



Comment

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Compliance Corner

Year-End Reporting

Instructions for Forms W-2 and W-3 are available on the IRS Web site at http://www.irs.gov/pub/irs-pdf/iw2w3_05.pdf. Employers should compile and report all necessary data related to dependent care FSAs, disability income, HSA contributions, group term life insurance over \$50,000, etc. Dependent Care FSA benefits are reported in Box 10 of the W-2. Please note dependent care FSA participants must complete Schedule 2 of Form 1040A, or Form 2441 (to attach to Form 1040), to include with their annual income tax return.

2005 Health & Welfare Benefits Year in Review

2005 was one of the busiest health and welfare benefit years in recent memory. Attached with this newsletter is a table summarizing each health and welfare benefit plan related statute, regulation or guidance issued or effective in 2005. The table also paints the horizon for 2006. 

Survey Shows More Employers Turning to Consumer-Driven Plans to Reduce Health Spending

Managed Care Weekly Digest

U.S. employers are increasingly turning to consumer-driven health plans such as health savings accounts with the expectation they will help control rising healthcare costs, according to a Deloitte Center for Health Solutions survey of American employers.

The survey of 316 employers found that 43% of respondents either have a consumer-driven health plan in place (22%) or will be offering one in the next 2 years (21%). Another 51% said they are reviewing consumer-driven options and may offer one in the near future if they can be proven to be attractive to employees while saving money.

"By offering consumer-driven health plans, businesses believe they will reduce spending by making employees smarter shoppers for

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healthcare," said Tommy G. Thompson, the independent chairman of the Deloitte Center for Health Solutions. "These plans are increasingly attractive as healthcare costs continue to threaten companies' bottom lines."

The survey by the Deloitte Center for Health Solutions and Deloitte Consulting LLP found that employers believe that giving employees more control over their healthcare dollars would make them more financially responsible, and therefore reduce overall healthcare costs:

- 77% of those surveyed said they expect consumer-driven plans to change employee purchasing patterns by making them aware of the true cost of healthcare, while 8% said they will not.
- 56% of those surveyed said consumer plans will result in immediate employer cost savings, while 27% said they will not.
- 43% of those surveyed said consumer plans will reduce the long-term health cost trend, while 24% disagreed.

Under a consumer-driven health plan, employees determine how their healthcare dollars are spent. In many cases, employers provide some funding and a range of benefit options for the employee. In addition,

employees typically can contribute more money to buy higher levels of coverage.

Consumer-driven health plans typically complement other managed care plans also offered by employers. Examples of consumer-driven health plans include health reimbursement account plans or high deductible managed care plans with health savings accounts. Sixty-three percent of the respondents with plans in place offer a health reimbursement account plan, while 31% offered a health savings account.

"Companies that have real-life experience with consumer-driven health plans are particularly upbeat about the current and future impacts of consumerism," said Barbara Gniewek, a principal within Deloitte Consulting. "As more employers report early success with these plans, acceptance and understanding of this model will grow."

Companies that already have consumer-driven health plans in place report widespread satisfaction among employees and managers.

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The survey found:

- 51% said their employees are satisfied with the plans, while 15% said employees were dissatisfied, and 33% said they were neutral.
- 71% said senior management is satisfied with the plans, while 3% said senior management was dissatisfied, and 26% said they were neutral.
- 69% said the human resources department is satisfied with the plans, while 13% said the human resources department is dissatisfied, and 17% said they were neutral.

Gniewek said it is important for companies to aggressively expand enrollment in consumer-driven health plans if they are to succeed. "We believe that unless a company can recruit at least 20% of its employees to join early on, the company may not reap the cost and quality benefits offered by these plans," Gniewek said, adding that companies can take several steps to increase the likelihood of success:

- Adopt effective recruitment strategies, such as making the consumer-driven health plan the lowest priced employee option.
- Gain in-depth knowledge of the new

healthcare delivery models and whether the market will accept them.

- Consider long-term limitations on the employer's liability and how new plan models may help achieve that goal.
- Assess management and employee readiness to accept consumer-driven health plans in the workplace.
- Project healthcare costs under various health plan scenarios. 🔥

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

BestWire Services

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 healthcare costs directly, instead of the insurer, and therefore may have a financial incentive to cut their healthcare 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

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-- such as those with HSAs -- with the expectation that these plans will help curb rising healthcare 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., Cigna Corp., WellPoint Inc. and Humana Inc. 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 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 healthcare 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 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.

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"The convergence of healthcare 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 healthcare 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 healthcare 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

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Consulting Firm Study Finds New Insurer's HSA is Not Yet a Threat to Financial Institutions

Managed Care Weekly Digest

According to a study by Amer Baig, a partner in DiamondCluster International's (DTPI) financial services practice, banks may welcome a new entrant that focuses on health savings accounts (HSA) and other health reimbursement assets administration - as long as the new competitor doesn't use this step to move into asset management or payments processing.

This study was prompted by Blue Cross and Blue Shield Association's (BCBSA) plans to launch a new bank to administer savings accounts related to emerging consumer directed health plans that will compete with those financial institutions that have already invested significantly in their back-office capability to help customers manage those plans, health savings accounts (HSA) and other health reimbursement assets.

"From a revenue standpoint, the BCBSA play is focused on account management which is actually not the most lucrative opportunity for banks in the emerging HSA value chain," Baig said. "Many banks will be willing to forego the administrative tasks of record keeping, safekeeping of funds, and managing the enrollment process. The Blues could potentially do these activities well.

"But the higher revenue opportunities exist in asset management and transaction processing. If the Blue's new bank is to house assets and facilitate payments, we expect banks to compete fiercely to hold on to their advantage there," Baig said.

According to DiamondCluster estimates, health savings accounts will hold more than \$75 billion in assets by 2010. Based on that forecast, HSA accounts could generate over \$450 million annually in account set-up and management fees. The BCBS decision appears predicated on capturing a share of that revenue.

However, asset management fees could generate \$800 million and transaction fees more than \$1 billion in the same period.

"As this space evolves, large financial institutions that have retail, institutional, and transaction processing businesses may be in the strongest competitive position," Baig said. "But it would be folly to sell the Blue Cross Blue Shield competition short. If BCBSA can create a seamless experience and remove the pain points of managing a consumer directed health

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plan and savings accounts for their customers, their new bank certainly has the potential to be an important player in the healthcare value chain."

A DiamondCluster report, "Seizing the HSA Opportunity - Developing a Winning Strategy to Grow Profits and Share in a Time of Transition," was created by DiamondCluster. Among the recommendations in the report, DiamondCluster says that winning HSA solutions will provide a seamless customer experience and include real-time pricing and expedited claims adjudication. They will empower customers with vastly improved access to healthcare information to help them become smart consumers. Finally, as HSA assets accumulate, financial institutions will have to offer top-notch investment capabilities to attract and retain assets.

Baig notes that the BCBS banking strategy is consistent with what he calls an HSA evolutionary cycle. In the current "exploration" phase financial institutions and health insurers (payers) are rushing to the market with new HSA products. However, these early efforts have suffered from a lack of integration between various components, leading to service and efficiency issues.

BCBSA's plans mark a milestone in the next phase, "integration and information," because it addresses the importance of delivering a more seamless customer experience. For example, if at the point of service the care giver is unaware of other claims, the provider may charge the patient a deductible, only to find out later that that the maximum deductible has been collected. The BCBS bank could possibly avoid those kinds of expensive, aggravating problems.

Baig said, "The BCBS banking strategy gives the Blues another means of touching and solidifying their relationships with their end-customers, the consumer, beyond their typical role in the claims process. If this move significantly improves their value proposition with consumers that's important, particularly as decisions about healthcare spending shift from employer-based coverage to consumer directed plans.

"However, there's no reason banks and other competitors can't respond competitively to build partnerships to better integrate the components of the HSA value chain," Baig said. "By 2010 the winners in the HSA sweepstakes

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will be providing consumers with top-notch investment alternatives to attract and retain assets. They will be empowering consumers with valuable information for managing their health. They will be delivering real-time pricing and expedited claims adjudication.

"No one player can do that alone," Baig added, "but financial institutions and payment organizations that can leverage their successful payments networks to promote a more open system are still in the driver's seat today. Those organizations also have a proven ability to shape consumer behavior and to use technology more effectively in integrating with other partners in the healthcare value chain." 🏹

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