

# INSIDE CONSUMER-DIRECTED CARE

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

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## CDH Enrollment Among Nation's Blues Plans Tops 1 Million, ICDC's Midyear Survey Finds

The nation's Blue Cross and Blue Shield plans have enrolled a total of more than 1 million members in account-based consumer-directed health plans, according to ICDC's annual midyear survey of Blues plans' CDH products (see table, p. 4).

Over the past six months, the Blues plans have seen their overall CDH enrollment grow from about 400,000 (*ICDC, 1/21/05, p. 5*) in January to just over 1 million this month. A large chunk of that increase, however, can be tied to WellPoint, Inc.'s June 9 acquisition of Lumenos, a CDH vendor that has 210,000 members. WellPoint, which owns Blues plans in more than a dozen states, says enrollment in its health savings account (HSA)- and health reimbursement arrangement (HRA)-based products now tops 400,000. WellPoint Health Networks, Inc. had trailed its competitors in the CDH space until last November, when it was acquired by Anthem, Inc. The combined company, WellPoint, Inc., now has the largest CDH enrollment among Blues plans.

Overall, Blues plans said about 572,000 members were enrolled in HRA-based plans as of midyear, while 437,000 were covered by an HSA-qualified high-deductible health plan (HDHP). (*Editor's note:* Some HDHP members choose not to open an HSA.)

Some Blues plans say they are optimistic that adoption of the plans will continue to pick up steam. Blue Cross and Blue Shield of Michigan expects enrollment in its HRA-based product will more than double — from 5,000 members to 11,000 — on Jan. 1, 2006. And the insurer predicts that its HDHP will see even greater growth, more than tripling from 7,000 enrollees now to 22,000 on Jan. 1.

Collectively, Blue Cross and Blue Shield plans provide health coverage for more than 92 million people in all 50 states, the District of Columbia and Puerto Rico, according to the BlueCross BlueShield Association. Nearly all of the nation's 40 Blues plans now have at least one CDH product in their portfolio. All but a few of them contributed data to ICDC's survey. ♦

## UnitedHealth/PacifiCare Deal Could Help Both Companies Strengthen CDH Portfolios

Industry observers who spoke with ICDC say UnitedHealth Group's pending \$8.1 billion acquisition of PacifiCare Health Systems, Inc. (*ICDC 7/8/05, p. 1*) will likely help both organizations round out their CDH product portfolios. But, they caution, merging the CDH product lines could be difficult once the deal is approved.

United predicts the deal will be finalized within the next six months. Representatives from United and PacifiCare declined to comment on the effect the deal would have on their CDH businesses pending completion of the acquisition.

"Overall it's a very good transaction for both organizations," says Henry Loubet, chief strategy officer in the Oakland, Calif., office of Keenan & Associates, a California-based third-party administrator (TPA) and insurance brokerage company. Between 1996 and 1999, Loubet was the CEO of United's West Coast operations. PacifiCare, he

says, has been particularly successful with CDH products aimed at employers with fewer than 100 employees, but has few large CDH clients. That company, he says, "has found it difficult at times to compete" against national insurers in the large-group market. United's presence in California, by contrast, has been limited to a few national *FORTUNE* 1000 employers.

The opportunity for PacifiCare to combine with United, which has a deep portfolio as well as deep pockets, "is very compelling," Loubet says. As a TPA, Keenan offers a private-label version of Aetna's HRA-based HealthFund product that it markets primarily to California-based schools and universities.

Upon completion of the acquisition — which is subject to the approval of state regulators and shareholders — PacifiCare would operate as a wholly owned subsidiary of UnitedHealthcare, United's HMO division.

"It really plugs a lot of holes for United...and opens up tremendous opportunities for existing PacifiCare clients," says Alexander Domaszewicz, an employee benefits consultant in the Newport Beach, Calif., office of Mercer Human Resource Consulting. "But again just like [United's acquisition of] Definity, there could be some

bumps in the road." Several longtime Definity executives and salespeople left the company a few months after the acquisition (*ICDC* 5/20/05, p. 1).

### California Dreaming

Although United provides health insurance services in all 50 states, it does not own insurance operations in some key PacifiCare markets, including California, Nevada, Washington and Oregon. PacifiCare has 1.5 million enrollees in California, 45,000 in Nevada, 60,000 in Washington and 55,000 in Oregon. In California, United serves 921,000 members via a provider network leased from Blue Shield of California subsidiary CareTrust Networks. In fact, UnitedHealth is CareTrust's "primary client," according to CareTrust spokesperson Dan Danzig.

About 5,600 of PacifiCare's employer clients have made PacifiCare's Signature Freedom HRA-based plan available to employees. Enrollment in the plans is about 87,000, according to company spokesperson Cheryl Randolph (see table, p. 3). While United is the nation's largest single provider of account-based CDH plans with more than 1 million covered lives, PacifiCare has a lot to offer, especially in the area of quality initiatives, Domaszewicz says. PacifiCare has a quality index that ranks medical groups in three states, and another ranks hospitals and medical groups for women in all seven of its core states.

The company also was an innovator in the development of tiered provider networks, he says. "United will absolutely boost PacifiCare's [CDH] capabilities, but PacifiCare will bring a few things to the show in terms of consumerism around medical groups, [network] tiering and quality initiatives," he says. Ray Herschman, a benefits consultant in Mercer's Cleveland office, agrees, adding that PacifiCare has "definitely been out front" in rating provider quality.

### A Shrinking Pool of CDH Players

The acquisition of PacifiCare would mean one less CDH player in the market, Herschman says. In the past nine months, three venture-capital-backed CDH players — HealthMarket, Definity Health and Lumenos — have been acquired by large, mainstream health plans.

Humana Inc., for example, has a strong CDH portfolio. In theory, "if Humana were to be gobbled up, there would really only be a few [CDH] choices left in the market, and those products would become a lot more homogenized."

Jay Savan, an employee benefits consultant in the St. Louis office of Towers Perrin says the acquisition would give United an additional foothold in the California market, but adds that it isn't likely to have much of an effect on its CDH portfolio. "The big pearl for United is

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<b>UnitedHealth Group, PacifiCare CDH Enrollment at a Glance</b>		
	<b>UnitedHealth Group</b>	<b>PacifiCare Health Systems, Inc.</b>
<b>Total Enrollment as of March 31, 2005</b>	23.1 million	3.2 million
<b>Enrollment in CDH plans as of July 1.</b>	<ul style="list-style-type: none"> <li>◆ 675,000 HRA-based plans</li> <li>◆ 325,000 HDHP/HSAs</li> </ul>	<ul style="list-style-type: none"> <li>◆ 87,000 enrolled in HRA-based plans</li> <li>◆ 5,600 employer clients</li> <li>◆ HDHP/HSA enrollment unavailable</li> </ul>
SOURCE: Compiled by Atlantic Information Services, July, 2005		

the Medicare Advantage business that PacifiCare has built." PacifiCare's Medicare enrollment is 754,000 — more than double United's Medicare enrollment.

UnitedHealth says it expects to retain its own external PBM relationships while continuing to operate PacifiCare's PBM subsidiary, Prescription Solutions, which serves both its own members and enrollees in other health plans. United commercial members are served by Medco Health Solutions, Inc. UnitedHealth has ruled out spinning off Prescription Solutions into a separate company.

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## **AOL Co-Founder Says New CDH Venture Could Engage Consumers**

America Online co-founder Steve Case says his latest high-profile venture — Revolution Health Group (RHG) — will be the nation's first comprehensive, consumer-driven health care company.

Case, who has recruited several high-profile investors including former Secretary of State Colin Powell, says he has committed \$500 million from his own pocket toward the project. Through RHG, Case expects to acquire controlling interests in a variety of consumer-focused health care companies.

Case is banking that the whole will be more valuable than the sum of its parts. RHG says it already has reached preliminary or final agreements with seven companies that focus on health information, health finance management, personal health records and other related areas. The company expects to identify the companies this fall. RHG is partly owned by Revolution LLC, a private holding firm that Case founded last April. The other investors own the rest of the company.

Franklin Raines, former chairman and CEO of financial services and mortgage giant Fannie Mae, tells *ICDC*

that RHG has a "singular focus" on the consumer. And as consumer-directed health plans pick up steam, he says, consumers will need help when making decisions about their health care.

"There are a lot of entrepreneurial companies out there, but typically they only focus on one area. We are offering the scale to bring all of those parts together," he explains. "We're going to look for companies that address all areas of the value chain." Like several of the investors, Raines is a former AOL board member. He also headed up the U.S. Office of Management and Budget between 1996 and 1998.

HealthMarket and Oxford Health Plans founder Steve Wiggins says he will be the "health industry representative" on the company's board. "It's a very grand vision that is broader and potentially more disruptive than any I've seen," he says of Case's venture. "The investors are made up of people who have helped transform other industries. It's not just a bunch of health care people."

HealthMarket, a venture-capital-backed start-up that helped pioneer the CDH concept along with Definity Health and Lumenos, was acquired last September by The MEGA Life and Health Insurance Company, a subsidiary of Texas-based UICI. Several months before the acquisition, HealthMarket stopped accepting applications for new business in Texas after the state Dept. of Insurance (DOI) determined its subsidiary, American Travelers Assurance Company, was in "hazardous financial condition."

### **More Decisions for Consumers**

Raines says he thinks that account-based CDH programs have helped move health care "in the right direction," but adds that greater decision-making power needs to be shifted to the consumer.

By putting a collection of consumer-focused companies under the same roof, RHG intends to create a trusted brand name that will help engage consumers in their health care. Such companies, for example, might help consumers manage their HSAs or flexible spending accounts, or help strengthen relationships between health care providers and patients. Other companies might provide medical services or help improve the infrastructure of health plans, Wiggins says.

"We're interesting in finding companies that have a consumer focus. So far, they have been finding us through word of mouth," says Raines, who declines to speculate on when RHG might be able to turn a profit. "We have plenty of capital right now and aren't looking for additional investors." The company is, however, looking to bring on a CEO.

Visit Revolution at [www.revolution.com](http://www.revolution.com). ◆

## Midyear CDH Product and Enrollment Update From Selected Blues Plans

Blues Plan	CDH Product Overview	Client Profiles	HRA-Based Plan Employer Clients/ Covered Lives	HSA/ HDHP Enrollment and HSA Administrator
<b>Arkansas Blue Cross Blue Shield</b> www.arkbluecross.com	<b>HRA Blue</b> is the company's self-funded HRA-based product.	Employer groups with more than 100 employees.	N/A.	<b>Enrollment:</b> 3,400 members in individual HDHPs. 17 groups, 813 members as of Feb. 1, 2005.
<b>Blue Cross and Blue Shield of Alabama</b> www.bcbsal.com	HSA-qualified high-deductible health plan (HDHP) and HRA-based plans.	CDH plans available to large employers as of Jan. 1, 2005.	N/A.	<b>Enrollment:</b> N/A. <b>HSA Partner:</b> Mellon Human Resource Solutions.
<b>Blue Cross Blue Shield of Arizona</b> www.azblue.com	<b>BluePreferred Saver</b> is an HSA-qualified HDHP launched on Oct. 1, 2004.	HDHP aimed at all group sizes.	No HRA-based product yet.	<b>Enrollment:</b> No data available. <b>HSA Partner:</b> HSA Bank
<b>Blue Cross and Blue Shield of Florida</b> www.bcbsfl.com	HRA-based plans for fully insured and self-funded groups. HSA available for group and individual market.	HRA available for small- and large-group markets.	3,000 members as of June 2005 (combined HRA and HSA enrollment).	<b>Enrollment:</b> More than 1,200 contracts. <b>HSA Partner:</b> To be announced in fourth quarter 2005.
<b>Blue Cross of Idaho</b> www.bcidaho.com	HSA Blue PPO is an HSA-qualified HDHP.	HSA Blue PPO launched July 2004 for groups and August 2004 for individuals. HSA Blue POS launched May 2005 for all groups.	N/A.	<b>Enrollment:</b> 8,250 lives covered as of July 1, 2005. <b>HSA Partner:</b> Farmers and Merchants State Bank.
<b>Blue Cross and Blue Shield of Kansas</b> www.bcbsks.com	<b>Blue by Design</b> offers health plans that are compatible with HSAs and HRAs.	HRA-based plans are available in small- and large-group markets. HDHP available for individuals and all group markets.	Data not available.	<b>Enrollment:</b> Data not available. <b>HSA Partner:</b> MLI Life (a division of Metropolitan Life Insurance Co.)
<b>Blue Cross and Blue Shield of Kansas City</b> www.bcbskc.com	<b>BlueSaver</b> is an HSA-qualified HDHP available since Jan. 1, 2005.	Available to large groups, small groups and individuals.	N/A.	<b>Enrollment:</b> 3,000 <b>HSA Partner:</b> Wells Fargo.
<b>Blue Cross and Blue Shield of Louisiana</b> www.bcbsla.com	<b>BlueSaver</b> is an HDHP that can be paired with an HSA or HRA.	Available to individual and group clients. Average group has eight employees.	N/A.	<b>Enrollment:</b> 92,056 in BlueSaver HDHP as of June 30, 2005 (64,315 individual members, 27,741 group enrollees). <b>HSA Partner:</b> The Bancorp Bank.
<b>Blue Cross Blue Shield of Massachusetts</b> www.bcbsma.com	<b>HMO Blue with Deductible, Blue Care Elect with Deductible, and HMO Blue Preferences</b> include an HRA	HRA available to all groups including self-employed. Non-group HSA launched Jan. 1, 2005. Group HSA-based product launched in May 2005.	30,000 lives as of May 2005.	<b>Enrollment:</b> N/A. <b>HSA Partner:</b> Wells Fargo.
<b>Blue Cross and Blue Shield of Michigan</b> www.bcbsm.com	High-deductible PPO options compatible with HSAs and HRAs.	Available to fully insured and self-funded groups of all sizes. Considering the development of a product for individuals.	5,000 members enrolled in an HRA-based plan.	<b>Enrollment:</b> 7,000 members. <b>HSA Partner:</b> Negotiations "in progress."
<b>Blue Cross and Blue Shield of Minnesota</b> www.bluecrossmn.com	<b>Options Blue HRA</b> pairs a high-deductible PPO with an HRA. Launched Jan. 1, 2003. <b>Options Blue HSA</b> is an HDHP paired with an HSA. Launched Jan. 1, 2004.	Employers of all sizes.	101,000+ covered lives almost evenly split between HRA- and HSA-based plans as of April 2005.	<b>Enrollment:</b> About 50,000 as of April 2005. <b>HSA Partner:</b> SelectAccount, an affiliate company. Investment options available through Charles Schwab.
<b>Blue Cross Blue Shield of Missouri</b> www.bcbsmo.com	HSA-compatible HDHP.	All group sizes and individuals.	Large-group employers.	<b>Enrollment:</b> 1,530 individual subscribers, 1,199 group subscribers as of June 2005. <b>HSA Partner:</b> Unicare (HSA unit in Chicago).
<b>Blue Cross and Blue Shield of North Carolina</b> www.bcbsnc.com	<b>CDHP Blue:</b> Portfolio includes fixed-contribution HRA and an HSA-qualified HDHP.	Fixed-contribution HRA for employer groups with 100+ employees. Integrated HSA product available for large and small groups and individuals for Jan. 1, 2006.	17,000 enrollees in fixed-contribution plans as of July 1, 2005.	<b>Enrollment:</b> 1,400 covered lives as of June 1, 2005. <b>HSA Partner:</b> Mellon.

**Midyear CDH Product and Enrollment Update From Selected Blues Plans (continued)**

<b>Blues Plan</b>	<b>CDH Product Overview</b>	<b>Client Profiles</b>	<b>HRA-Based Plan Employer Clients/ Covered Lives</b>	<b>HSA/ HDHP Enrollment and HSA Administrator</b>
<b>Blue Cross of Northeastern Pennsylvania</b> www.bcnepa.com	HRA-based plans available through third-party administrator subsidiary Erin Group Administrators.	Aimed at the group market.	Approximately 2,500 members.	<b>Enrollment:</b> Data not available. <b>HSA Partner:</b> Not yet announced.
<b>BlueCross BlueShield of Oklahoma</b> www.bcbsook.com	<b>Consumer-Driven Blue</b> includes HRA and HSA-compatible HDHPs. <b>HSA Blue</b> available to groups of two or more employees. <b>Health Check HSA</b> available to individuals aged 19 to 65.	HRA available for fully insured employers with 10 or more employees. Customized HRA plans available to self-funded employer groups.	1,671 employees.	<b>Enrollment:</b> 749 members. <b>HSA Partner:</b> HSA Bank.
<b>Blue Cross &amp; Blue Shield of Rhode Island</b> www.bcbstri.com	Product launch scheduled for Oct. 1, 2005.	Not available.	Product to be launched in October for small and large groups.	Individual product to be launched in first quarter 2006.
<b>BlueCross BlueShield of South Carolina</b> www.SouthCarolinaBlues.com	<b>Blue-by-Design</b> is an HRA coupled with a PPO. Available since Jan. 1, 2003. <b>Blue Health Fund</b> (HDHP with HSA) available to small groups and individuals since Jan. 1, 2004.	HRA available to employers with 50+ employees as dual option or full replacement with ASO or fully insured funding. <b>Blue Health Fund</b> for large-group market became available on Jan. 1, 2005.	◆ 1,878 CDH accounts. ◆ 30,895 members on July 1.	<b>Enrollment:</b> 17% of small-group employers, and 22% of individual sales have been the for HDHP design. <b>HSA Partner:</b> HSA Bank.
<b>Blue Cross Blue Shield of Tennessee</b> www.bcbst.com.	<b>HRA-compatible product</b> available to self-funded groups. Will be available to fully insured groups by fourth quarter 2005.	<b>HDHPs</b> available since Aug. 1, 2004, for individuals and Oct. 1, 2004, for small and large groups.	One major HRA account with about 3,000 members.	<b>Enrollment:</b> 450 to 500 groups, 18,000 members. <b>HSA Partner:</b> Wells Fargo.
<b>Blue Cross and Blue Shield of Vermont and The Vermont Health Plan</b> (affiliated HMO). www.bcbstvt.com	<b>Blue Care Account</b> is an HRA product for small and large groups. <b>HSA Blue</b> products available to small and large employers. Introduced Jan. 1, 2004.	Vermont Health Plan offers HMO-style suite of HSA-compatible plans: <b>HSA BlueCare</b> as of Jan. 1, 2005. Individual market <b>HSABlue</b> pending introduction.	14,500 members enrolled in account-based CDH products as of June 1, 2005.	<b>Enrollment:</b> HDHP enrollment combined with HRA enrollment. <b>HSA Partner:</b> American Health Value, TD Banknorth, Chittenden Bank and First Horizon MSaver Resources Inc.
<b>Capital BlueCross</b> www.capbluecross.com	CDH programs are based on a PPO plan.	HDHPs available for groups of 2 to 100 employees with deductibles of \$1,200, \$2,000 and \$2,500. Will assist larger groups in customizing their plan designs.	HRAs available for groups with at least 50 employees and can be paired with any group health plan. Enrollment data not available.	Data not available.
<b>Empire Blue Cross Blue Shield</b> www.empireblue.com	<b>Total Blue</b> combines high-deductible plan HSA or HRA.	HRA- and HSA-based plans available to employer groups with 51 or more employees. Employer groups with 2 to 50 members, HSA only.	42,000 Total Blue members as of Jan. 1, 2005.	<b>Enrollment:</b> N/A. <b>HSA Partner:</b> Mellon.
<b>Hawaii Medical Service Association</b> www.hmsa.com	In development. CDH plans will probably be available in 2007.	Initially individual plans and employer groups of all sizes in the future (will require changes in state law).	N/A	<b>Enrollment:</b> N/A. <b>HSA Partner:</b> The Bancorp Bank.
<b>Health Care Service Corporation</b> (Includes Blues plans in Illinois, New Mexico and Texas) www.hcsc.net	<b>BlueEdge HCA</b> pairs a high-deductible PPO with an employer-funded HRA Available with national PPO or a select network. <b>BlueEdge HSA</b> combines an HDHP with an HSA.	<b>BlueEdge HCA</b> available to employers with 50 or more employees on a self-funded or fully insured basis. <b>Blue Edge HSA</b> available to employers with 2 or more employees and to individuals	◆ 90+ clients; ◆ 45,000 covered lives.	<b>Enrollment:</b> 2,230+ clients, 34,776 covered lives. <b>HSA Partner:</b> Mellon.
<b>Highmark Inc.</b> (Highmark Blue Cross Blue Shield and Highmark Blue Shield) www.highmark.com	<b>BlueAccount:</b> Combines a high-deductible PPO with an employer-funded HRA or an HSA on an integrated account basis.	Available to individuals, and to employers of all sizes.	◆ Four clients; ◆ 2,000 members.	<b>Enrollment:</b> 400 HDHP clients, 8,500 members. <b>HSA Partner:</b> PFFC, a PNC Financial Services Inc. company.

**Midyear CDH Product and Enrollment Update From Selected Blues Plans (continued)**

Blues Plan	CDH Product Overview	Client Profiles	HRA-Based Plan Employer Clients/ Covered Lives	HSA/ HDHP Enrollment and HSA Administrator
<b>Horizon Blue Cross Blue Shield of New Jersey</b> www.bcbnsj.com	<b>Horizon MyWay HSA</b> combines HDHP with an HSA. <b>Horizon MyWay HRA</b> combines a high-deductible PPO with an employer-funded HRA.	HSA available to groups of all sizes. HRA available to groups with more than 50 employees.	Limited enrollment in 2005.	<b>Enrollment:</b> 2,000+ as of June. <b>HSA Partner:</b> Mellon.
<b>Independence Blue Cross</b> www.ibx.com	HRAs and HSAs can be paired with <b>Keystone Health Plan East</b> HMO, POS or PPO plans as well as other HDHPs.	HRA products available to employers with more than 100 employees on a self-funded and fully funded basis. HSAs available to groups with at least two employees.	<b>IBC Consumer Driven Healthcare Reimbursement Account</b> solutions introduced Jan. 1, 2005.	<b>Enrollment:</b> Data not available. <b>HSA Partner:</b> Bancorp Bank.
<b>Premiera Blue Cross</b> (Includes Blues plans in Washington and Alaska) www.premiera.com	<b>Personal Dimensions</b> pairs an HRA or HSA with a high-deductible PPO.	HSA-and HRA-compatible plans available in Washington state and Alaska. HDHPs for all groups of two or more.	Integrated HRA services available Jan. 1, 2006.	<b>Enrollment:</b> 9,683. <b>HSA Partner:</b> HSA Bank.
<b>The Regence Group</b> (Includes Blues plans in Idaho, Oregon, Utah and Washington.) www.regence.com	<b>Regence HSA</b> is a qualified HDHP (\$1,500 to \$3,500 deductible).	Individuals and all group markets.	N/A.	<b>Enrollment:</b> 113,416. <b>HSA Partner:</b> Wells Fargo.
<b>Wellmark Blue Cross and Blue Shield</b> (Includes Blues plans in Iowa and South Dakota) www.wellmark.com	<b>Blue Priority HRA</b> combines an high-deductible PPO (\$1,000 to \$5,000) with an HRA (\$500 to \$2,500). <b>Blue Priority HSA</b> combines an HDHP with an HSA.	Available to Iowa groups with more than 100 eligible employees and to South Dakota groups with 51 or more eligible employees.	Approximately 500.	<b>Enrollment:</b> 5,500+ <b>HSA Partner:</b> MSaver Resources.
<b>WellPoint, Inc.</b> (Includes Blues plans in California, Colorado, Connecticut, Georgia, Indiana, Kentucky, Maine, Missouri, Nevada, New Hampshire, Ohio, Virginia and Wisconsin.) www.wellpoint.com	<b>Lumenos</b> , a division of WellPoint, offers HSA- and HRA-based plans. <b>Anthem ByDesign Portfolio</b> offers integrated HRA- and HSA-based plans. <b>PowerHealth Fund</b> is an integrated HRA and HSA available in Calif., Mo., Wis. and Ga.	National offerings available through Lumenos. Anthem ByDesign and PowerHealth Fund available for small to national accounts. HSA product available for employers of all sizes and individuals.	400,000 members enrolled in an HRA- or HSA-based plan.	<b>Enrollment:</b> Combined with HRA enrollment. <b>HSA Partner:</b> JP Morgan Chase (WellPoint) and Mellon Bank (Lumenos).

N/A= Not applicable

SOURCE: Based on enrollment data provided by Blues plan officials and compiled by ICDC, July 2005. © 2005, Atlantic Information Services, Inc.

## Employers Pair Incentives With CDH to Improve Employee Health

A growing number of employers use financial incentives to encourage employees to select generics over brand-name drugs, improve treatment compliance and to visit the gym rather than the smokers' lounge.

And CDH plans are particularly well suited to such programs because the benefit design already provides a financial incentive — in the form of an HSA or health reimbursement arrangement (HRA). About two-fifths of employers already use some type of incentive or disincentive related to health care decisions, says Camille Haltom, the managed health practice leader at Hewitt Associates.

International Truck & Engine Corp., for example, requires enrollees to complete health risk assessments, says William Bunn, vice president of health, safety, secu-

urity and productivity for the Warrenville, Ill.-based truck manufacturer. Otherwise, employees must pay an additional \$50 per month in premiums. Smokers also have a tobacco surcharge, although they get a one-year grace period and free smoking-cessation programs before the additional fee takes effect. Bunn spoke recently at the World Congress on Disease Management and Chronic Care in Arlington, Va.

Incentives programs are used to encourage behaviors ranging from quitting smoking and starting exercise programs to using more generic medications, joining disease management programs and improving treatment compliance. Positive incentives, however, are far more common than negative ones, Haltom notes.

Alexandria, Va.-based Lumenos, for example, estimates that 80% of its employer clients offer some type of positive incentive program. "Our goal here is to really

identify, incentivize and improve two types of things," says Mike Parkinson, M.D., chief health and medical officer for Lumenos, which agreed last month to be acquired by WellPoint, Inc. (*ICDC 5/6/05, p. 1*). "One, risk factors and risk-factor reduction, and two, chronic disease management."

Parkinson says Lumenos advises clients against using penalties for lifestyle choices such as higher health coverage premiums for employees who use tobacco. "We tend to believe people respond better to carrots than they do to sticks," he says. "The history of managed care has been all about sticks — different copay levels, five-tier pharmacy plans, 'notify us or we'll penalize you.'" Lumenos is planning some innovations in its incentive programs, "but we're going to strive for the most part to make them much more carrot than stick," he says.

### Federal Regulations Govern Incentives

There are some regulatory issues to bear in mind when designing such programs, Haltom warns. Such rules apply to all employers, even the large self-insured firms Hewitt works with, which typically are governed by the federal Employee Retirement Income Security Act (ERISA) rather than by state insurance laws.

Guidance is available via the Americans with Disabilities Act and rules issued by the Department of Labor to implement the Health Insurance Portability and Accountability Act (HIPAA), she says. In addition, the value of employee incentives and disincentives cannot exceed 20% of the value of the member's health plan.

Lumenos uses a three-tier system. Enrollees receive an additional HRA contribution of between \$50 and \$250 for completing a health risk assessment, Parkinson says. The actual amount varies depending on the employer's benefit design. The 6% of individuals who make up anywhere from 60% to 70% of total health costs

receive an additional \$100 to participate in a disease management program.

Parkinson says 40% of disease management program members have self-enrolled. Members also receive a "graduation incentive" once they've mastered the competencies of their chronic disease, he says. That incentive is an additional \$200 HRA contribution.

Contact Parkinson at [MParkinson@Lumenos.com](mailto:MParkinson@Lumenos.com). ✦

*This article was excerpted from AIS's biweekly newsletter, Managed Care Week. Visit <http://www.aishealth.com/Products/NewsMCW.html> for more information about this newsletter, or call Atlantic Information Services, Inc. at (800) 521-4323 to request a free copy.*

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## INDUSTRY NEWS

◆ **A sixth consecutive year of double-digit rate hikes for PPO and HMO contract renewals will prompt more employers to consider CDH products for 2006**, says Steve Cigich, co-author of Milliman's *2005 Group Health Insurance Survey*, which is due out this fall. According to preliminary results of the survey, employers will see premium rates for HMOs jump an average of 10.6% (down from 11.2% last year) and 11.7% for PPOs (down from 12.7% a year ago). While the expected annual increases are slightly lower than last year's rate hikes, employers will look for more ways to engage employees to help keep costs lower, the survey finds. Visit Milliman at [www.milliman.com](http://www.milliman.com).

◆ **The three largest health insurers in Boston say enrollment in account-based CDH plans increased by more than 60% last year**, the *Boston Business Journal* reported July 15. In 2004, according to the newspaper, nearly 100,000 people were enrolled in CDH plans offered by Blue Cross and Blue Shield of Massachusetts (see table, p. 4), Harvard Pilgrim Health Care and Tufts Health Plan — up from just 60,000 in 2003. During the same period, most HMOs in the region reported declines.

◆ **Assets held in HSAs will be worth between \$10 billion and \$26 billion by 2010**, according to new research from TowerGroup, a research and consulting firm based in Needham, Mass. During the same period, the total number of HSAs and flexible spending accounts (FSAs) will increase to nearly 30 million — up from 17.3 million in 2005, the TowerGroup says. The report also suggests that overlap between health care providers and the consumer-payments industry could lead the two industries to either cooperate or to compete for the growing pool of health care account business. Visit [www.towergroup.com](http://www.towergroup.com).

◆ **Leesport Financial Corp. says it has purchased an equity position in First HSA, LLC, a national HSA administration company for which Leesport Bank acts as the custodian for accounts.** Both companies are headquartered in Wyomissing, Pa. William West, Jr., president and founder of First HSA, says he approached Leesport in 2000 and asked if it would be interested in partnering with his company as a custodian for its Archer Medical Savings Accounts (MSAs). "Having Leesport be-

come an owner in our company was simply the next logical step," West said in a statement. Leesport is a diversified financial services company offering banking, insurance, investments, wealth management, trust services and title insurance services throughout southeastern Pennsylvania. Visit [www.leesportfc.com](http://www.leesportfc.com).

◆ **HSA Bank says the number of new accounts that it has opened so far this year already has surpassed the total number of HSAs it opened in 2004.** In a little more than five months, the company says, it has opened more than 46,000 new accounts, up from the nearly 45,500 new accounts it opened in 2004. HSA Bank says it now has more than 116,000 HSAs. Visit [www.hsabank.com](http://www.hsabank.com).

◆ **MedCom USA, Inc., says it has begun marketing a solution for the data capture and processing of HSAs.** The MedCom System and Web Portal have the capabilities to electronically transmit and disseminate all pertinent health care information. Data such as patient eligibility, benefit verification and financial transactions (including credit and debit cards, flexible spending accounts and HSAs) can be transmitted from the same card, the company says. MedCom says it is in contract negotiations with a number of major banks, transaction processing companies and insurance companies. Visit [www.medcomusa.com](http://www.medcomusa.com).

◆ **HSA Clearing, an "HSA-setup provider" for banks and credit unions nationwide, says it has formed a partnership to offer optionsXpress' brokerage platform to HSA Clearing's customers.** The platform will be available to banks and credit unions that want to offer stock and options brokerage capabilities within HSAs, says HSA Clearing. Visit [www.hsaclearing.com](http://www.hsaclearing.com).

◆ **WellPoint, Inc. and WebMD Corp. say they have entered into a three-year agreement that will put more health information and personalization tools in the hands of the 28.5 million members that WellPoint serves.** WellPoint will integrate WebMD Health's online health platform and Web services into its personalized member Web site by bringing customers access to trusted health information, personalization capabilities and health risk assessment tools, the companies say. Visit [www.wellpoint.com](http://www.wellpoint.com).

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