
**Consumer Directed Insurance
Products:
*Survey Results***

April 2005

Reden & Anders, Ltd.

An **ingenix** Company

Executive Summary

- ◆ **Many of America's largest health insurers are now offering consumer directed (CD) products.**
- ◆ **The majority offer both Health Savings Accounts (HSAs) and Health Reimbursement Arrangements (HRAs).**
- ◆ **95 percent of enrollees have access to existing networks and negotiated rate structures.**
- ◆ **HSAs are most frequently offered in the small group markets, but products in the individual market have the most enrollees.**
- ◆ **For HRAs, plan offerings and enrollment are greatest in the large group market.**

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Executive Summary (Continued)

- ◆ **Six out of 10 publish comparative cost information, though the information varies.**
- ◆ **Nearly half publish comparative quality data.**
- ◆ **Few offer severity of illness distinctions.**
- ◆ **Deductibles tend to exceed the minimum set by law.**
- ◆ **Over 80% of survey respondents believe these products will dramatically change the insurance industry over time.**

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Background and Methodology

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What are consumer directed (CD) products?

- ◆ **Health Reimbursement Accounts (HRAs)**
 - First introduced in 2000, HRAs combine a high deductible plan with an employer-funded account
 - HRA accounts are most often employer-owned and can not be taken when employee leaves company
 - Employees fund a portion of their expenses through their account

- ◆ **Health Savings Accounts (HSAs)**
 - Enabled by Medicare Modernization Act of 2003
 - Fully portable and employee-owned accounts linked to a “qualified” high deductible health plan
 - Both the contributions of the employer and the employee are tax deductible up to a specified amount

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Differences from PPO Products

PPO

100% After Out of Pocket Maximum		
In-Network Office Visits (Copay) 100% after copay	In-Network Insurance 90% / 10%	Out-of-Network Insurance 70% / 30%
	In-Network Deductible (Member Responsibility) \$500	Out-of-Network Deductible (Member Resp.) \$1,000

Consumer-Directed

100% After OOP Maximum		Annual Insurance Deductible
In-Network Insurance 90% / 10%	Out-of-Network Insurance 70% / 30%	
Member Responsibility "Insurance GAP" (Example \$500)		
Preventive Svcs - 100%	HRA/HSA Funded (Example \$500)	



= Employee Cost-Sharing



= Funded by Employer and/or Employee

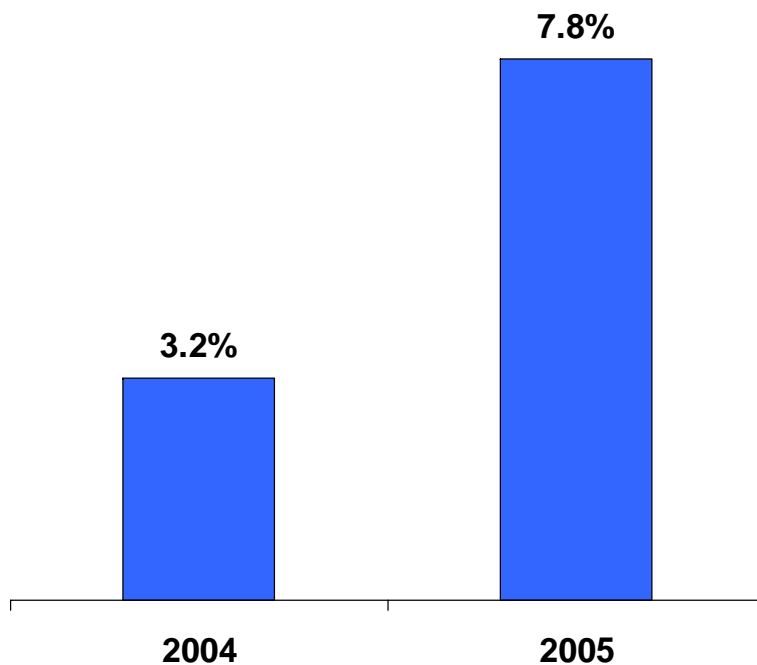


= Insurance Payment

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HSA and HRA revenues are growing rapidly.

Percent of Health Insurer Revenue Represented by HSA and HRA Products



Source: Based on Milliman 2004 Group Insurance Survey of health insurance carriers, 4th quarter of 2004.

- ◆ Earliest HRA products began appearing in 2000.
- ◆ The Medicare Modernization Act enabled HSAs in 2003.
- ◆ Large insurers and specialty CD vendors lead in enrollment figures today.

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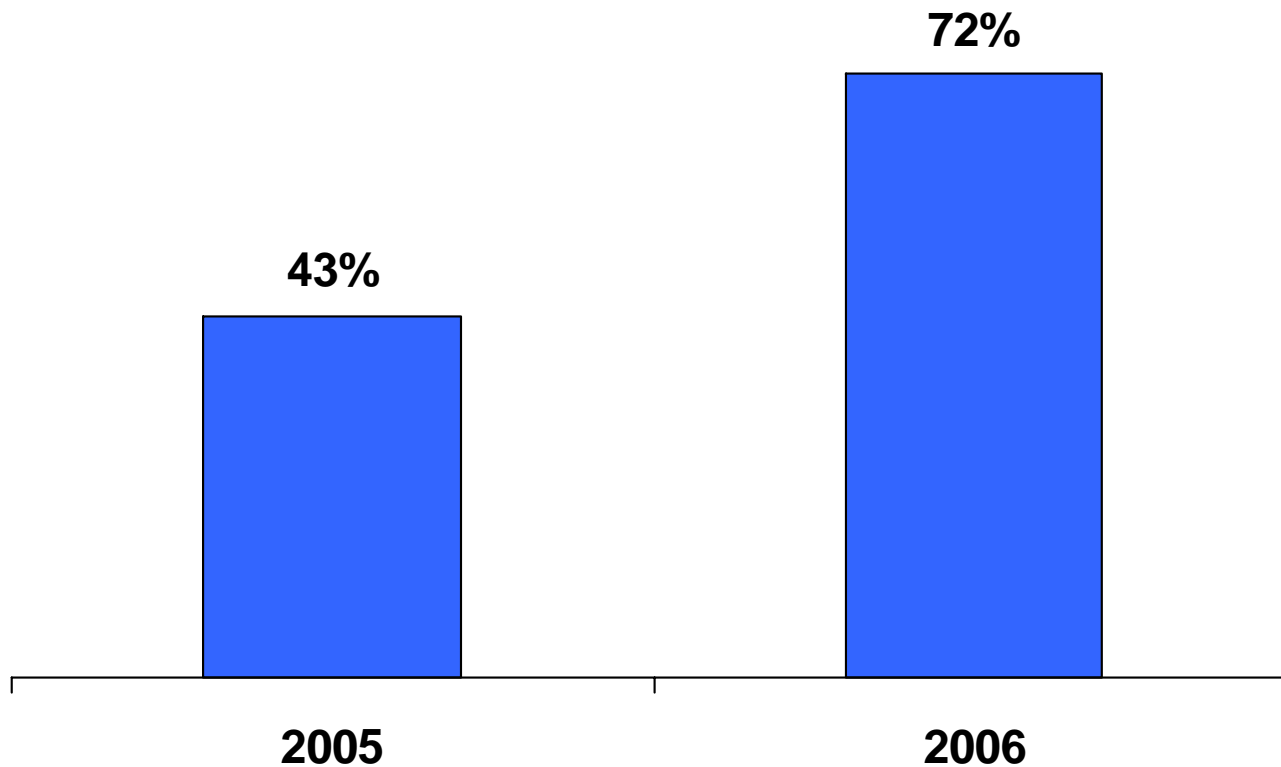
America's largest insurers, among others, are offering consumer direct products.

- ◆ **Major national carriers include:**
 - Aetna
 - UnitedHealth Care
 - Anthem/Wellpoint
 - CIGNA
 - Blue Cross / Blue Shield plans
- ◆ **Specialty vendors include:**
 - Destiny
 - Lumenos
 - Vivius
- ◆ **The majority of the above organizations are represented by the survey.**

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Employer interest is growing rapidly.

Percentage of Employers Likely to Offer HSA or HRA Products



Source: 2004 Mercer Human Resources Survey, All Employer Sizes

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Survey Objectives

- ◆ **Gather data on this new, rapidly growing product type for which limited information currently exists.**
- ◆ **Explore growth implications for providers and patients, including access to existing networks and rate structures.**
- ◆ **Identify evolving trends in comparative cost and quality information.**
- ◆ **Assess administrative features.**

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Survey Methodology

- ◆ **Survey tool was successfully piloted to assess validity of questions.**
- ◆ **Contacts at insurers with consumer directed products were obtained via internet research and telephone outreach.**
- ◆ **Surveys were emailed to contacts in October and November, 2004.**
- ◆ **Survey data was supplemented with telephone contacts and publicly available information.**
- ◆ **Survey targeted 61 companies.**
- ◆ **46 percent of those contacted (28 companies representing over 800,000 enrolled CD members in 2004) responded to the survey.**

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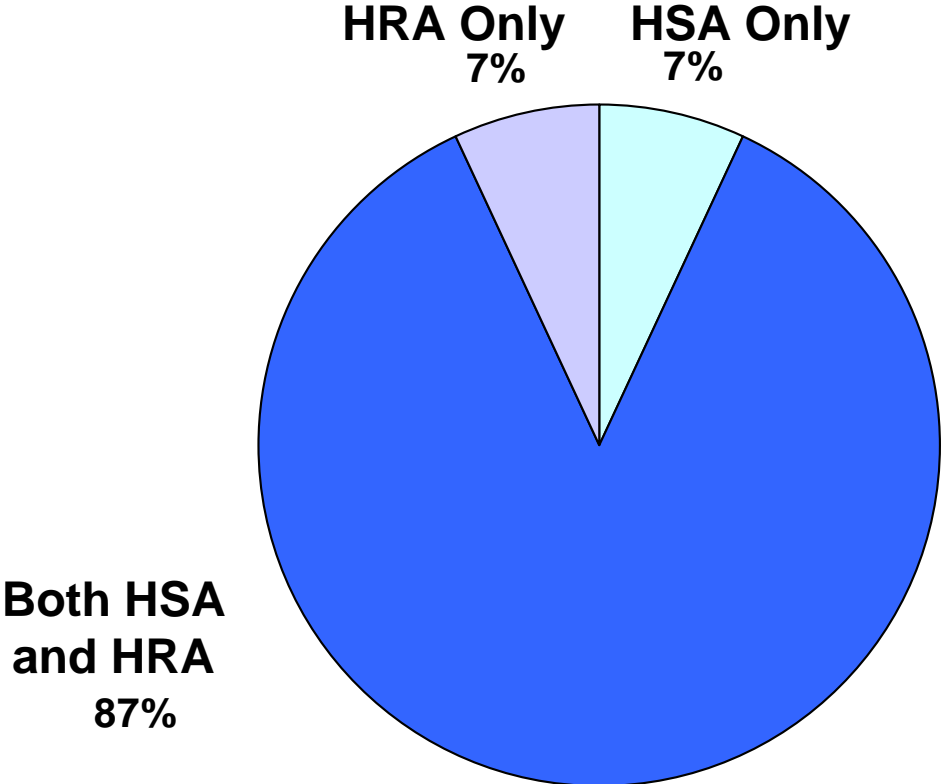
Survey Results

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Nine out of 10 respondents offer both HSA and HRA plans.

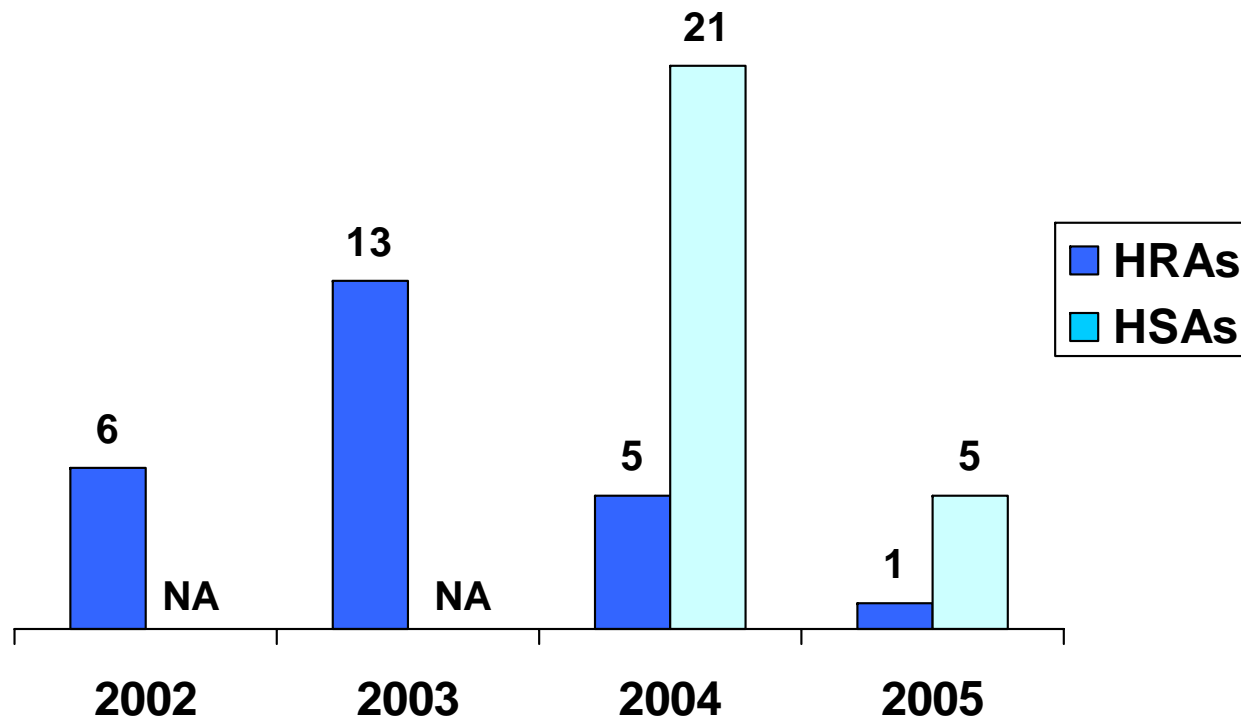
Percentage of Respondents Offering HSA and HRA Products



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Most HRAs introduced in 2003; HSAs in early 2004.

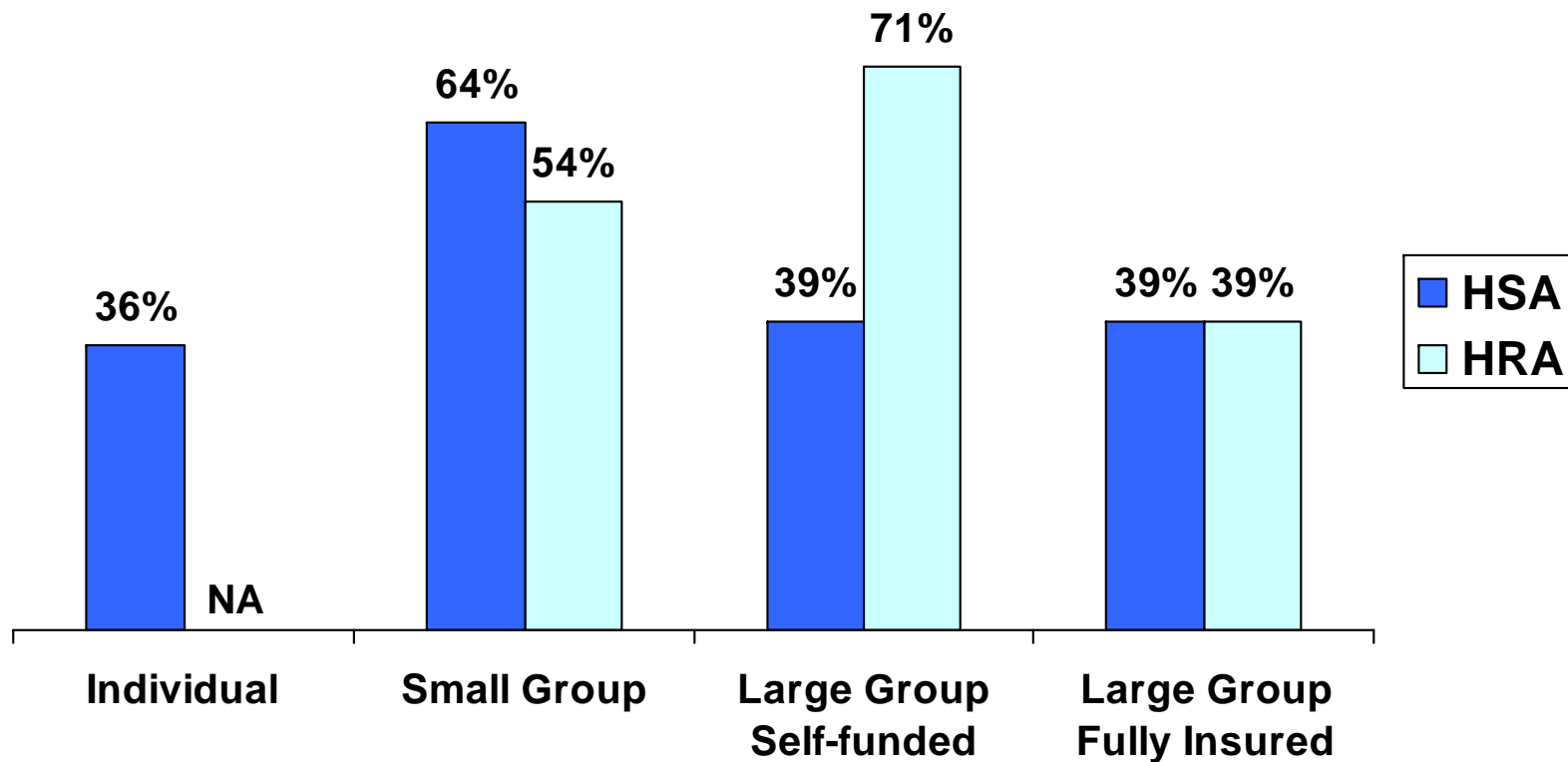
Number of Respondents by
Year HSA or HRA Product was Introduced
2002 - 2005



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HSA target the small group market; HRAs target the large group self-funded market.

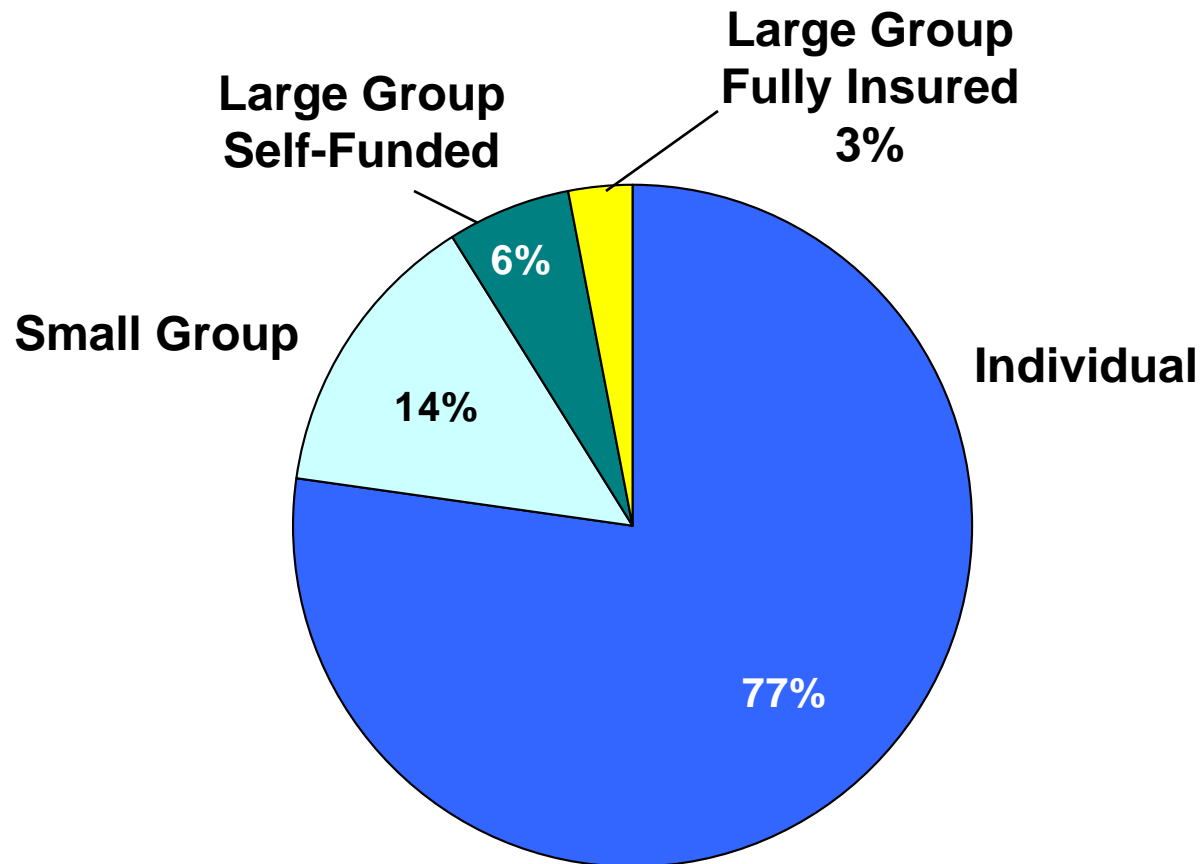
Percent of Survey Respondents Offering Products by Market



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Individual market dominates HSA enrollment.

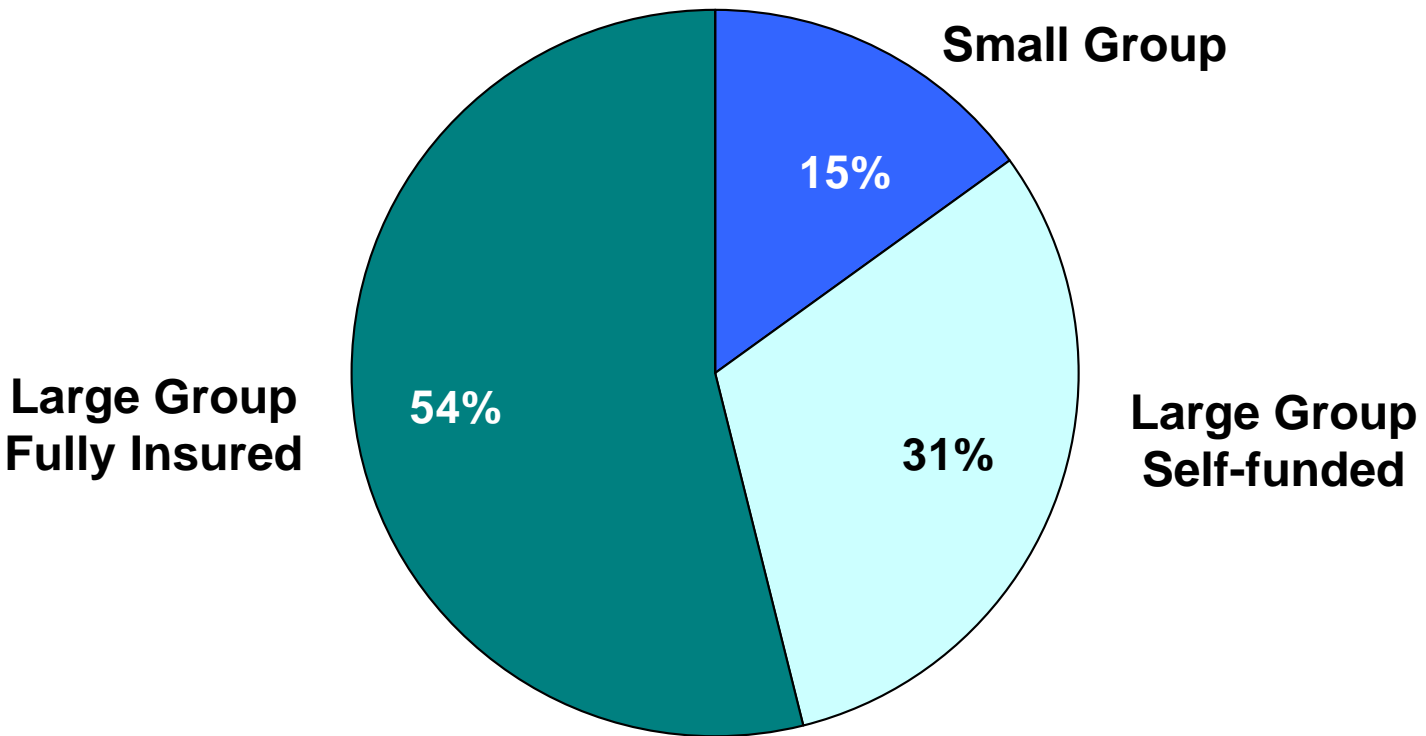
Percentage of HSA Enrollees Across Respondents by Market



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Large group fully insured dominates HRA enrollment.

Percentage of HRA Enrollees Across Respondents by Market

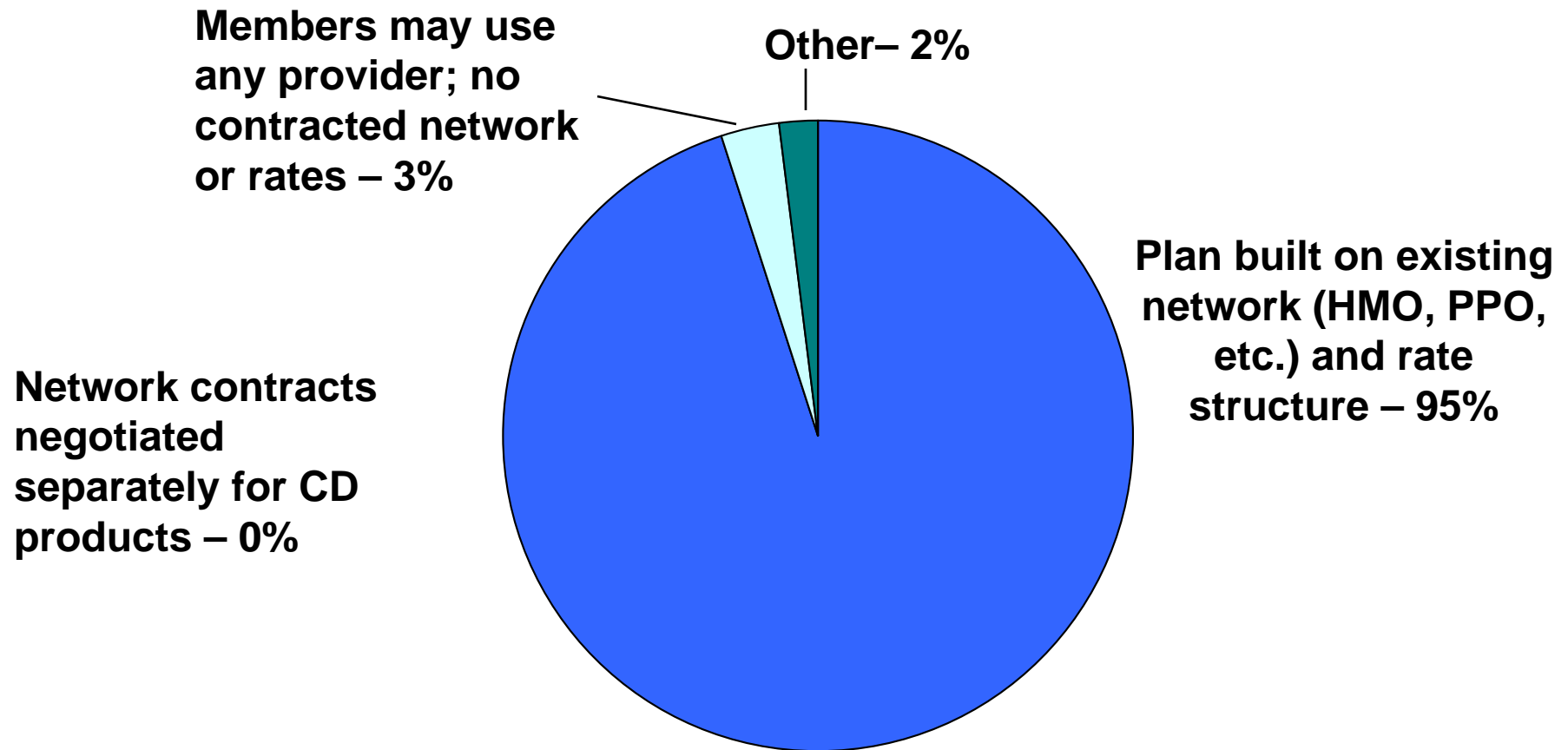


Note: HRAs are only available through employers; not available in the individual market.

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95 percent of enrollees have access to existing networks and negotiated rate structures.

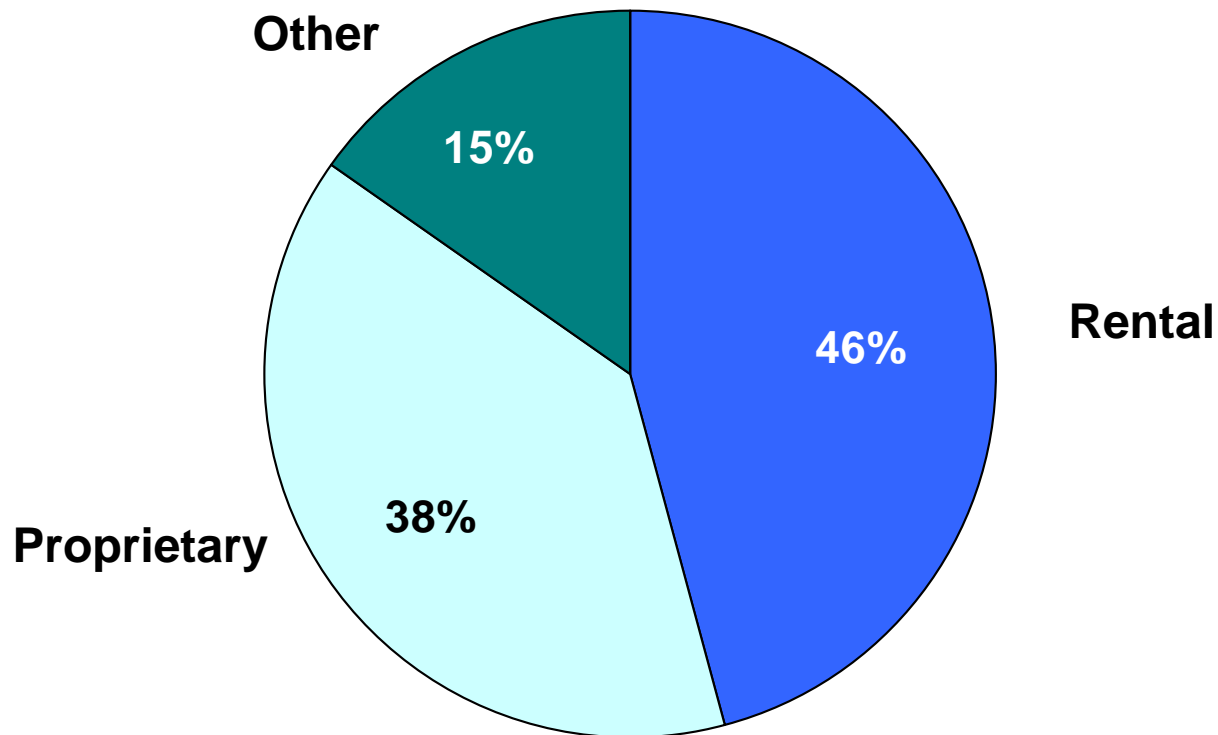
Percentage of Enrollees by Type of Network Contracting



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Plans can build their own network or “rent” one.

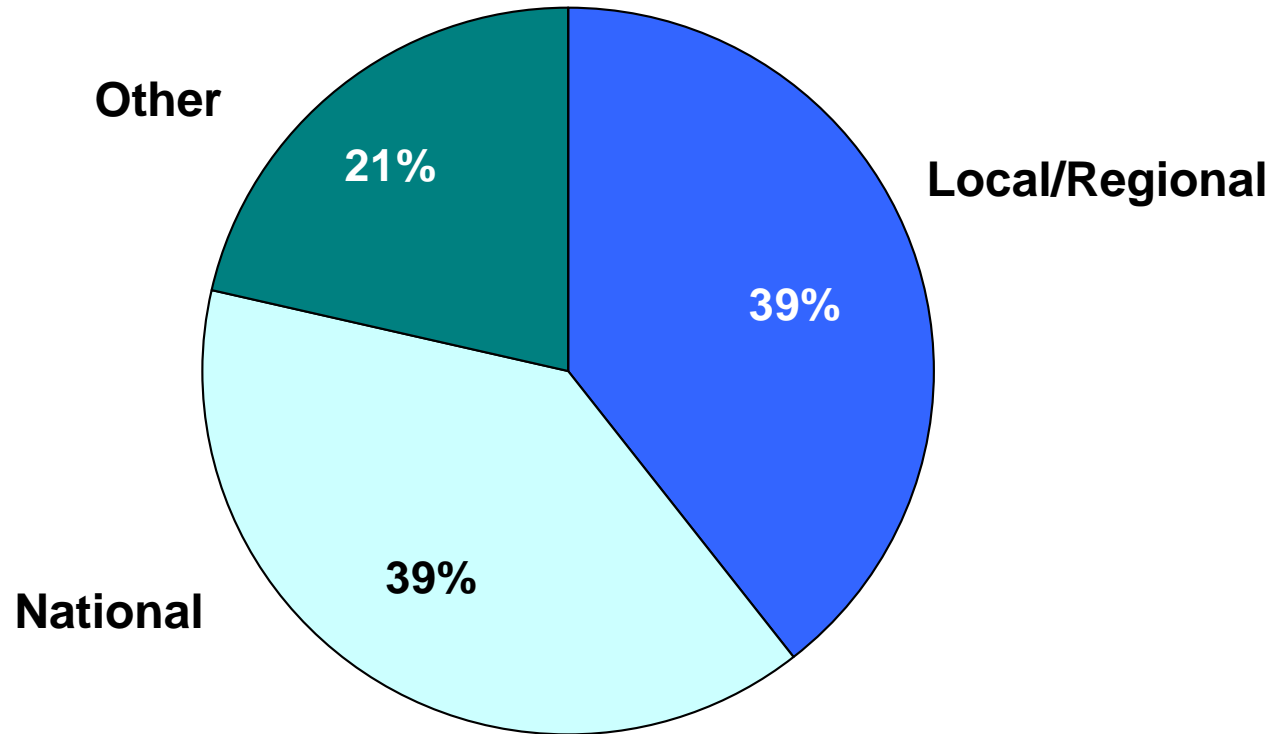
Percentage of Respondents Who Use Rental vs. Proprietary Networks



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Networks may be national or local/regional in scope.

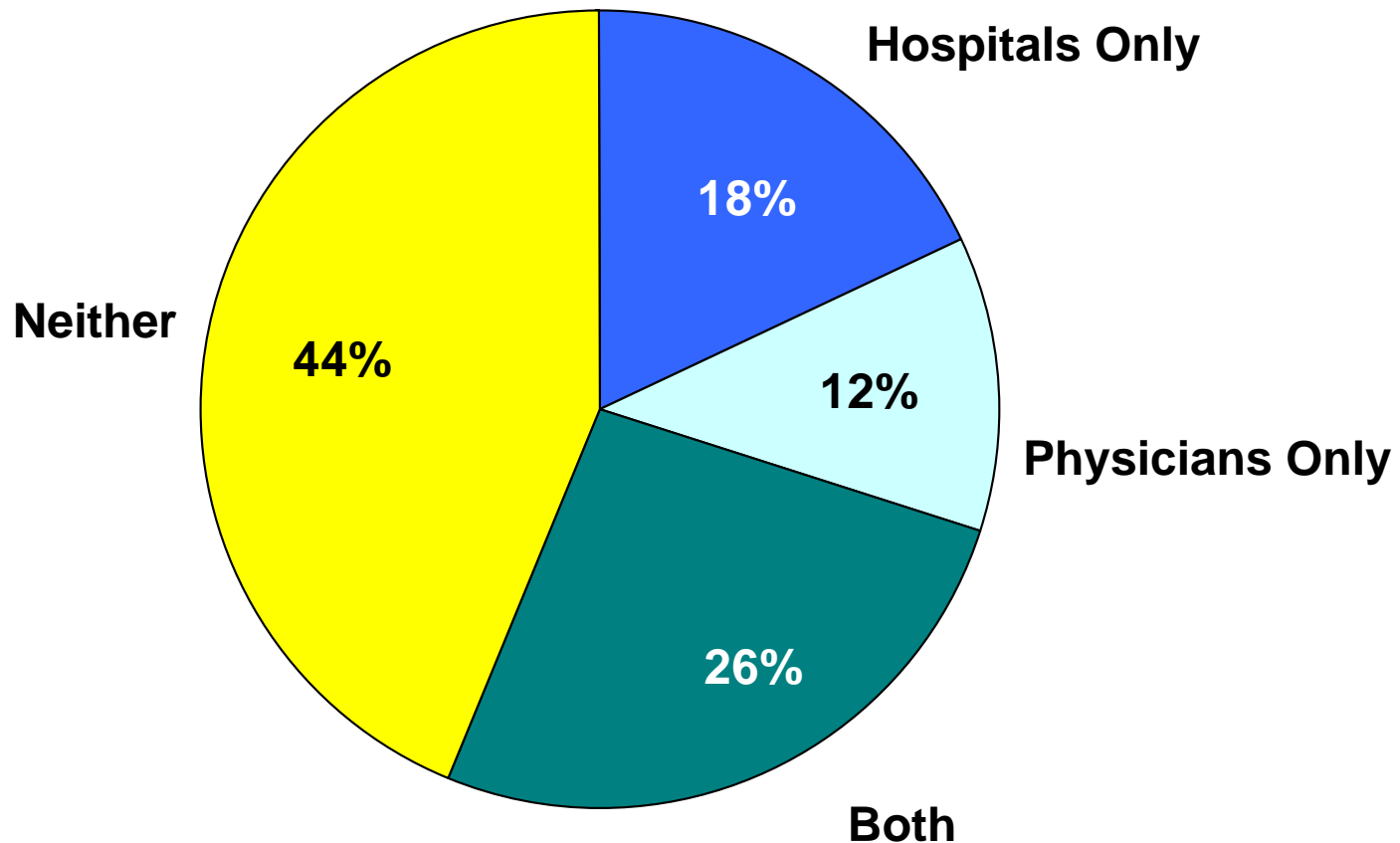
Percentage of Respondents with National vs. Local/Regional Networks



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Six out of 10 publish provider cost information.

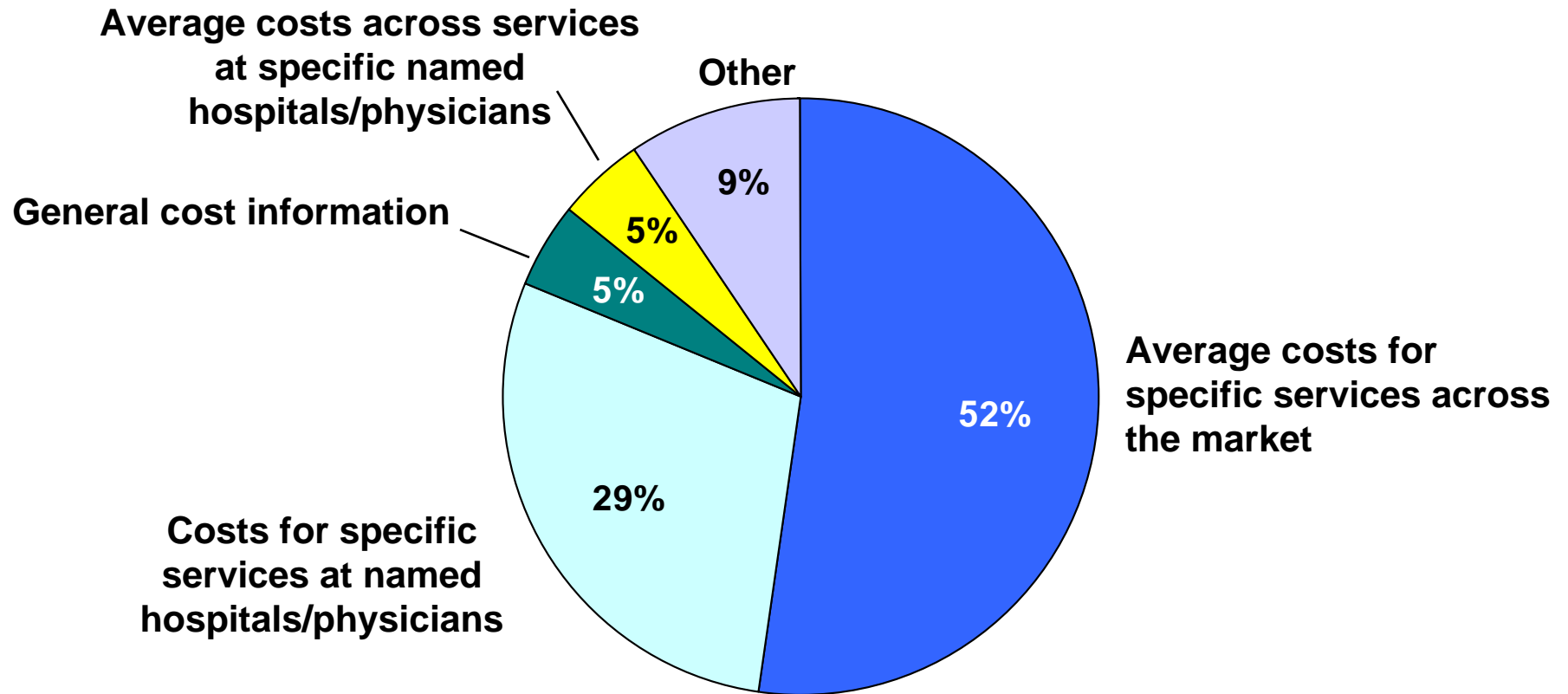
Percentage of Health Plan Survey Respondents Publishing Cost Information



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Comparative cost information varies: Most offer “average” costs for specific services.

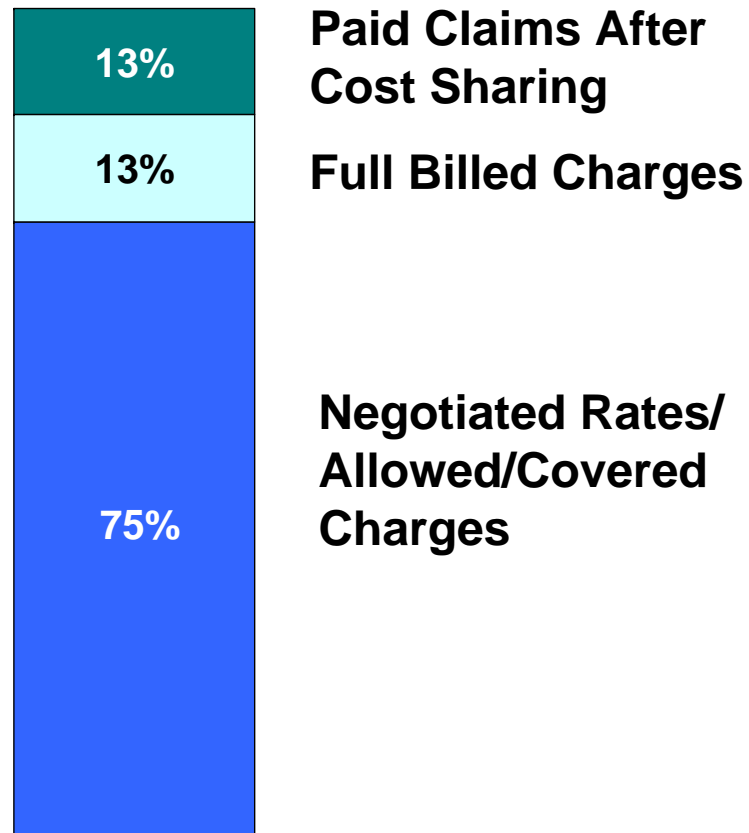
Percentage of Respondents By Type of Cost Information Published



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Comparative cost information varies: Three of four compare negotiated rates.

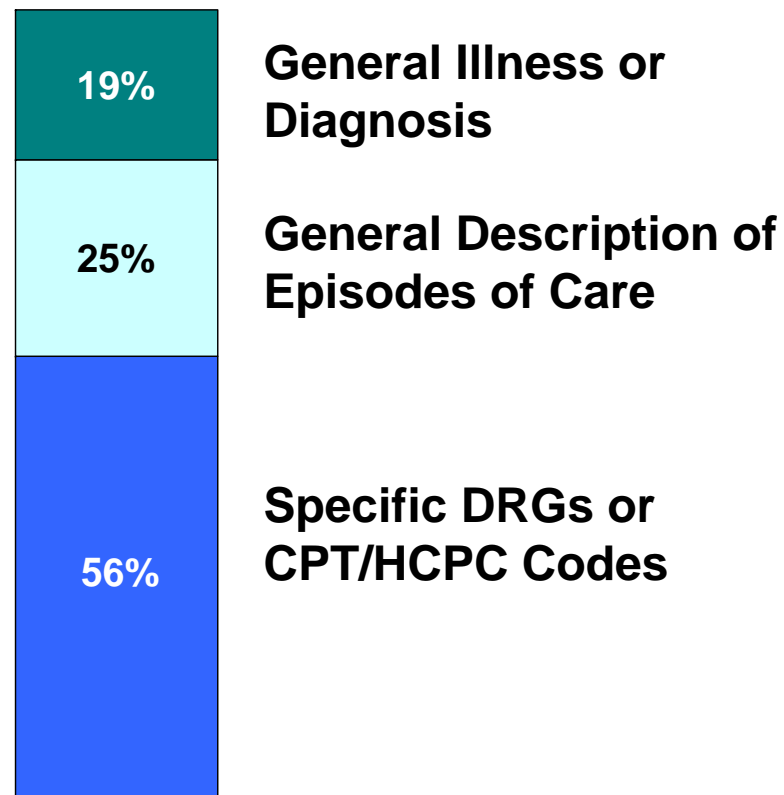
Percentage of Respondents by
How Cost is Defined



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Comparative cost information varies: More than half compare procedure costs.

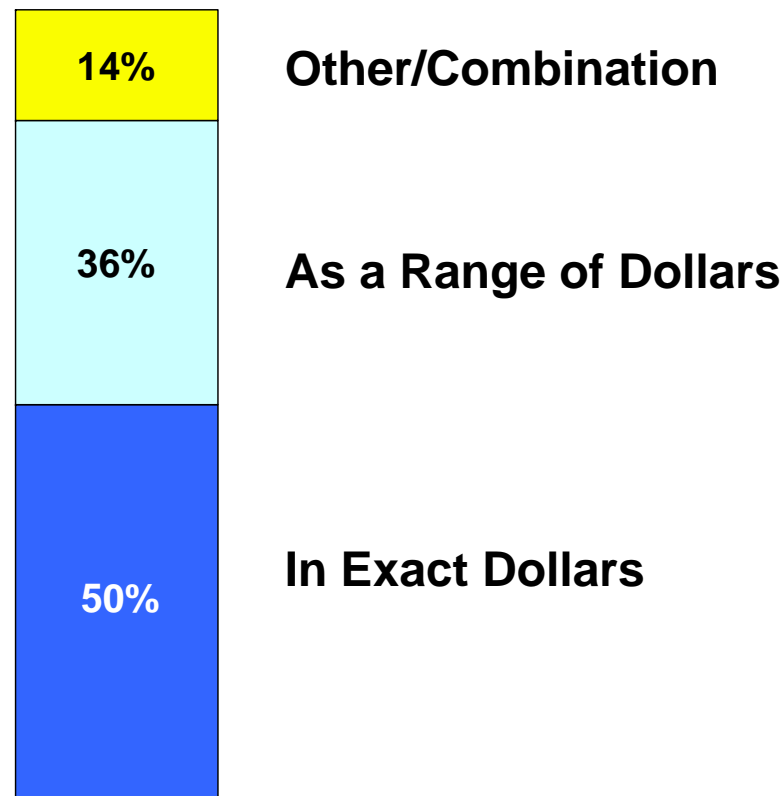
Percentage of Respondents by
Detail of Cost Information



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Comparative cost information varies: Half compare exact dollar amounts.

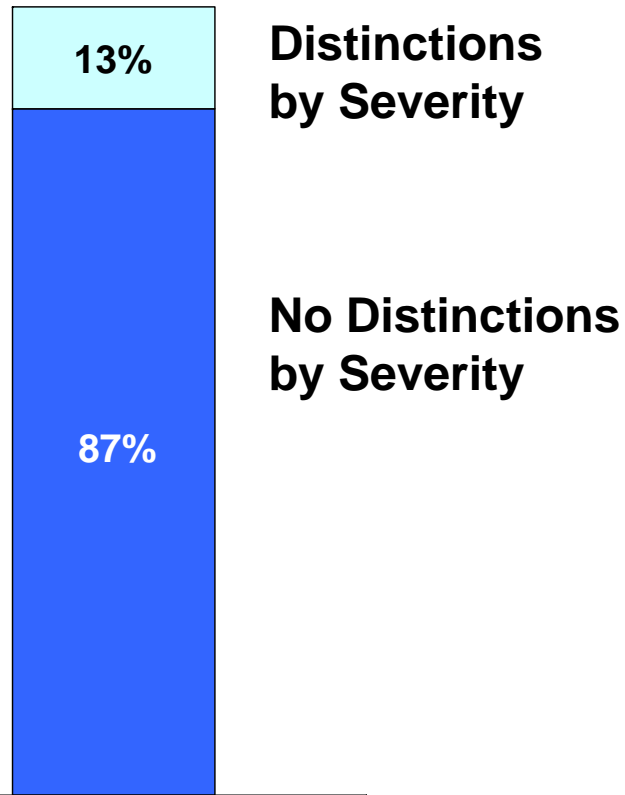
Percentage of Respondents by
Method of Expressing Cost



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Comparative cost information varies: Few adjust for severity of illness.

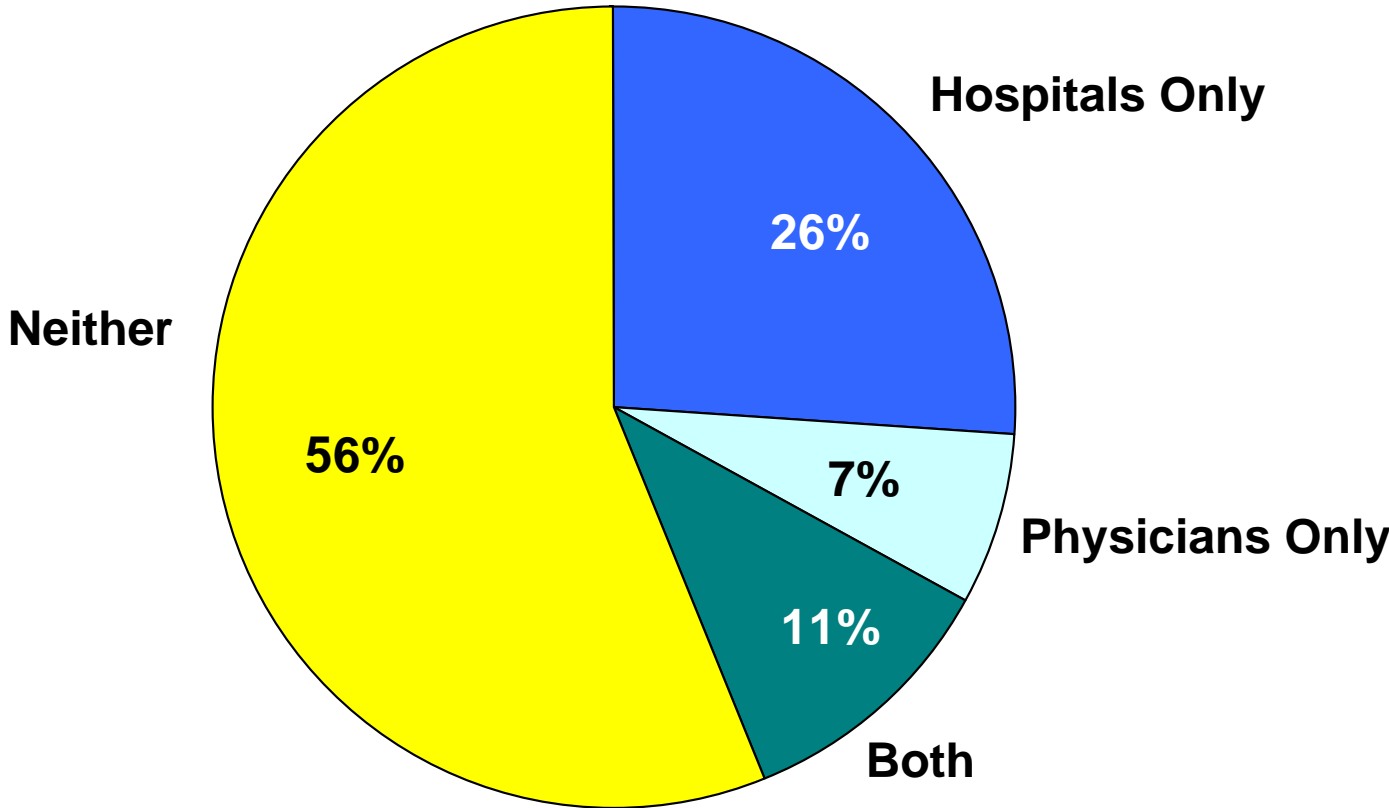
Percentage of Respondents Adjusting for Severity



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Nearly half publish quality information, mostly on hospitals.

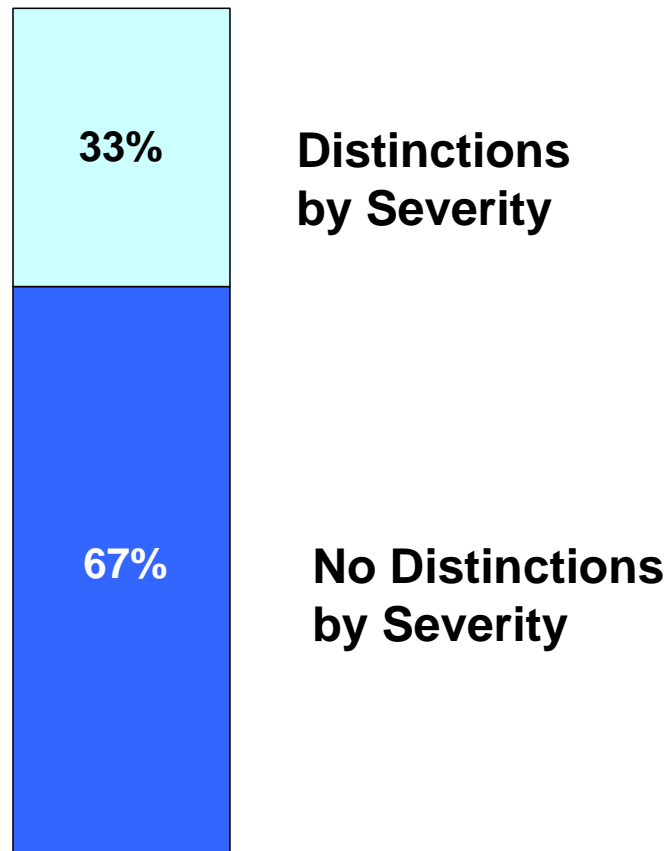
Percentage of Respondents Publishing Quality Information



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Two out of three do not adjust quality information for severity of illness.

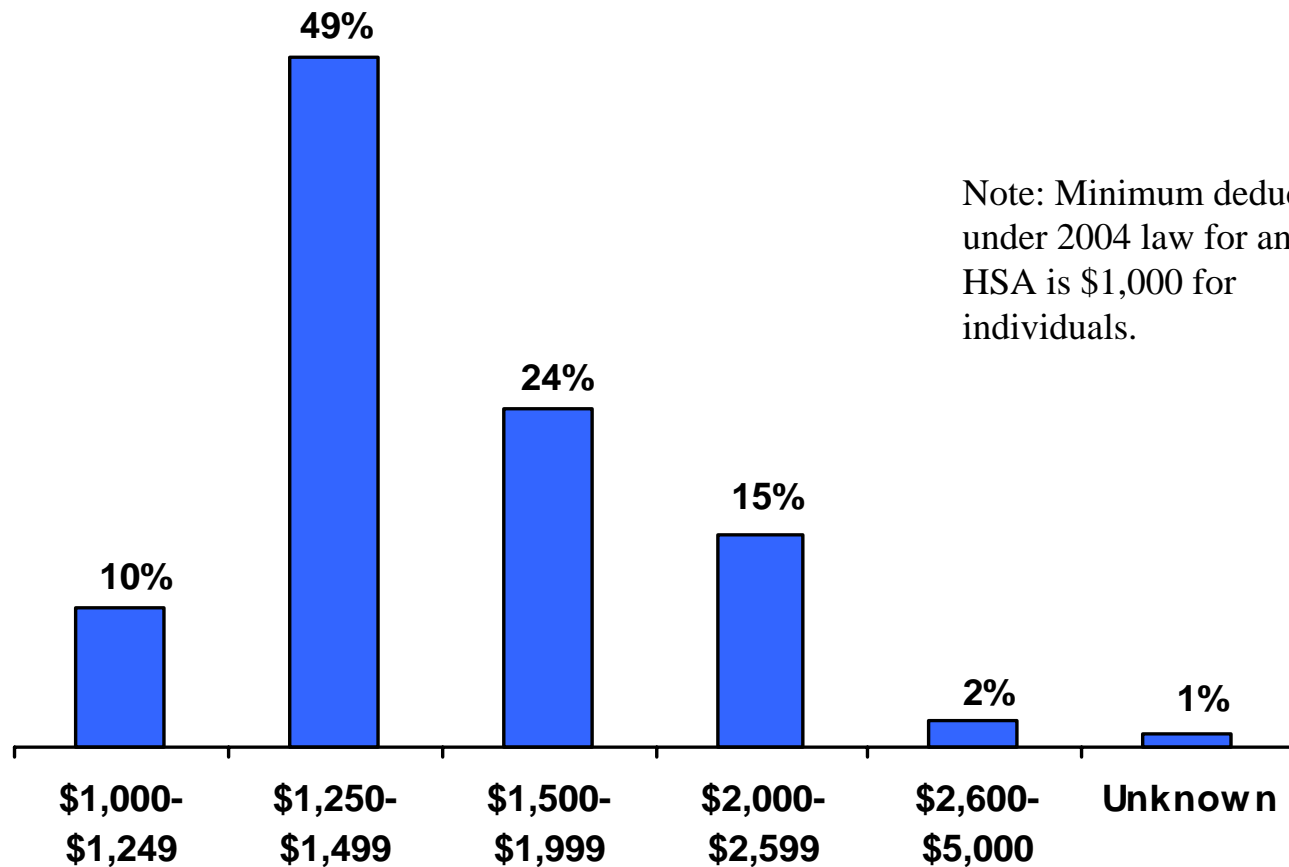
Percentage of Respondents
Adjusting for Severity



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HSA deductibles tend to exceed the minimum set by law...

Percentage of HSA Enrollees by Average Deductible Level (Single Enrollees*)



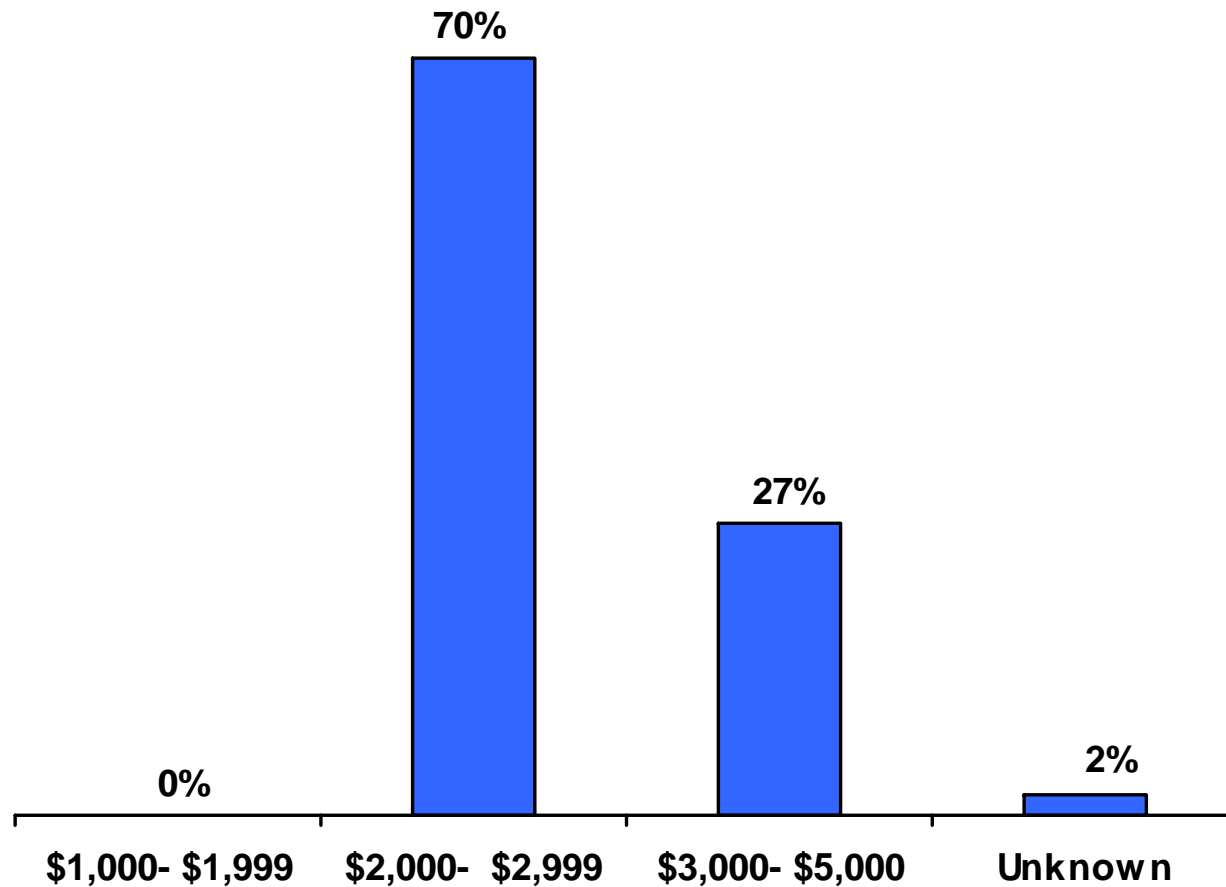
Note: Minimum deductible under 2004 law for an HSA is \$1,000 for individuals.

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*As opposed to families

...and HSAs have significant maximum out-of-pocket expenses.

Percentage of HSA Respondents by Average Maximum Out-of-Pocket Level (Single Enrollees*)



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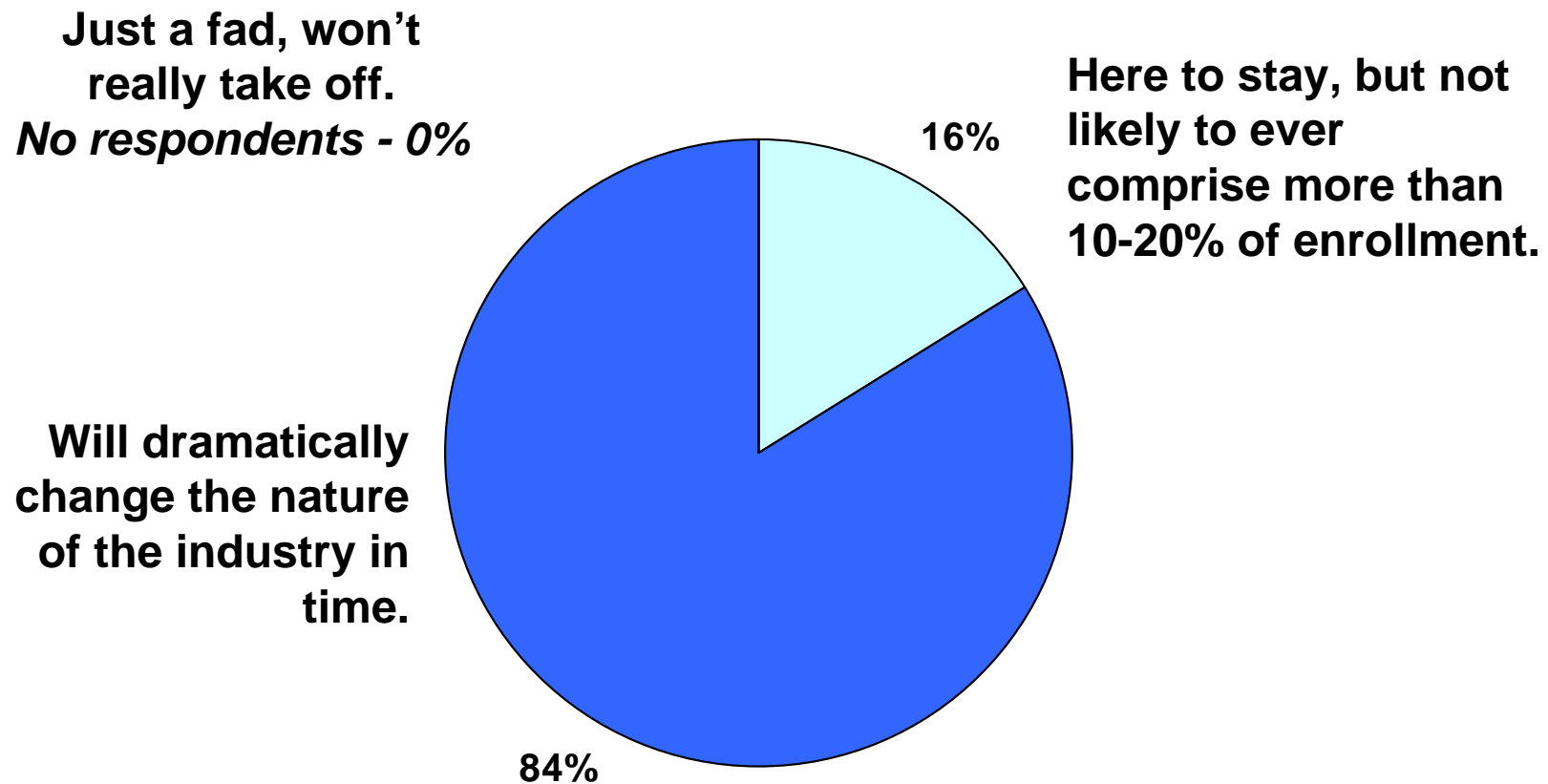
*As opposed to families

HSAs use many methods to pay claims.

- ◆ **Integrated debit/credit card:** member has a card authorized for up to balance in HSA/HRA account.
- ◆ **Member submits receipts:** member submits receipts to carrier and is reimbursed; member pays provider.
- ◆ **Auto rollover:** member pays nothing; claim goes to carrier who pays provider from HSA/HRA account and insurance.
- ◆ **Member checkbook:** member has instant access to account for paying medical expenses.

Four out of five believe consumer directed products will dramatically change health insurance.

Percentage of Respondents by Impression of the Future of Consumer Directed Products



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