

INSIDE CONSUMER-DIRECTED CARE

News and Analysis of Benefit Design, Contracts, HSAs, Market Strategies and Financial Results

Contents

- 2** HRA-, HSA-Based Products Help Minn. Blues Plan Boost Growth
- 3** 'Large' HSAs Would Improve Consumerism, Researcher Says
- 4** CDH Plans Lead to Increased Generic Drug Use, Study Finds
- 6** Table: HSA Financial Data From Selected Account Administrators
- 8** Industry News

 Sign up for ICDC's ListServ, CDH-Chat, at www.AISHealth.com/ConsumerDirected/CDListserv.html.

Managing Editor
Steve Davis

Editorial Assistant
Eve Collins

Executive Editor
James Gutman

HSA Deposits Top \$460 Million, ICDC Finds; 50,000+ Accounts Are Opened Each Month

Health savings account administrators say they have opened more than 425,000 accounts since Jan. 1, 2004, and are adding at least 50,000 new ones each month, according to interviews conducted by ICDC with 21 HSA administrators (see table, p. 6). Collectively, these firms have amassed about \$460 million in HSA deposits and are bracing for what they expect will be an explosive 2006. Some of the largest administrators — such as HSA Bank and Exante Bank — say they already are opening more than 8,000 new accounts each month.

The Medicare reform bill, signed into law by President Bush in late 2003, gave birth to HSAs, which must be combined with a high-deductible health plan (HDHP). Many of the accounts cited by administrators were converted from existing Archer medical savings accounts (MSAs). MSAs — which at their peak covered just 250,000 people — are far more restrictive and available to fewer people than are HSAs.

HSA Bank, a Sheboygan, Wis.-based firm that recently was acquired by Webster Financial Corp., began administering MSAs in 1997. The firm says it now has about \$200 million in HSA deposits — up from about \$70 million at the end of 2004. Many other HSA administrators got their start as MSA administrators or by working with flexible spending accounts (FSAs). Suzanne Rehr, senior vice president of growth and development at Fargo, N.D.-based Discovery Benefits, Inc., says the growth of HSAs will eventually be countered by a decline in FSAs, which don't allow account holders to roll over unused balances at the end of the year. Discovery administers FSAs, HSAs and health reimbursement arrangements (HRAs).

continued on p. 5

More Than 1 Million Lives Are Now Covered By HSA-Compatible HDHPs, AHIP Reports

The number of lives covered by an HSA-compatible high-deductible health plan (HDHP) has surpassed the 1 million mark, according to results of a study released May 4 by Washington, D.C.-based trade association America's Health Insurance Plans (AHIP). AHIP President and CEO Karen Ignagni tells ICDC that she "didn't expect the numbers to be this high" just six months after the first survey. Based on anecdotal information about April sales, she adds, the survey numbers even are "probably a little conservative."

continued

WellPoint Agrees to Acquire Lumenos for \$185 Million

At press time, WellPoint, Inc. said it has agreed to acquire Lumenos for \$185 million in cash in a deal expected to close in the second quarter. The buy should improve WellPoint's CDH product and service capabilities and boost its ability to compete against rivals with deeper CDH capabilities, like Aetna, Inc. and UnitedHealth Group. The purchase of 214,000-member Lumenos would be the latest in a series of acquisitions of CDH vendors. Among others, United in December 2004 paid \$300 million for Definity Health (ICDC 12/17/04, p. 3), and UICI purchased HealthMarket in September 2004 (ICDC 9/10/04, p. 1).

Health plans that responded to AHIP's most recent survey said their HDHPs collectively covered 1,031,000 lives as of the end of March. That's more than double the 438,000 lives reported by AHIP members last fall (*ICDC 1/21/05, p. 1*). AHIP also says the number of member health plans now selling an HSA-compatible product has tripled over the past six months. The study is based on data provided by 99 health plans, "virtually the entire universe of companies that are selling these plans," Ignagni says. Last September, the last time AHIP collected these data from its members, only 29 health plans had an HSA-compatible product.

While more than half of the lives covered by an HDHP are in the individual market, the number of lives in the large-group market has increased more than ten-fold over the past six months — from 13,000 last fall to more than 162,000 in March.

Respondents said 37% of their individual HDHP policies were purchased by people who previously did not have coverage — up from 30% six months ago. "This is a validation that [HSA-based plans] are meeting needs of the uninsured," Ignagni says. During the same period, the number of lives covered by HDHPs in the individual

market increased 62%, and enrollment in the small-group market grew 53%.

Deductibles Highest in Individual Market

According to the AHIP study, people who had single HDHP coverage in the individual market had an average annual deductible of \$2,790 (\$5,230 for family coverage), and faced an average out-of-pocket limit of \$2,875 (\$5,379 for family coverage). Deductibles were lower in the small-group market (fewer than 50 employees), averaging \$2,182 for single coverage and \$4,484 for family coverage. In the large-group market (more than 50 employees), deductibles averaged \$1,572 for single coverage and \$3,142 for family coverage. The average out-of-pocket limit was \$3,190 for those with single coverage and \$6,350 for people with family coverage.

Employee benefits consultants tell *ICDC* that many of their clients have already made plans to introduce a CDH plan during this fall's open-enrollment period. David Delahanty, a health care actuary in the Minneapolis office of Mellon Financial Corp., notes that about 50% of his employer clients say they are "likely" to offer an HDHP with an HSA for 2006.

Visit AHIP's HSA Web site at www.HSAdecisions.org. ♦

Inside Consumer-Directed Care is published 24 times a year by Atlantic Information Services, Inc., 1100 17th Street, NW, Suite 300, Washington, D.C. 20036, 202-775-9008, www.AISHealth.com.

Copyright © 2005 by Atlantic Information Services, Inc. All rights reserved. No part of this publication may be reproduced or transmitted by any means, electronic or mechanical, including photocopy, FAX, or electronic delivery without the prior written permission of the publisher.

Inside Consumer-Directed Care is published with the understanding that the publisher is not engaged in rendering legal, accounting or other professional services. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

Managing Editor, Steve Davis; Editorial Assistant, Eve Collins; Executive Editor, James Gutman; Publisher, Richard Biehl; Marketing Director, Donna Lawton; Circulation Manager, Kristin Mulcahy; Production Coordinator, Melissa Muko

Call Steve Davis at 1-800-521-4323 with story ideas for future issues of *ICDC*.

To order a subscription to **Inside Consumer-Directed Care**:

- (1) Call 1-800-521-4323 (major credit cards accepted), or
- (2) Order online at www.AISHealth.com, or
- (3) Staple your business card to this form and mail it to:
AIS, 1100 17th St., NW, Suite 300, Wash., DC 20036.

Payment Enclosed* \$392
Bill Me \$412

*Make checks payable to Atlantic Information Services, Inc.
D.C. residents add 5.75% sales tax.

Call 800-521-4323 (or go to *Inside Consumer-Directed Care* at the MarketPlace on AISHealth.com) to order your copy of **Inside Consumer-Directed Care 2004 on CD**, a searchable CD with all 24 issues of the newsletter published in 2004. (\$89 for subscribers; \$389 for non-subscribers.)

HRA-, HSA-Based Products Help Minn. Blues Plan Boost Growth

Blue Cross and Blue Shield of Minnesota says its membership increased by more than 50,000 in 2004 to more than 2.6 million, and its revenues topped \$6.6 billion — an increase of more than \$300 million from the previous year. And the company says part of its strong financial performance last year can be attributed to the success of its account-based consumer-directed health (CDH) plans, which now cover nearly 100,000 lives, the company says.

Enrollment in the Blues plan's CDH products has tripled every year since 2003 and could triple again by Jan. 1, 2006, says Craig Ashby, senior product consultant and one of the principal architects of the Minnesota Blues plan's CDH arsenal.

While nearly all of the nation's Blues plans now have a health reimbursement arrangement (HRA)- and/or a health savings account (HSA)-based product in their portfolios (*ICDC 1/21/05, p. 5*), the Minnesota Blues plan was one of the first to embrace the CDH movement. In 2002, long after interest in Archer medical savings accounts (MSAs) had begun to fizzle, the insurer launched an MSA-based health plan in response to demand from members. Despite the dwindling interest in MSAs nationally, the new product (MSA Blue) was successful, Ashby says. More importantly, it gave the Blues plan a head start

when HSAs were born two years later. MSAs are limited primarily to the self-employed and small employers and require higher deductibles than do HSAs.

"When HSAs came around, we already had the infrastructure in place and we had an understanding of the regulatory issues," Ashby says. On Jan. 1, 2004 — just a few weeks after President Bush signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 — three large employers went live with optional HSA-based health plans. The HSA provision of the Medicare reform law allows anyone with an HDHP (at least \$1,000 annually for single coverage and \$2,000 for couples and families) to open an HSA to pay for medical expenses.

Experience with MSAs also helped the insurer launch its HRA-based product, Options Blue, which was developed in 2002. "With [Minneapolis-based] Definity Health in our backyard — and some national carriers — we were seeing a lot of market pressure" to launch an HRA-based product, Ashby says.

MII Life, Inc., a subsidiary of the Minnesota Blues plan that administers flexible spending accounts (FSAs), also helped the insurer gain experience with health care accounts, says Gregg Larson, a principal in the Minneapolis office of Mellon Financial Corp., and a former president of three Minnesota Blues plan subsidiaries.

On Jan. 1, 2003, three Minnesota-based national employers added the HRA-based plan to their employee benefit options. By the following April, the product was being marketed to self-insured and fully insured employers. Four months later, Ridgeview Medical System, a Waconia, Minn.-based hospital that was one of Definity's first clients, decided to end its three-year relationship with the CDH vendor and sign on with the Minnesota Blues plan. While Definity's CDH plans helped hold the hospital's annual premium increases to between 6% and 8% (about 50% less than premium hikes associated with the hospital's PPO), Definity couldn't compete with the Blues plan's vast provider network. Definity, which was acquired by UnitedHealth Group last December, typically had to rent its networks.

HSA/HDHP Sales Outpace HRAs

Once HSA-based plans became available, Ashby says interest in HRA-based plans slowed as employers took time to evaluate both products. As of Jan. 1 of this year, HSAs were the more popular choice among employers. But while the Minnesota Blues plan sold more HSA-based plans, employers that already had an HRA-based plan in place took steps to boost enrollment for 2005. Some employers asked employees to pay more in premiums for their more traditional options but kept premium levels the same for the HRA-based plans. Others whittled

away existing options or increased their annual HRA contributions.

While still relatively new to the CDH market, Blues plans around the country are in a position to become formidable players, Larson says. Provider "networks still play a significant role [in CDH], and the Blues tend to dominate in that area," he says. "Much of the penetration we're seeing with HSAs is in the individual and small-group markets. Blues plans have uniquely strong networks in rural markets, and that will continue to give them a competitive edge in those markets."

Contact Larson at Larson.gg@mellon.com or Ashby at Craig_Ashby@bluecrossmn.com. ♦

'Large' HSAs Would Improve Consumerism, Researcher Says

While HSA-based health plans give consumers greater control over their health care spending, they do not eliminate the "current bias" toward excess health insurance coverage, says Michael Cannon, director of health policy studies at the Cato Institute, a Washington, D.C.-based think tank.

By reforming the tax code, he says, Congress could create "large" HSAs that would increase competition among health care providers and carriers, reduce overall health care costs and provide account holders with greater choice and control over their health care dollars.

"HSAs give consumers control over a portion — but not all — of their health care," Cannon says. "Consumers do not control their health coverage, which Congress requires to be a rigidly defined policy with restrictions on the number of deductibles, the size of the deductible and maximum amount of coinsurance. However, expanding HSAs would give consumers control over all their health care dollars and decisions."

Disease Management for Obesity and Metabolic Syndrome

Join Sue Binder, RN, CCM, PAHM,
of Horizon Blue Cross Blue Shield of
New Jersey, and Bonnie Sechrist, RN,
BSN, of Health Management Corp.
for a **May 18** audioconference.

Visit www.AISHealth.com

As HSA-based health plans exist today, the employer and the government determine the level of health care coverage that the consumer carries, Cannon explains. By expanding HSAs, the market, rather than employers and the government, would decide what HSA-based health policies look like, he says. Cannon proposes three key changes to the tax code:

◆ **Increase HSA contribution limits** to allow employers to deposit the full value of workers' health benefits directly into their HSAs. Employees would be able to purchase health coverage through their employer or find it on their own. But that could create an unintended penalty for organizations that have managed their health costs effectively, cautions Jay Savan, a consultant in the St. Louis office of Towers Perrin. If an employer has taken effective steps to encourage preventive care and rational plan usage, the full value of its health coverage expenses will naturally be lower than for employers that don't take such steps, he explains. If that employer is allowed to place only the value of its annual health expenses into the HSA, its employees will effectively be disadvantaged (through smaller HSA contributions) for being effective consumers.

◆ **Don't require HSA holders to obtain health insurance.** HSA holders could forgo health insurance altogether and build their HSA balances, Cannon says. But removing the health insurance requirement could induce some individuals and employers to "go naked" and expose participants to large out-of-pocket expense for unforeseen claims, Savan says.

◆ **Allow tax-free HSA withdrawals** for health insurance premiums as well as for qualified health care expenses. Savan suggests this issue could be addressed by allowing individuals to deduct health insurance premiums as an "above the line" expense — as President Bush has proposed — to achieve the same tax efficiency that employees receive when they pay their health insurance contributions on a pre-tax basis via a Section 125 cafeteria plan. "This wouldn't require the participant to withdraw from their HSA to pay their premiums," he says.

HSAs became available on Jan. 1, 2004, as part of the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

Would Tax Credit Create Dependency?

As part of his budget for fiscal year 2006, President Bush has proposed a tax credit for low-income people who have HDHP coverage. Under the proposal, low-income individuals would receive a subsidy to pay for health coverage (up to \$1,000 annually for single coverage and \$3,000 for family coverage). Individuals would have the option of depositing one-third of the credit into an HSA, while the rest of the money would be used to pay for HSA-qualified health coverage. The credit also could

be used to pay for traditional, low-deductible health coverage without an HSA (*ICDC 3/4/05, p. 4*).

But the proposed tax credits for HSAs, Cannon asserts, create "a whole host" of new problems. "It would be like an expansion of the Medicaid program because it would essentially provide [consumers] with a government voucher to purchase health [coverage]. That creates dependency."

Cannon expects that some people will disagree with his conclusions. The biggest objection, he predicts, will be a substantial reduction in tax revenue. Prior to the enactment of 2003's Medicare reform law, it was estimated that HSAs would cost about \$170 billion over the next 10 years in lost tax revenue. However, Cannon contends that every \$1 lost to the Treasury in the form of taxes would represent \$2 spent on health care or set aside for future health care needs. Those funds, he says, could help older consumers pay for expenses not covered by Medicare.

"Large HSAs would extend a tax benefit to low-income workers without creating disincentives to work, earn, and save," he says.

Contact Cannon at mcannon@cato.org. ✧

CDH Plans Lead to Increased Generic Drug Use, Study Finds

CDH plans have led to increased generic substitution rates and reduced prescription drug spending among members while lowering or maintaining the overall medical trend, according to a recent survey conducted by The Segal Company. Several CDH pioneers say they agree with the findings.

The consulting firm surveyed 27 employers that have had a CDH plan in place for at least one year (*ICDC 3/22/05, p. 3*). The employers included Aetna, Inc., Humana Inc. and UnitedHealth Group, which also market CDH plans to clients. Other employers include Coors Brewing Co., Louisiana State University, Toys 'R' Us, Textron, Inc. and Logan Aluminum, Inc. The most common CDH plan among these sponsors was a high-deductible PPO combined with a health reimbursement arrangement (HRA).

According to the Segal report, 65% of respondents experienced an increase in generic substitution, and 54% saw a reduction in prescription drug costs or claims. Meanwhile, 42% of responding employers' medical growth trend stayed about the same, and 50% said it decreased.

Behavioral changes on the medical/hospital side, however, were not as strong. For example, 25% of responding employers said their hospital costs or claims increased, while 38% said they were about the same and 33% said they decreased (4% said they didn't know).

Senior Consultant and survey co-author Chris Calvert suggests members' behavioral changes were stronger on the pharmacy side because prescription drugs "have fairly tangible and understandable data." The general practice of CDH plans is to arm the consumer with easy-to-access information, including the actual cost of their drugs. Cost information on the hospital/medical side is not as easily obtainable, he says.

A study conducted by Destiny Health showed that generic drug utilization rates among its members went from 30% to 50% in a 21-month period, and the average trend-adjusted cost for groups in a Destiny CDH plan over a period of 20 months fell from \$65 to about \$40 per prescription. Lumenos, another vendor of CDH plans, says an outside analysis of seven of its large Texas clients before and after they signed up with an HRA-based plan showed a 15% across-the-board reduction in prescription drug spending over one year. And its overall book of business shows annual growth in total health care spending of between 5% and 6% — significantly lower than the trend among U.S. employers, who are expecting 12.1% to 14.2% average rate increases for 2005, according to the semi-annual National Health Care Trend Survey conducted by Mellon Financial Corp.

Blue Cross and Blue Shield of Minnesota last year found that its CDH plan enrollees used 2% more generic drugs than did members who were enrolled in more traditional health plans. Those data reflect utilization for 12,000 Minnesota members in an HRA from January 2003 through April 2004.

Critics of CDH plans contend that by combining medical and pharmacy spending into one account — which is what the Treasury Dept. requires HSA-based plans to do beginning Jan. 1, 2006 — members may be less likely to purchase certain needed medications. Employers that offer HRA-based plans, however, can provide enrollees with a drug benefit outside of the account or provide first-dollar coverage for certain drugs, suggests Calvert. And while most pharmaceuticals cannot be covered outside of the deductible for HSA-based plans, drugs that are used to prevent an illness can be covered before the deductible is met (*ICDC 4/2/04, p. 1*).

Incentives, Information Also Aid Compliance

Lumenos does not provide first-dollar coverage for any drugs that might be considered preventive, but Vice President of Product Development Tim Kotas says providing members with certain incentives and information to engage them in their health care can be equally, if not more, effective. "We're providing information that is being driven by the engaged consumer who needs more information than they ever did before," says Kotas. "If we were to go back to first-dollar coverage [for prescription drugs], it would take consumerism out of the equation."

Instead, Lumenos provides "financial incentives for consumers to engage in better lifestyle behavior." These include payments to complete a health risk assessment or enroll in "health coach" programs, and Web-based information on prescription drug costs or other communications regarding members' conditions.

Contact The Segal Co.'s Calvert at (212) 251-5310, Blue Cross and Blue Shield of Minnesota's Joel Swanson at (651) 662-2882 and Lumenos' Kotas at tkotas@lumenos.com. ♦

This article was excerpted from AIS's biweekly newsletter, Drug Benefit News. Visit www.aishealth.com/Products/NewsDBN.html for more information about this newsletter, or call AIS at (800) 521-4323 to request a free copy.

50,000+ HSAs Opened Each Month

continued from p. 1

Some HSA administrators are completely new to the field. Alpharetta, Ga.-based PilotHSA Systems, Inc. began opening HSAs just two months ago and already has 1,722 accounts and nearly \$2 million in deposits. The company's explosive growth is due to relationships with insurance brokers, business consultants and professional

Pharmacy Benefit Resources From AIS

- ✓ *Drug Benefit News*, biweekly news, data and business strategies on the pharmacy benefit, for health plans, PBMs and pharmaceutical companies.
- ✓ *Specialty Pharmacy News*, monthly news and strategic information on managing high-cost biotech and injectable products.
- ✓ *Specialty Pharmacy 2005: Stakeholders, Strategies and Markets*, a 384-page softbound book on vendors and products in the specialty pharmacy marketplace and health plan strategies for managing high-cost biotech and injectable products.
- ✓ *A Guide to the Medicare Drug Benefit*, a comprehensive looseleaf (updated quarterly) that weaves together guidance from thousands of pages of statutory language, regulations and preambles, and CMS guidance on Part D, PDPs, the Medicare formulary and more; includes subscriber Web site.
- ✓ *Health Plan Strategies for Pharmacy Benefits*, a compendium of information on cost trends and cost containment strategies for the prescription drug benefit. Available this month.

**Visit the AIS Marketplace at
www.AISHealth.com**

employer organizations, says James Healy, vice president of sales. Large, national banks, such as Wells Fargo, Mellon Financial Corp. and JPMorganChase say they are opening thousands of new HSAs each month thanks largely to partnerships with health insurers (*ICDC 4/22/05, p. 1*).

William West, Jr., M.D., president of Reading, Pa.-based First HSA Inc. says he expects to see a “big jump” in new HSAs this July, and an even more substantial increase in January. The company — which began administering MSAs in 1999 — has partnerships with about

20 insurers. Many health plans, he says, have HDHPs that are less than a year old.

Individuals Make Largest Deposits

Small HSA administrators say that account holders who have individual health insurance tend to make large deposits and draw from their balances. Discovery’s Rehr says some of her firm’s earliest account holders were lawyers, doctors and consultants who made the maximum annual contribution when they opened their accounts. Jill Kelly, a senior vice president at The Bancorp

HSA Financial Data From Selected Account Administrators

It’s been just 17 months since the Medicare reform law gave birth to HSAs. Account administrators contacted by *ICDC* say they already have more than 425,000 accounts on the books. And while many of the accounts are converted Archer medical savings accounts — the HSA’s more restrictive predecessor — administrators say they collectively are opening more than 50,000 new HSAs each month. That number, they predict, will dramatically increase on Jan. 1.

HSA Custodian or Administrator	Total HSA Accounts*	Total HSA Deposits*	Avg. Monthly Contribution per Account (employer and employee)	Avg. New Accounts/Month
1Point Solutions Dickson, Tenn. www.1pointsolutions.com	8,800	\$2.7 million	\$175	1,100
American Chartered Bank Schaumburg, Ill. www.americanchartered.com	3,800	\$4 million to \$4.5 million	\$85 to \$100	500 to 600
The Bancorp Bank Wilmington, Del. www.thebancorp.com.	10,000	\$14 million	\$150	N/A
Discovery Benefits, Inc. Fargo, N.D. www.discoverybenefits.com	500	\$800,000	\$1,600 (many account holders make maximum annual contribution with one or two deposits)	20
Exante Bank Salt Lake City www.exantebankhsa.com	37,087	\$25 million	\$240	8,800
First American Bank Elk Grove Village, Ill. www.firstambank.com	400	\$800,000	N/A	125
First Horizon MSaver Resources, Inc. Overland Park, Kan. www.msaver.com	45,000	\$70 million	\$100 to \$450	2,000
First HSA Inc. Reading, Pa. www.firsthsa.com	22,500	\$34 million	HSAs typically are funded at 70% of the HDHP deductible.	1,000 to 2,000
FlexHSA Rosemont, Ill. www.flexhsa.com	4,200	\$4.2 million	\$100	250+
HSA Bank Sheboygan, Wis. HSAbank.com	110,000	\$180 million in deposits, \$20 million in brokerage investments	\$100 to \$150	8,000 to 10,000
hsa Trustee Services Lake Geneva, Wis. www.hsatrusteeservices.com	2,500	N/A	N/A	500
JPMorgan Chase New York www.jpmorganchase.com	40,000	\$30 million	N/A	N/A
Mellon Financial Corp. Pittsburgh www.mellon.com	16,000	\$9 million	N/A	5,000
National Advisors Trust Overland Park, Kan. www.nationaladvisorstrust.com	Fewer than 5,000	\$1 million to \$2 million	\$150	250 to 500
PilotHSA Alpharetta, Ga. www.pilothsa.com	1,722	\$1.87 million	\$208	1,000

HSA Financial Data From Selected Account Administrators (continued)

HSA Custodian or Administrator	Total HSA Accounts*	Total HSA Deposits*	Avg. Monthly Contribution per Account (employer and employee)	Avg. New Accounts/Month
The Principal Financial Group Des Moines, Iowa www.principal.com	4,000	\$3.5 million to \$4 million	\$200	450
State Farm Bank Bloomington, Ill. www.statefarmbank.com	7,761	\$13 million	N/A	700 to 800
UMB Financial Corp. Kansas City, Mo. www.umb.com	N/A	\$25 million+ in both FDIC insured and brokerage assets	\$125	N/A
Wellfund New York www.wellfund.com	500	N/A	N/A	200
Wells Fargo San Francisco www.wellsfargo.com	75,000	\$20 million	\$120	9,000 to 10,000
Westfield Bank FSB Westfield Center Ohio www.Westfield-bank.com	1,500	\$1 million	\$250	500

* As of April 2005

N/A = not available

SOURCE: Based on information supplied by company officials and compiled by ICDC

Bank in Wilmington, Del., has seen a similar trend and adds that highly paid HSA holders tend to fully fund the accounts at the beginning of the year so that they can take full advantage of the tax-saving benefits. But in the group market, "it's almost always monthly contributions," adds Jason Lee, director of sales and marketing at DataPath, a Little Rock, Ark.-based software company and third-party administrator.

HSAs Could Help Banks Boost Deposits

During an April 13 audioconference sponsored by ICDC, Roy Ramthun, senior advisor to the Secretary of the Treasury, said one of his goals this year is to encourage more banks and credit unions to participate in HSAs.

Rehr says more local banks are likely to make HSAs available once they realize that the accounts can help increase business and boost overall deposits. For local banks and credit unions, HSAs could provide a tremendous opportunity, adds Tim Morales, president of Lake Geneva, Wis.-based HSA Trustee Bank Services. A local bank or credit union, he explains, might be able to attract a large number of new customers when local employers introduce HDHPs. "The number one question I hear from employers is 'why doesn't my local bank offer HSAs?'" he says.

Unlike national financial firms, local banks and small HSA administrators might not partner directly with insurers. However, they might be able to attract business through lower setup and maintenance fees than those charged by their larger counterparts. Barry Stokes, president of 1Point Solutions, a third-party administrator based in Dickson, Tenn., says the high fees charged by some HSA administrators could prompt legislation that

would place caps on what HSA administrators can charge. Stokes says his firm charges HSA holders a monthly fee of \$5 and does not charge a termination fee. Vikram Kashyap, CEO of Wellfund, Inc., says many of his company's clients are people who were not happy with their previous HSA administrator. Wellfund, based in New York City, began operations in 2004 and is opening about 200 new accounts each month.

Will HSAs Replace Traditional Plans?

Within the next five to seven years, West predicts, HSA-based plans will completely replace the HMO/PPO system and will be the dominant CDH option offered by employers. Over the next few years, he explains, employers that offer an HSA-based health plan alongside more traditional options will watch their healthiest employees migrate to the HSA-based plans. Premiums related to the more traditional plans will skyrocket because the sicker, more expensive employees remain in the more traditional plans, he says.

"The premiums for the HDHPs will remain low, so employers will dump their HMOs as the premiums increase. It's inevitable. And because of the tax benefits, HSA-based plans are a better choice than traditional PPOs and HMOs" even for heavy health care utilizers, he says.

Premiums for an HDHP often are as much as 45% less than premiums for a traditional PPO that includes a \$500 deductible, says Morales. "We are finding that some employers aren't waiting until the end of the year to open an HSA because the savings [in premiums] can be so great," he says. "Why wait until the end of the year?"

Some employers have even used the savings to fully fund employee HSAs.

Because of the “extraordinary learning curve” associated with HSA-based plans, West recommends that employers move to a full-replacement HSA strategy as soon as possible rather than offer the plans alongside more traditional coverage options. “You don’t want to spend all of your time educating 8% of the [employee] population if the rest are eventually going to enroll. The best way to educate employees is to give them an HSA.”

HSA administrators who spoke with ICDC say they were impressed with the speed at which the Treasury Dept. issued its HSA guidance last year and generally are pleased with it. But there are a few areas in need of change or further clarification, they say. West suggests

that people who enroll in an HDHP should be able to reimburse themselves for expenses incurred prior to the establishment of an HSA. According to the Treasury Dept. guidance, claims aren’t reimbursable until after the HSA is established.

“If my [HDHP coverage] begins on Jan. 1, but I don’t open an HSA until Jan. 30, I can’t reimburse myself for something that took place on Jan. 15. We don’t think that was the intent of the law,” West says. “Jan. 1 is a federal holiday, so there is no way that someone could establish an HSA on that day.”

Contact Rehr at SRehr@discoverybenefits.com, Kashyap at vkashyap@wellfund.com, Stokes at brstokes@1pointsolutions.com, West at bwest@1hsa.com or Morales at hsainfo@hsatrusteesservices.com. ↵

INDUSTRY NEWS

◆ **Aetna, Inc. says enrollment in its account-based CDH plans has increased by 139,000 members since the beginning of the year.** In an April 28 conference call with investors, Aetna President Ronald Williams said the company’s CDH product line was a “key driver” of the company’s membership growth in the quarter. Total medical membership stood at 14.4 million on March 31, 2005, up from 13.3 million on the same date last year. Call Aetna spokesperson Fred Laberge at (860) 273-4788.

◆ **Mellon Financial Corp’s Human Resources and Investor Solutions business and NGS American, Inc. say they formed an alliance to provide HSAs to more than 350,000 members of health plans administered by NGS.** The integrated HSA product includes financial services such as checking and debit cards to pay for qualified medical expenses, an investment account and IRS-required tax reporting. It also includes services such as claims administration, customer service, online tools, employee education and enrollment, the companies say. Visit www.mellon.com or www.ngsameric.com.

◆ **HSAs are “not likely to be an important contributor to expanding coverage among uninsured people,”** according to a report from The Commonwealth Fund. Enrollees in HSA-based plans, the authors of the report contend, don’t face high-enough marginal tax rates to benefit substantially from the tax deductibility of HSA contributions. However, a report released May 4 by America’s Health Insurance Plans (AHIP) says 37% of HDHPs

sold in the individual market were sold to people who previously did not have health coverage (see story, p. 1). Visit The Commonwealth Fund at www.cmwf.org.

◆ **Vested Health said April 21 that an analysis of the company’s more than 11,000 members shows that after four years of providing CDH plans, its average rate increases are below those of national health plans.** Findings in a Vested Health study show that overall rate hikes for employers with fewer than 50 employees averaged 4.5% and for employers with more than 50 employees averaged 7.8%. Vested compares that with numbers from national U.S. employers, which are expecting 12.1% to 14.2% average rate increases for 2005, according to the semiannual National Health Care Trend Survey conducted by Mellon. Visit www.vestedhealth.com.

◆ **TelaDoc Medical Services, Inc. on April 27 launched what it bills as the first nationwide program to focus solely on telephone medical consult services.** The program lets consumers use the telephone to receive medical care at home, at work or on the road, according to the company. TelaDoc says it provides members and dependents age 12 and older with 24-hour access to telephone medical consults with trained primary care doctors who diagnose medical problems and, when appropriate, prescribe medications. For employers and business owners, TelaDoc is a benefit that enhances the effectiveness and employee satisfaction with existing benefit packages, the company asserts.

If You Don't Already Subscribe to the Newsletter, Here Are Three Easy Ways to Sign Up:



(1) Call us at **800-521-4323**



(2) Fax the order form on page 2 to **202-331-9542**



(3) Visit **www.AISHealth.com** and click on
"Shop at the AIS MarketPlace"

If You Are a Subscriber And Want to Routinely Forward this E-mail Edition to Others in Your Organization:

Call Brenda at **800-521-4323** to discuss AIS's very reasonable rates for your on-site distribution of each issue. (Please don't forward these e-mail editions without prior authorization from AIS, since strict copyright restrictions apply.)