

## **U.S. Health Insurers Banking on Boom in Consumer-Driven Plans**

OLDWICK, N.J. December 19 (BestWire) — Despite uncertainty on whether U.S. employers will widely embrace consumer-driven health plans to help cut their health benefits costs, many health insurers are confident they'll take off, hoping to cash in on billions in potential revenue from such plans. One health insurer is banking on it — literally.

In the health insurance market, the trend is a shift away from revenue being generated from traditional medical premiums and toward financial account and asset management revenue, said Samuel H. Fleet, president and CEO of National Employee Benefit Cos., a wholesale brokerage and third-party administrator in the employee benefit industry.

These high-deductible health insurance plans are described as consumer-driven because employees pay for a greater portion of their health-care costs directly, instead of the insurer, and therefore may have a financial incentive to cut their health-care spending, according to the Kaiser Family Foundation/Health Research & Educational Trust.

CDHPs trade off lower premiums for higher deductibles. Going forward "it's all about the assets — not about the premium dollars," Fleet said.

The most common CDHPs are those linked to a health reimbursement arrangement or a health savings account, created in 2003 with the Medicare Modernization Act. These tax-favored accounts are those with at least a \$1,000 deductible for single coverage or at least a \$2,000 deductible for family coverage, according to Kaiser/HRET. HSAs allow participants to deposit pretax funds in fully vested accounts for future medical expenses. The funds may be rolled over from year to year. Unlike HRAs, HSA funds belong to the employee instead of the employer.

"Consumer-driven health plans are proving attractive to some, but with just a couple million people now enrolled, it's too early to know whether they'll have a meaningful effect on the health system," said Gary Claxton, a Kaiser foundation vice president and co-author of a Kaiser/HRET survey released in September on employee health benefits, in a statement. "The jury is still out on whether employees feel that these arrangements work for them, particularly when they get sick, and on whether employers feel that they have a real impact on costs."

Despite that outlook, a different survey by Deloitte Consulting LLP in November showed employers are "increasingly turning to" CDHPs — such as those with HSAs — with the expectation that these plans will help curb rising health-care costs. Of the 316 employers surveyed, 43% of them either already established a CDHP or will be offering one in the next two years.

Numerous other surveys suggest that employers will take the CDHP route.

Over the next five years, financial services companies and health insurers will compete

for "billions in revenue" from CDHPS, mostly driven by HSAs, according to estimates released earlier this month by consulting firm DiamondCluster International.

HSAs will hold more than \$75 billion in assets by 2010, the consultant said. HSAs could generate more than \$450 million annually in account set-up and management fees. But asset-management fees could generate \$800 million and transaction fees more than \$1 billion in the same period, DiamondCluster said.

Earlier this month, the Blue Cross Blue Shield Association announced it will charter a bank, the Blue Healthcare Bank. The Utah-based bank, expected to be running in January 2007, would allow enrollees in participating Blue Cross and Blue Shield plans to directly manage funds deposited by policyholders or employers into HSAs, HRAs and flexible spending accounts.

Meanwhile, Aetna Inc. (NYSE: AET), Cigna Corp. (NYSE: CI), WellPoint Inc. (NYSE: WLP) and Humana Inc. (NYSE: HUM) already have partnered with banks to help administer the HSAs tied to their CDHPS.

Recently, New York's Empire Blue Cross Blue Shield, a unit of WellChoice (NYSE: WC) said it will offer the American Express HealthPay Plus HSA along with its consumer-directed plan. The HSA from American Express Bank may be accessed by Empire Total Blue members with the American Express health-care payment card. Empire members will be able to "swipe" their card at participating providers' offices after receiving qualified services, with Empire and American Express handling the payment and claim adjudication process.

But Minneapolis-based UnitedHealth Group has captured the jump-start in CDHPS. UnitedHealth (NYSE: UNH) is the only health insurer that created its own bank. Exante Bank, chartered in Utah in 2002, provides consumer health financial services — HSAs and debit cards— to UnitedHealth companies, as well as 16 independent health administrators.

"The convergence of health care and financial services has been a trend that's been going for a period of time, and United clearly saw where the market was going," said John Prince, CEO of Exante Financial Services. Not only did United create its own bank, but the company invested in the technology so that a customer has a "seamless experience," whether conducting a health-care transaction or financial transaction, he said.

Companies that are able to provide services that consumers want to make their lives easier "have a strategic advantage," Prince said.

UnitedHealth, as well as Aetna, "are leaders in the consumer-directed space, which likely will give the companies a first mover advantage," wrote Christine Arnold, an equity analyst with Morgan Stanley in a recent research note. In a separate note, Arnold wrote that with 1.1 million account-based consumer-directed members today and 2 million projected by the end of 2006, "UnitedHealth is leading the race for more affordable

health care through consumerism."

Health insurers must split the revenue with the banks administering the HSAs, said Mike Taylor, a principal with consulting firm Towers Perrin. These banks also charge fees. With its bank, however, UnitedHealth "keeps that part of the fee in the family."

Exante is offering new investment options for consumers with HSAs. Starting in January 2006, consumers with an HSA deposit account at Exante will be able to invest their HSA assets in a variety of "highly rated, independent investment options," UnitedHealth said in November. Just last week, Discover Financial Services, a unit of Morgan Stanley, said it teamed up with Exante in a pilot program to issue Exante health debit cards on its network.

But NEBCO's Fleet downplays the hype, predicting that by 2010, 10% of all employers will have HSAs — "nowhere near what the industry expects."

Ten percent of covered lives is about 20 million people, said Exante's Prince, saying about 180 million people are enrolled in commercial plans. "We have 10,000 employer groups that are already using Exante," he said, noting HSAs are new because they were created in December 2003.

(By Fran Matso Lysiak, senior associate editor, BestWeek: [fran.lysiak@ambest.com](mailto:fran.lysiak@ambest.com))