

# HSA MARKET NEWS

Serving the HSA, HRA, FSA and Consumer-Directed Marketplace

## HSA NEWSLETTER TO LAUNCH IN OCTOBER

Corporate Research Group Inc. (New Rochelle, NY) has announced *HSA Market News*, a monthly newsletter with weekly e-mail updates. The new newsletter will cover the market for HSAs, HRAs and consumer-driven healthcare. Annual subscription: \$695 (\$595 before Dec. 31, 2004). Additional discounts for existing subscribers to CRG newsletters and for group subs. An example of the type of coverage you will receive appears in this four-page preview issue.

Special Preview Issue  
September 2004

### DATABANK

Aetna FEHBP Premium Rates:  
HDHP: \$333 single, \$766 family  
CDHP: \$296 single, \$582 family  
Details, p. 2

## HSAs AVAILABLE TO 3MM FEHBP LIVES

The Federal Employees Health Benefits Program announced that it will offer 18 high-deductible health plans incorporating an HSA, adding that it estimates 3.2 million enrollees will be eligible to (cont'd on p. 2)

### TOP OF THE NEWS

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HSA as administrative nightmare... 1  
MCOs jump on HSA bandwagon... 1

## UNITED EXPECTS HSA LIVES TO TOP 150,000

UnitedHealth Group (Minnetonka, MN), which is experiencing surging interest in healthcare savings accounts, expects enrollment in HSA-related products to top 150,000 by January 2005. This is on top of the 1.3 million members enrolled in what United calls its first generation consumer-driven products. United offers HSAs bearing 4% interest through its Exante Financial Services subsidiary. Exante expects to have \$90 million in HSA assets under management by January 2005.

### CDHP, HDHP COMPANIES

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## ARE HSAs ADMINISTRATIVE NIGHTMARES?

A patient walks into a physician's office and says, "It hurts when I swipe my HSA card." No, this isn't the beginning of a bad joke. Health plans, providers and consumers are grappling with the potential administrative hassles that come with HSAs. For example, when patients pay for a service at the point of care, will they (cont'd on p. 4)

### EMPLOYERS

Chart: FEHBP '05 premiums..... 2

## MCOs, BANKS JUMP ON HSA BANDWAGON

The report from the front lines in the burgeoning market for HSAs is that interest is high while sales are miniscule, according to a round-up by HSA Market News. (cont'd on p. 3)

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See p. 4 for details.

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## HSA's AVAILABLE TO 3MM FEHBP LIVES (cont'd from p. 1)

participate. FEHBP will also offer HRA-eligible plans for enrollees who aren't eligible for an HSA. Aetna will make its HealthFund HSA-eligible HDHP available to FEHBP members in 32 states and Washington, DC. Monthly premium rates are the same in every state: \$333.08 single, \$766.11 family. The product includes an FEHBP-funded annual HSA deposit of \$1250 single, \$2500 family. Aetna will also continue to offer its consumer-directed HealthFund product to FEHBP members. Monthly CDHP premiums are \$296.40 single, up 5.7% from 2004; and \$681.74 family, also up 5.7%. Others offering HDHP and CDHP programs under FEHBP include AultCare HMO, Coventry, Group Health Plan of Illinois, Group Health Plan of Missouri, HealthAmerica Pennsylvania, Humana, OSF Health Plan, Universal Care, as well as national fee-for-service and postal worker plans.

### Single Monthly Premiums\*, Selected FEHBP HDHP/CDHP Plans, 2005 vs. 2004

| State/Plan                | '04 Rate | '05 Rate | %Chg. | State/Plan                | '04 Rate | '05 Rate | %Chg. |
|---------------------------|----------|----------|-------|---------------------------|----------|----------|-------|
| <u>California</u>         |          |          |       | Group Health Plan HDHP    | NA       | 368.98   | NA    |
| Aetna Health Fund CDHP    | \$280.45 | \$296.40 | 5.7   | Humana CoverageFirst CDHP | 166.53   | 170.17   | 2.2   |
| Aetna Health Fund HDHP    | NA       | 333.08   | NA    | <u>New Jersey</u>         |          |          |       |
| Universal Care HDHP       | NA       | 236.06   | NA    | Aetna Health Fund CDHP    | 280.45   | 296.40   | 5.7   |
| <u>Florida</u>            |          |          |       | Aetna Health Fund HDHP    | NA       | 333.08   | NA    |
| Aetna Health Fund CDHP    | 280.45   | 296.40   | 5.7   | Coventry HDHP             | NA       | 345.37   | NA    |
| Aetna Health Fund HDHP    | NA       | 333.08   | NA    | <u>Ohio</u>               |          |          |       |
| Humana CoverageFirst CDHP | 208.17   | 212.72   | 2.2   | Aetna Health Fund CDHP    | 280.45   | 296.40   | 5.7   |
| <u>Illinois</u>           |          |          |       | Aetna Health Fund HDHP    | NA       | 333.08   | NA    |
| Aetna Health Fund CDHP    | 280.45   | 296.40   | 5.7   | AultCare HMO HDHP         | NA       | 365.15   | NA    |
| Aetna Health Fund HDHP    | NA       | 333.08   | NA    | Humana CoverageFirst CDHP | 208.17   | 212.72   | 2.2   |
| Humana CoverageFirst CDHP | 166.53   | 170.17   | 2.2   | <u>Pennsylvania</u>       |          |          |       |
| <u>Missouri</u>           |          |          |       | Aetna Health Fund CDHP    | 280.45   | 296.40   | 5.7   |
| Aetna Health Fund CDHP    | 280.45   | 296.40   | 5.7   | Aetna Health Fund HDHP    | NA       | 333.08   | NA    |
| Aetna Health Fund HDHP    | NA       | 333.08   | NA    | Coventry HDHP             | NA       | 345.37   | NA    |
| Coventry HDHP             | NA       | 305.44   | NA    | HealthAmerica HDHP        | NA       | 329.10   | NA    |

Source: U.S. OPM. \*In cases where companies operate several options of the same type of plan in a given state, the lowest rate was chosen.

## CSFB-OWNED INSURER LAUNCHES HDHP

Ascent Assurance (Ft. Worth, TX), which is 93% owned by investment bank Credit Suisse First Boston, has launched a high-deductible health plan coupled with an HSA. Ascent will utilize First HSA (Reading, PA) as HSA administrator. The product will be sold by the career agency force of Ascent's NationalCare Marketing subsidiary. Publicly traded Ascent reported net income of \$690,000 through six months of 2004, compared to a net loss of \$1.208 million in the same period last year. Revenues in the period fell 10% to \$46.831 million. CSFB recently increased its share in the company from 74.5% on a fully diluted basis through the restructuring of \$37.6 million in Ascent preferred stock and \$15.3 million in notes.

## ANY BANK, CREDIT UNION CAN OFFER HSAs

Stressing that "any bank or credit union is automatically allowed to offer HSAs to their customers as either a trust or a custodial account," the U.S. Treasury Dept. urged the nation's financial institutions to make health savings accounts available.

## **MCOs, BANKS JUMP ON HSA BANDWAGON (cont'd from p. 1)**

Adoption "hasn't been as fast as we would have expected," said Rich Sykora, vice president and general manager of Medica (Minnetonka, MN), which launched an HSA product in July; the company already has about 5000 HRA lives. Among the stumbling blocks: newness and complexity, member concerns over high deductibles, and employer concerns over educating workers on how to use the product. "The jury is still out on this," added Don Whitford, director of product development for Blue Cross Blue Shield of Michigan (Southfield, MI), which is launching an HSA product in January; the company already has 5000 to 6000 HRA lives. Still, a wide variety of managed care organizations and other healthcare insurance companies, including industry giants Aetna, Cigna, UnitedHealth and WellPoint are diving into the HSA market with high hopes. Cigna, with 1000 HSA lives effective Jan. 1, 2005, is finding that employer interest is driven by cost concerns. "They're looking to get their employees more engaged in healthcare," said Tom Richards, vice president of consumer-driven healthcare. Meanwhile, more than two dozen financial institutions, including HSA Bank, Mellon, J.P. Morgan, and Wells Fargo, are vying to administer HSAs.

## **ASSURANT TOPS 97,000 INDIVIDUAL HSA LIVES**

Assurant Health (Milwaukee) has attracted more than 97,000 individual HSA lives since January 2004, according to a spokesman. In the second quarter of 2004 alone, about a third of new individual health insurance sales included an HSA. Assurant (formerly Fortis) had been top MSA provider and also offers HRA, FSA and major medical products for individuals and groups. The company is attempting to convert its MSA members into HSA lives. According to filings with the SEC, the company covered 613,000 individual lives in 2003, of which about 92,000 included an MSA. It also covered 376,000 group health lives. About a third of HSA purchasers have household incomes of less than \$50,000 and about 70% are over 40 years old. The company's HSA administrator is MSaver, a unit of Lumenos (Alexandria, VA).

## **AMERICAN REPUBLIC EXPECTS HSA GAINS**

Can small insurers serving the MSA market survive in the burgeoning market for HSAs? American Republic Insurance Co. (Des Moines, IA) hopes so. ARI, with 7000 individual MSA and HSA lives, believes that growing awareness of HSAs will help raise its profile in the marketplace, according to Dick Garner, vice president of product management. ARI's typical HSA has a \$2600 deductible and zero co-insurance. While the company has no formal arrangement with a trustee, it recommends American Health Value as HSA administrator. ARI, with \$700 million in annual revenues and 900 employees, offers Medicare supplement, individual major medical, life and long-term care insurance.

## **HEALTHMARKET FLOUNDERS, SELLS TO UICI**

HealthMarket (Norwalk, CT), which was floundering in its attempt to build a franchise in the burgeoning defined contribution market, has agreed to sell the bulk of its assets to UICI (North Richland Hills, CA). According to *HSA Market News* estimates, the purchase price tops \$40 million. The deal includes 38,000 HealthMarket members in groups with up to 75 lives, but excludes business in a handful of groups with more than 75 lives. The acquisition represents a bit of a leap for UICI, which traditionally serves individuals and groups of one to

two lives. UICI plans to offer HealthMarket products through 2200 independent agents in 44 states. Marketing and sales will be coordinated through UICI insurance subsidiaries, Mega Life and Health Insurance Co. and Chesapeake Life Insurance Co., which will also underwrite the product. Since its inception in 1999, HealthMarket has raised \$84.5 million in venture capital. However, in the past 22 months, the company increased membership by just 12,000 lives. Underwriting woes in 2003 further hampered the company’s progress. HealthMarket founder Steven Wiggins continues to work with UICI in an advisory capacity.

**GUARDIAN, DESTINY PARTNERHIP SLOW OUT OF GATE**

Guardian Life Insurance Co. of America (New York) and Destiny Health (Oak Brook, IL), which have offered a joint consumer-directed health plan since October 2003, have added more than 3000 lives to Destiny’s existing Illinois membership base, bringing total members in the state to nearly 40,000. According to Rick Viesta, vice president of group medical at Guardian, the partnership is expanding into Virginia, Washington, DC, and Maryland. The bulk of the business utilizes HRAs, with a few thousand members in HSAs. Destiny will continue to administer business sold in Illinois prior to the formation of the partnership. Guardian acts as underwriter and receives a fee for marketing and sales. Destiny acts as savings account trustee and receives a fee for administration. Profits are split 50-50. The agreement includes triggers that allow Guardian to take an equity stake in Destiny.

**ARE HSAs ADMINISTRATIVE NIGHTMARES? (cont’d from p. 1)**

get the proper discounted rate? Will providers refund overpayments? Will patients simply refuse to pay upfront and wait for an EOB showing the proper amounts owed—thus leaving physicians with potentially huge receivables? Can health plans and HSA trustees successfully integrate savings account administration with real-time claims processing and achieve re-pricing at the point of care? Dan Perrin, executive director of the HSA Coalition, a Washington lobbying group, said that patients and physicians will ultimately get fed up with the whole re-pricing hassle. His view? Physicians will adopt a standard discount that approximates the rate patients should pay; patients, meanwhile, simply won’t bother to try to collect the difference. Welcome to the brave new world of healthcare.

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