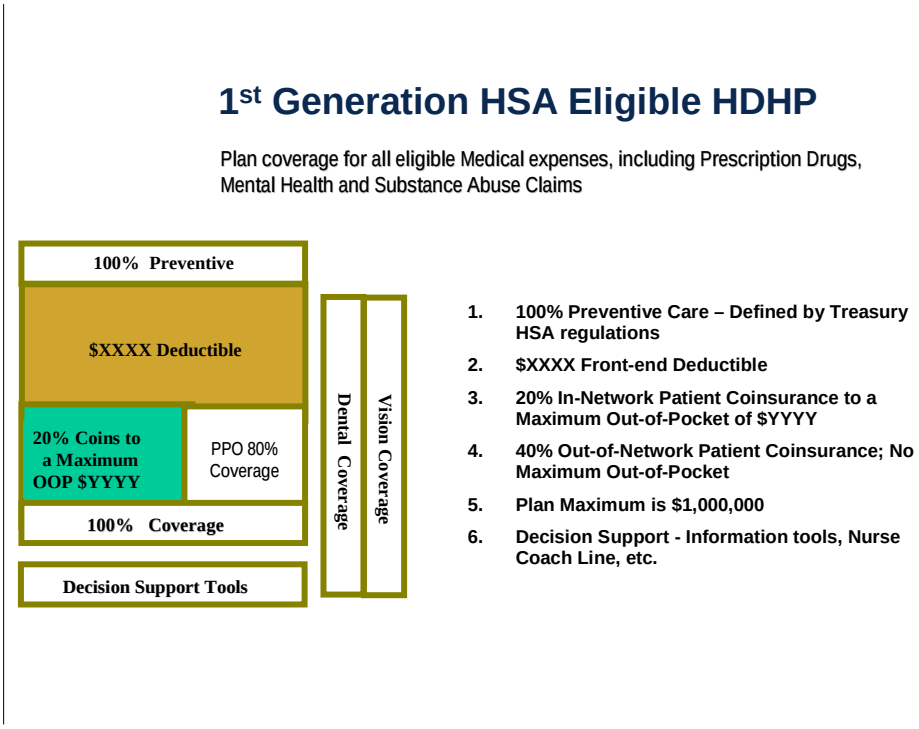


(Dollar values for HRA, deductible, and the MOOP are left generic as designs can vary from plan to plan)

CDHC - HSA Eligible High Deductible Health Plans

1st generation HSA eligible High Deductible Health Plans (HDHPs) were created after inclusion and passage of HSAs as a part of the 2003 Medicare Modernization Act. Employer contributions to HSAs are tax free to members, HSA funds accumulate on a tax free basis, and withdrawal of HSAs are tax free when used for medical expenses. In order to access the triple tax advantages of an HSA, Congress imposed strict requirements on acceptable plan designs. For 2006, an HDHP must have a deductible of at least $1,050 for individual coverage ($2,150 for family coverage) and out-of-pocket amounts of no more than $5,250 for individual coverage and $10,500 for family coverage). An individual and/or their employer can make 2006 contributions to the HSA up to the plan's deductible amount, but no more than $2,700 for an individual or $5,400 for a family. The deductible, maximum HSA, and out-of-pocket amounts will be inflation adjusted in future years.

For policyholders and covered spouses age 55 or older, the HSA annual contribution limit includes a "catch-up" provision of $700 in 2006, $800 in 2007, $900 in 2008, and $1,000 in all years thereafter. Employers contributing to an HSA must make comparable contributions on behalf of all employees with comparable coverage. If services are for any Qualified Medical Expense (QME) as defined by the U.S. Treasury, distributions from an HSA are excludable from gross income.



(Dollar values for HSA, deductible, and the MOOP are left generic as designs can vary from plan to plan)

2nd Generation Healthcare Consumerism

2nd generation Healthcare Consumerism focuses on supporting and rewarding healthy behaviours for any plan design. As employers adopt Healthcare Consumerism strategies for all of their plan options, there will be a greater demand for customized tools, account structures, cost and quality information, and health management support. Flexible designs will allow for personal care account accumulations from multiple sources for multiple reasons.

The most important 2nd generation Healthcare Consumerism concept is the development of Health Incentive Accounts (HIAs) that are simply HRAs that accumulate from incentives and rewards only. HIAs can be added to any plan design with account additions developed from "shared savings" that result from individual participation and compliance with wellness and disease or condition management programs. "Pay for compliance" is the term used for HIA rewards based upon member behaviors. "Pay for performance" is the reward reimbursement made to providers for practicing documented "outcome-based" medical care and treatment. The concepts of "pay for compliance" and "pay for performance" as positive rewards are critical to the success of Healthcare Consumerism and changing to a 21st Century Intelligent Health System.

Incentive and reward additions to HSAs can also be used if developed within the IRS guidelines. Due to current legal restrictions, the outlook for substantial employer contributions to HSAs is doubtful. New legislation creating Flexible HSAs is needed to effectively support wide use of HSAs in second generation variations of Healthcare Consumerism.

Disease management program results are still preliminary. There is limited experience and a lack of consensus for return on investment (ROI) methodologies for managing chronic and persistent diseases and conditions. Some employers and health plans have demonstrated that specific disease management programs improve patient care and reduce complications, but evidence varies widely across health conditions and the types of interventions. The most effective programs combine information with financial incentives.

Appropriate content, multiple media messaging, and good easy to use tools are necessary, but not sufficient, to change consumer and health behaviors. 2nd generation decision support tools that focus on changing health and consumer behaviors require active patient involvement with learning, practice, reinforcement, and rewards. Although measurement of the value of behavioral changes can be challenging, collection and evaluation of program metrics is essential.

Through an HRA or HSA with incentives, patients can address underlying health conditions not covered by traditional insurance. For example, a patient with high cholesterol and a family history of heart disease might find it extremely valuable to have a CT-heart scan to determine the degree of calcification. Although this test is typically not covered by insurance, the information may help motivate the patient to comply with their cholesterol medication. Similarly, depending on the plan design, consumers who believe in the value of alternative or complementary medicine can potentially use account values based upon patient preferences.

These approaches combine personal responsibility with patient financial involvement to incent program participation and reward compliance as well as create better personal health management. The possibilities are many and depend on what type of behavior a plan is trying to encourage. Incentives that reinforce a culture of health, well-being, self help, and shared responsibility can have a significant effect on outcomes.

Today, 2nd generation HRA and HSA accounts are only beginning to meet the potential and flexibility needed to support healthy behaviors. As they experience and experiment with 2nd generation Healthcare Consumerism, more employers will understand the possibilities, potential, and requirements of HRA and HSA options.

3rd Generation Healthcare Consumerism

3rd generation Healthcare Consumerism focuses on impacts to broader business metrics of productivity, absenteeism, presenteeism, turnover, accident rates, turnover, unscheduled sick days, teaming and creativity. The IRS guidelines give the employer the full power of structuring the employee use and the applicability of HRAs. Due to legal and regulatory restrictions, HSAs are more limited in use as 3rd generation plan strategies.

3rd generation preventive care emphasizes an array of programs designed to maintain or improve the functionality and organizational performance of a particular population. New interactions and measurements can be established to link personal safety, occupational hazards, accident prevention, prevention of worksite violence, and stress to overall corporate costs and functionality.

ROI for prevention and wellness and the direct impact on corporate metrics continues to be challenging due to the multitude of variables that influence health status and business functionality. However, some employers are beginning to examine the correlation between employee participation in health promotion and wellness programs with direct medical plan costs and some business-unit operational metrics. The link between healthcare and other performance issues will continue to develop as third generation plans evolve.

HRAs can accommodate incentives and rewards for broader corporate initiatives. For example, HRAs may be increased as a result of individual or groups meeting corporate metrics of operational performance, safety standards, sales, educational standards (e.g. Continuing Professional Education – CPE credits), and employee of the month. A mixture of individual and group rewards adds a new dimension to the total compensation package. With the creative and flexible possibilities of HRAs, they can become the next "frequent flier" program.

4th Generation Healthcare Consumerism

4th generation Healthcare Consumerism focuses on the personal characteristics of each individual and their related lifestyle needs. 4th generation Healthcare Consumerism is about ownership and portability.

HSAs are ideal for ownership and true portability; however, they may be limited in use for individualized incentives and rewards based on individual and/or group behaviors resulting in healthy outcomes. The immediate 100% vesting of HSAs and the ability of both employees and employers to contribute to HSAs is a great advantage in establishing ownership and the potential for sizeable accumulations.

As employees become familiar with HRAs and begin to accumulate sizeable amounts, they will likely demand more ownership, security, and portability of the funds. For true HRA portability, legislation will be required to create individual HRAs and/or conversion rules from HRAs to HSAs. In the future, employees will want continued access to accounts post-employment. In addition, vesting issues will be important to employees to secure the value of the HRA accounts. When compared to HSAs, employees may ultimately expect "notional interest" on HRAs. If not initially allowed by the employer, demand will grow for more immediate use of the funds for non-plan QMEs and use of HRAs for paying health premiums.

Employees may want to add to their HRAs and HSAs with credits from unused vacation or sick leave. HRAs and HSAs will need to accommodate personal lifestyle expenses items such as, alternative medicines and acupuncture. Employees will want the ability to use debit/credit cards to cover internet purchases and cyber-office visits. The IRS will have pressure to expand the definition of QME to cosmetic surgery and other personal care services.

4th generation Decision Support tools will focus on the individual needs of each member. As 4th generation concepts develop, vendors are likely to develop "arrive in time" information and services at critical moments for care. "Information therapy" or "information medicine" are terms that suggest the active use of patient-oriented information with clinical outcome-based medicine. Information needs to be embedded into the process of care—as information therapy.

"Information therapy" is the prescription of specific, evidence-based medical information to a patient, caregiver, or consumer at just the right time to help that person make a specific health decision or behavior change. It is the ultimate consumer decision support aid.

Information is an important part of medical care and should be supported with incentives as a part of treatment. If properly integrated into care, information can be as important to health and healthcare as a medical test, medication, or treatment. With good information people can achieve better health outcomes at lower costs. With good information consumers will be better equipped to fully accept their role in the new world of Healthcare Consumerism.

Expected Savings

Evidence continues to mount on the market acceptance and success of Healthcare Consumerism. Milliman, one of the nation's leading actuarial firms that prices health plans for major employers and insurers, recently announced the results of its 2005 annual study of healthcare premium increases. The results:

HMO premiums increased 8%
PPO premiums increased 8%
Consumerism plans with HSAs and HRAs increased 1%.

An Aetna 2003 and 2004 study that showed similar positive results for Healthcare Consumerism. The Aetna study of 2003 showed premium increases of only 1.5% for consumerism plans. A similar population of Aetna members had a 15.7% increase in medical costs. An amazing difference of 14.2% in lower cost increases for those covered by these concepts.

A 21st Century Intelligent Health System empowers individuals with tools that allow them to know more about their health and healthcare decisions. Healthcare Consumerism with HSAs and HRAs puts the power of access and the selection of quality providers into the hands of individuals. These personal care accounts allow employers to share with employees the savings from their good lifestyle and medical decisions.

Experience and actuarial modeling indicate that a company can expect to save 5–8% annually over the next five years and enjoy a 2% reduction in trend each year. Actual annual savings have in many cases have topped 10%.

Potential Savings from Full Implementation of Consumerism

Achievement of savings and improved outcomes is dependent upon both the Type and Effectiveness of the programs implemented.

Gross* Savings as % of Total Plan Costs
(Programs Applicable to All Members)

Effective Programs Implemented	Traditional plans: Passive	Consumerism Plans: 1st Generation	Consumerism Plans: 2nd Generation	Consumerism Plans: 3rd Gen & Future
Basic	2%	3%	7%	10%
Expanded	**3-4%**	**5-8%**	**12-15.0%**	**20.0+%**
Complete	4%	7%	17%	25%
Comprehensive (Future)	5%	10%	20%	30%

***Excludes Carry-over HRAs/HSAs and any added Administrative Costs of Specialized Programs**

Even better, studies of Healthcare Consumerism show:

- Increased use of preventive services
- Reduction in emergency room use and outpatient cases
- Reduction in pharmacy scripts and increased generic usage
- Increased use of online tools and information as well as satisfied members

Healthcare Consumerism - a Complete Solution

In a 21st Century Intelligent Health System, the individual has accurate, timely, personalized knowledge about their health and treatment options. Cost and quality of options are easily known, including the assurance that their treatment is based on the most up-to-date outcome-based medicine. It must include preventive care and early intervention. It must also encourage and reward wise healthcare purchasing decisions and offer more choices of higher quality at lower cost. A key test for any new system is its ability to provide affordable access to quality care for the poorest and sickest among us. The elimination of health disparities must be a critical goal -- *no one can be left behind*. A 21st Century Intelligent Health System must provide access to affordable insurance coverage for those currently uninsured.

If Healthcare Consumerism is the basis for a 21st Century Intelligent Health System, it must deal with our nation's most difficult healthcare problem: the uninsured, Medicaid, and Medicare. A shared savings model for Medicaid and Medicare can be created using Healthcare Consumerism. Several states have requested Medicaid waivers that incorporate Healthcare Consumerism through the use of Health Opportunity Accounts (HOAs). HOAs are personal care accounts similar to HRAs and HSAs. The proliferation of multiple account types should not be viewed as confusing, but as a sign of the power of the developing effectiveness of Healthcare Consumerism and the need for the diversity of additional options. Medicare is positioned to move towards a similar HOA design as recent demonstration initiatives move from "pay for reporting" to "pay for performance" to "pay for compliance."

When major transformations occur in history we are rarely aware of the changes, until in retrospect, we see that they have become an accepted part of our culture. No one knew when the Renaissance was underway. No one announced the point at which the Soviet Union and Communism began to fail. It is typical that only after a pause and look back do we see the importance of specific events and their true impact. Such may be the case with Healthcare Consumerism as it is spreading throughout the country.

The world of health and healthcare is changing. If one listens closely you may catch the sound of Paul Revere-like spirit calling the clarion signal that the transformation of healthcare in the United States is underway.

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