



ChapterHouse Research Library Publication: Market Trends and Consumer Incentives

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Agenda

- 
- **Macro Themes and Problem Statement**
 - Consumer Incentives
 - Other ChapterHouse Research
 - Who Is ChapterHouse

The Healthcare Landscape—Numerous Social and Economic Factors Affect the Evolving Healthcare Market

Economic Market Perspective



- 16.5% of GDP
- One in every eight jobs in America
- “Healthcare industry added 1.7M jobs since 2001—rest of the private sector, none”¹
- Hospitals alone added 500K jobs—computer and electronics shed the same number

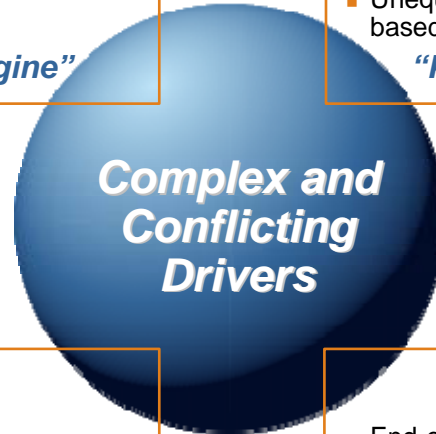
“Core Economic Engine”

Social Agenda



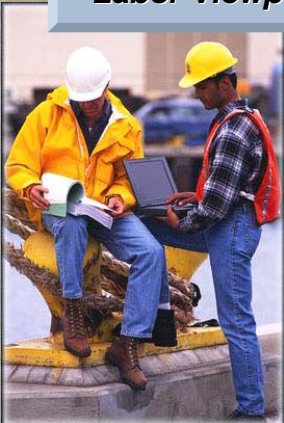
- 44M uninsured^{2,3}
- Seniors without access to medications
- Single mothers with malnourished children
- Working under-insured
- Immigrants
- Unequal access to care based on income

“Keeping Americans Healthy”



Complex and Conflicting Drivers

Business and Labor Viewpoint



- Labor is a top cost driver for U.S. businesses
- Labor is frequently the source of competitive advantage
- Benefits are becoming unaffordable for employers
- Small businesses are opting out
- Off-shoring is becoming mainstream

“Competitiveness of U.S. Industry”

Moral and Ethical Debate



- End-of-life decisions—what is the decision framework?
- The unfit (e.g., obese and smokers) have equal access to care without financial penalty—should health status be considered?
- Many patients with chronic diseases do not comply with their treatment regimen—what about patient accountability?

“Using Resources Wisely”

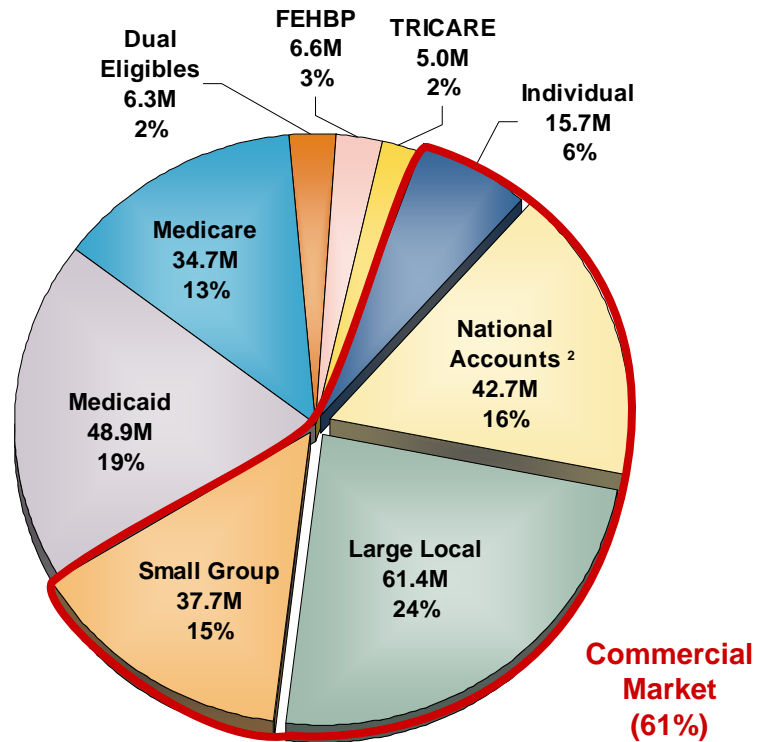
Notes:

1. Business Week, “What’s Really Propping Up The Economy”; September 25, 2006
 2. Figures are represented in full people-year equivalents because of intra-year membership shifts across funding sources
 3. There is an average of 46.6M uninsured Americans on any given day of the year
- Sources: U.S. Census Bureau (Current Population Survey), CMS, Kaiser Family Foundation, EBRI, NHIS, Business Week

The Commercial Market—Represents Almost Half of the Total U.S. Healthcare Dollars

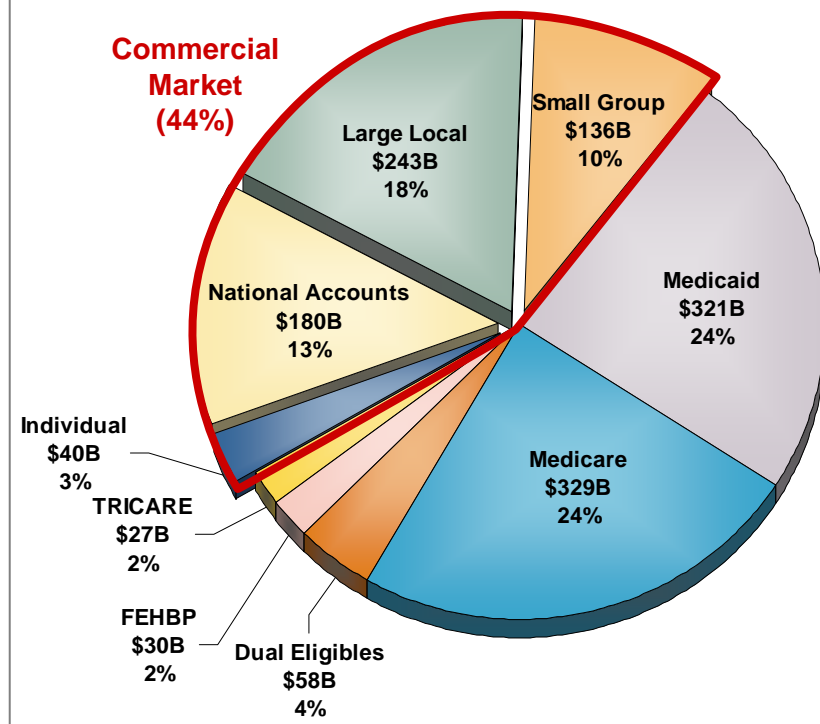
Insured Membership

Insured U.S. Population (260M)



Healthcare Spend (Based on Premium Equivalent)

U.S. Healthcare Insurance Spending¹ (\$1.3T)



In response to the healthcare crisis, the commercial market, and in particular National Account employers, have been experimenting with a range of cost mitigation strategies, including cost shifting, benefits reduction, and consumerism.

Notes:

1. Excluding out-of-pocket and uninsured
2. D&B employees adjusted to BLS totals less FEHBP and Tricare membership times a 2.1 membership factor

Sources: ChapterHouse Market Segmentation Model; D&B Data; BLS Data; Various other secondary sources

Coverage and Affordability Crisis—Likely to Continue Without Market Reform

Problem Statement

The U.S. Healthcare System has major gaps in both coverage and affordability and is built on a flawed competitive and economic foundation that rewards volume with limited consequence for quality variation.

Drivers

- Aging population
- Deteriorating health status
- Increasing medical liability costs
- Consumer entitlement attitudes
- Increasing clinical technology
- Increasing specialty Rx
- Increasing pandemics

Trends

- 8-12% medical trend increases
- 4-6% benefit buy downs
- 1-2% employer bailout
- 1-3% growth in uninsured
- Eroding physician compensation
- Growing physician and consumer dissatisfaction
- Increased state-based health reform initiatives
- Increased Federal health programs
- Increased clinical IT adoption

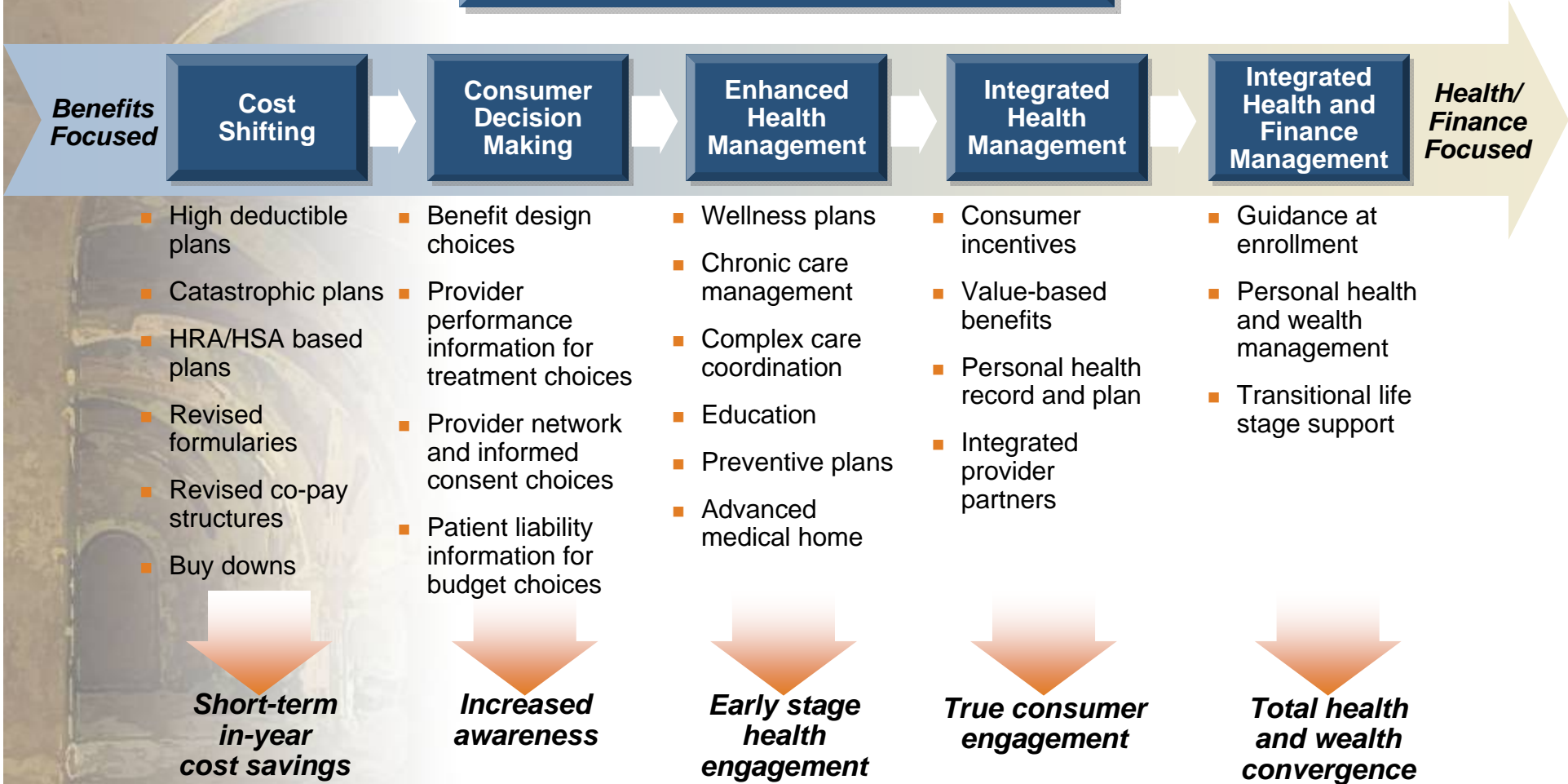
Implications

- Employer sponsorship model changes
- Consumer (retail) market
- State coverage mandates
- Private sector management of government programs
- New entrants
- Health IT and interoperability


Employers are looking at a range of mechanisms to mitigate healthcare trend, such as consumer incentives. The largest, most innovative employers are at the forefront of adopting and testing these potential new solutions.

Evolution of Healthcare Solutions—From Cost Shifting to Consumer Engagement


Evolving Solution Landscape



Yesterday's strategies of cost shifting to consumers have proven ineffective. Tomorrow's strategies of integrating health management, wealth, and consumer engagement have shown early signs of effectiveness, but still require further testing and evidence.



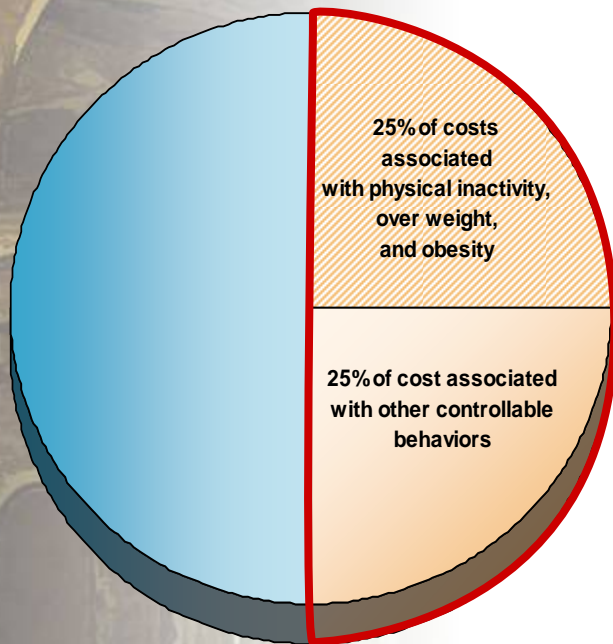
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Our Health Behaviors—The Biggest Driver of Medical Cost

Health plans are working to redefine their role from simply building provider networks and paying claims, to helping consumers modify their health behaviors for improved health and lower costs.

Healthcare Costs—\$2 Trillion



50% of healthcare costs and premature death are attributable to controllable behaviors

Sample Employers Adopting Innovative Strategies



Leading employers and health plans are focusing on cost control by addressing modifiable consumer health behaviors through programs that help consumers minimize high-risk behaviors. Consumer incentives are a major component of these innovative programs.

Incentives Overview—An Evolving and Growing Landscape

Roughly half of employers offering health management programs utilize incentives to encourage participation—however, type of incentives and level of integration with product are both relatively immature.

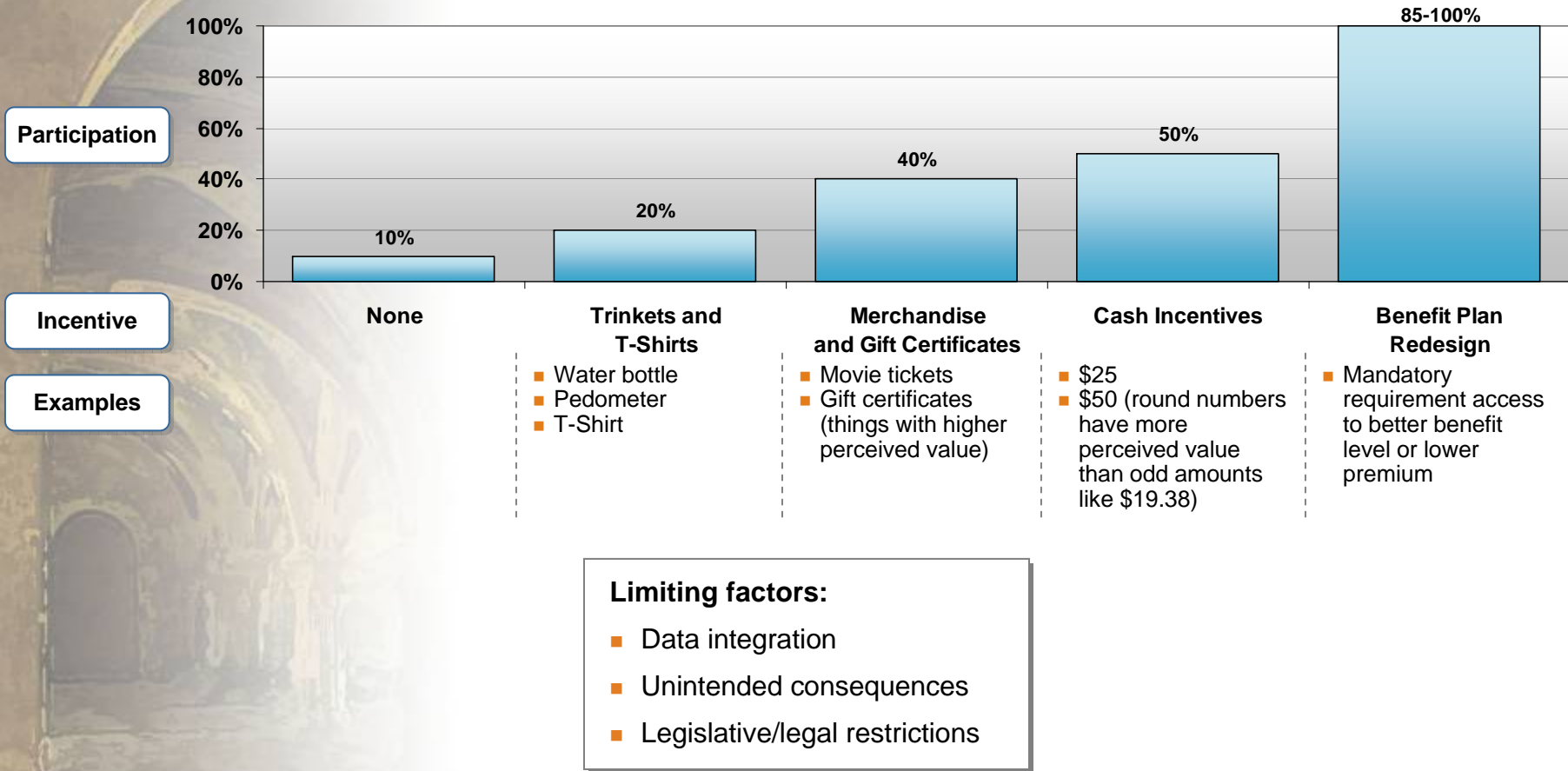
	Characteristics	Metrics	Integration
Today	<ul style="list-style-type: none"> ■ Predominantly offered by Self-Insured employers ■ Only select Fully Insured offerings exist from health plans 	<ul style="list-style-type: none"> ■ Use participation/activity-based metrics ■ Self-reported data is most common 	<ul style="list-style-type: none"> ■ Limited integration currently exists (mostly rewarding a specific activity)
Future	<ul style="list-style-type: none"> ■ Health plan adoption will become commonplace as effectiveness is determined 	<ul style="list-style-type: none"> ■ As programs evolve and data capture improves, behavior-related and outcomes-based measures will increase 	<ul style="list-style-type: none"> ■ Data connectivity across programs and benefits will drive greater integration of benefits in the future

Value-Based	Biometric-Based	Engagement-Based
Plan adjustments for a population with specific clinical conditions (e.g., free drugs for diabetics to increase compliance)	Plan adjustments based on biometric screenings/levels (e.g., lower premium if member keeps blood pressure under control)	Plan adjustments based on participation in/meeting objectives of health management programs (e.g., sign-up, graduation from a health management program)

Innovative players are shifting from periodic rewards (value-based and biometric-based) to plan design-based incentives (engagement-based).

Consumer Participation Outcomes—Effectiveness Varies With Type of Incentive

Well-designed incentives have conservatively shown an increase in program participation of 5 to 10 times the level without incentives. Beyond the level of incentive, communication plays a critical role in adoption—frequent communication through multiple media format generates best results.



While all incentives are on the rise, the incentives that are integrated with other healthcare components (e.g., product design, health management programs, quality networks) have initially proven to be the most effective.

Plan Design-Based Incentives—Integrating Incentives With Plan Design Strategies

ILLUSTRATIVE

In addition to health management strategies, benefit designs are evolving to incent healthy behaviors and treatment compliance through customized benefit schedules.

Low

Level of Employee Involvement

High

Value-Based Benefit Design

Biometric-Based Benefit Design

Engagement-Based Benefit Design

Description

- Value-Based: Out-of-pocket adjustments based on an assessment of the clinical benefit to the specific patient population to improve health regimen compliance
- Biometric-Based: Out-of-pocket adjustments based on biometrics screenings to incent positive, healthy behavior
- Engagement-Based: Out-of-pocket adjustments based on participation in health assessments and appropriate wellness/disease management programs

Risk Populations Examples

- Value-Based: Diabetes, asthma, and coronary heart disease
- Biometric-Based: Smoking, obesity, high cholesterol, and inactivity
- Engagement-Based: All members with potential risk factors

Example

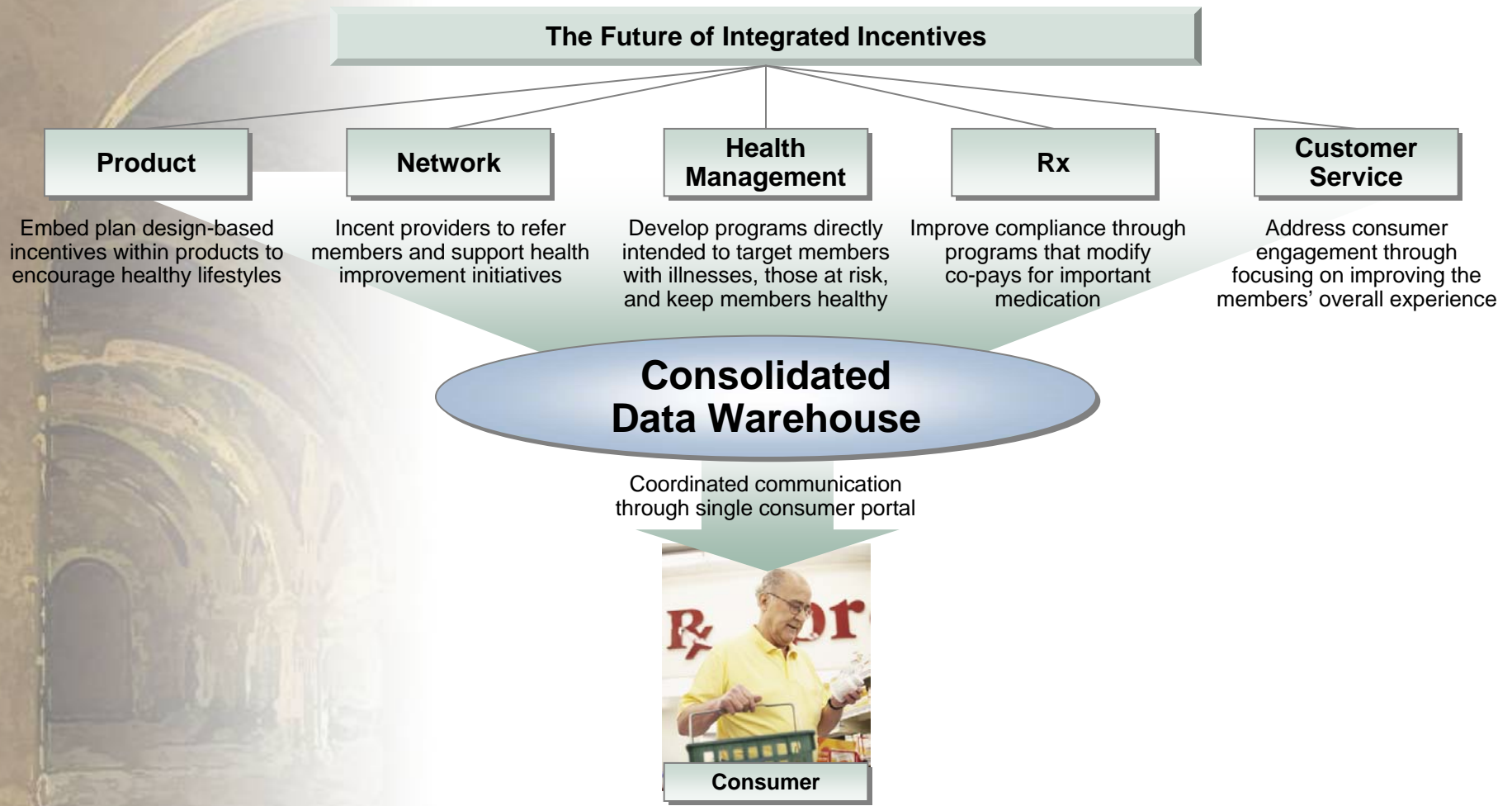
	Copay	Rx Coinsurance
Standard Benefits	\$15	85%
Asthma Population	\$0-5 (for Pulmonary specialist only)	95-100% (for Asthma medication only)
Diabetic Population	\$0-5 (for Endocrinologist only)	95-100% (for Diabetic medication only)

	Deductible	Coinsurance (Med and Rx)
Standard Benefits	\$500	80%
Refusal to Complete Biometric Screening	\$900	70%
Completes Biometric Screening		
Low-Risk	\$500	80%
High-Risk	\$700	75%

	Deductible	Coinsurance (Med and Rx)
Standard Benefits	\$500	80%
Refusal to Complete Biometric Screening	\$900	70%
Completes Biometric Screening		
Low Risk	\$500	80%
High-Risk Compliant	\$500	80%
High-Risk Non-Compliant	\$700	75%

Carriers and employers have been exploring an array of innovative incentives and behavior change initiatives tied to plan design strategies based on variable payment structures, testing member health risks, and level of involvement in programs.

Consumerism—Effectiveness is Contingent Upon Integration Across Healthcare Components




Integration of functional programs and consolidated data will help consumers be more effective buyers of healthcare. Due to the difficulty of consumers understanding how to effectively navigate the healthcare system, incentives and alignment of program offerings help encourage healthy choices and desired behaviors.


Consumer Incentives—Summary

Incentives alone will not be the driving force of reducing healthcare costs. They must be coupled with an effective health management strategy, including accurate health assessments, personalized health plans, outreach and engagement plans, and results measurement for optimal cost mitigation.

- The majority of incentive programs are in their infancy, with most payers opting for basic structure/designs—consisting of cash, gifts, point systems and activity-based evaluation metrics
- Isolated examples of the individual employer level are proving highly effective—when coupled with plan design strategies and network choices
- Increased interest in incentives programs has spurred health plan and employer focus on enhanced consumer engagement in wellness and prevention
- Only leading employers have begun to pilot value-based incentive programs tied to benefit design
- To achieve plan and employer-specific programs, there is recognition that future programs will require greater customization in the areas of benefit structure, network, reimbursement, POS protocol, and the systems/processes that support these functions



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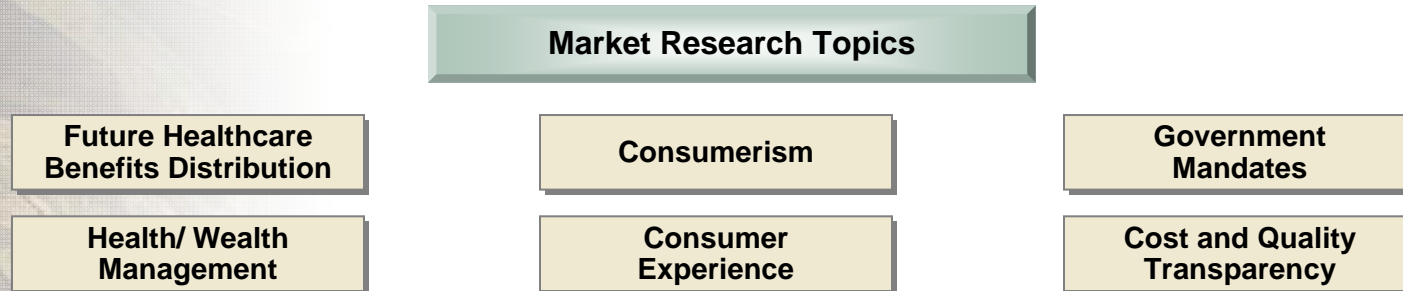
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ChapterHouse Research—Ongoing Study of Emerging Trends

Accelerating market transformation is mandating brokerage and distribution change in unprecedented ways. Our market research seeks to identify forces driving change and provide innovative strategies that contribute to the healthcare coverage and affordability solution.

CH conducts market pulse surveys of several hundred healthcare executives on a quarterly basis allowing you to:

- 1) Become rapidly conversant in local market dynamics ranging from employer and payer trends to how your views and position stack up with other competition in your area—short-term view.
- 2) Gain a comprehensive understanding of macro market forces and their affect across a spectrum of constituents and funding sources—long-term view.



EXAMPLES OF RECENT STUDIES:




CH and The National Association of Health Underwriters sought to examine the impact of consumer adoption, legislative mandates, and purchasing value criteria on brokerage distribution.


**BENEFITS
SELLING**

CH recently teamed up with Benefits Selling Magazine to unveil broker strategies responsible for capturing growth. The study provides valuable insight into broker differentiation while presenting an early glimpse of future broker business models.

The results from our NAHU and Benefits Selling studies are currently available to the market. For more information on our research or to learn about the benefits of becoming a Research Council Member, please contact John Manning at 630-324-1284 or jmanning@chapterhouse.com.



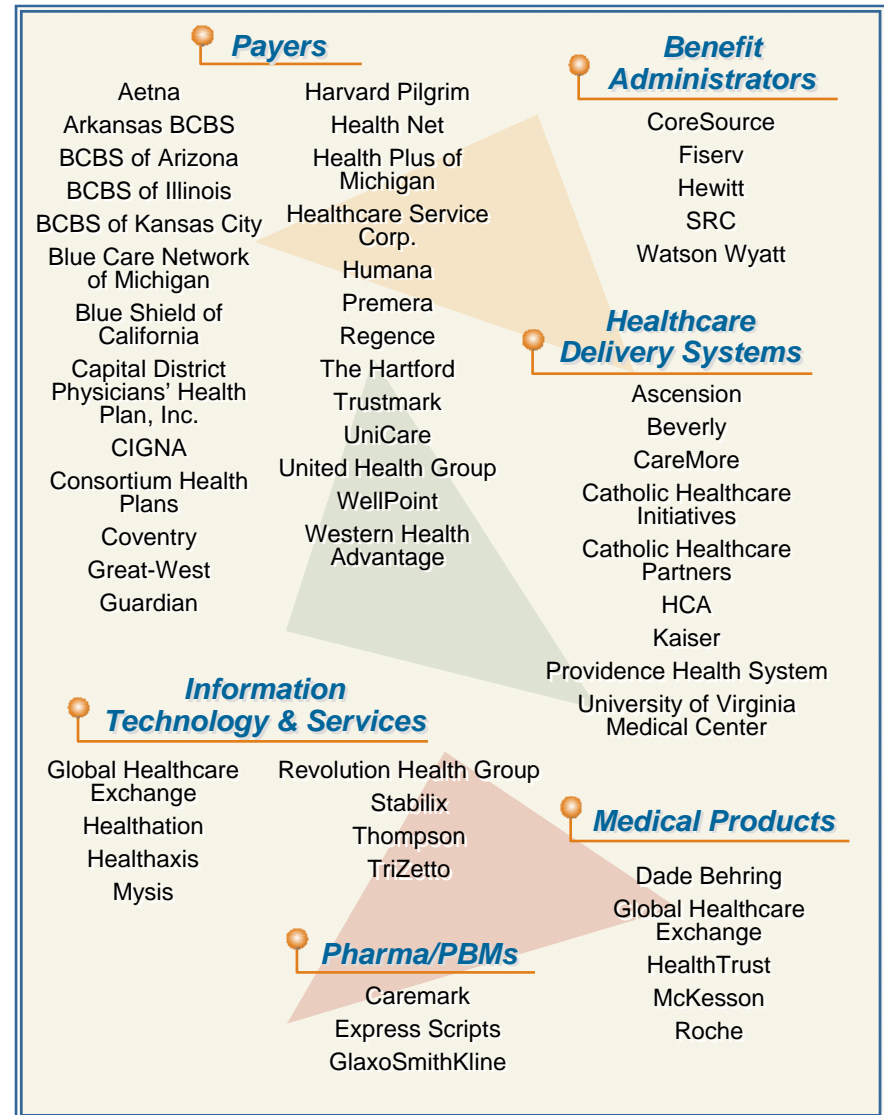
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ChapterHouse Overview

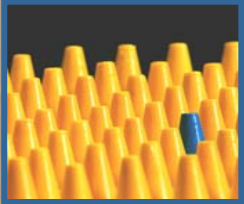
- Healthcare strategy firm
- Founded in 1997
- Strong emphasis on grounding strategy in data and market analysis
- Focused on all corners of the market
- Mix between pre-IPO companies and high profile established players
- Seventy-five healthcare clients since inception
- Specialize in strategy, top line growth, and market analysis
- Over 700 hundred client engagements completed
- Dynamic team environment—everyone has hands-on experience
- Client relationships—based on trust and earned through creating business impact
- ChapterHouse value equation—knowledge transfer, outcomes focused, direct/candid communication, analytic and innovative

Working the Total Healthcare Space



ChapterHouse Differential—What Makes Us Unique

ChapterHouse brings five distinct competencies that uniquely differentiate the firm and its ability to bring value to the market.



The ChapterHouse team has a deep understanding of the macro economic healthcare picture and underlying drivers that are reshaping the landscape and is uniquely able to apply this understanding to client strategies that enable true differentiation and advantage in both current and emerging markets.



Our team is comprised of talented individuals who blend executive leadership experience, “real world” field and staff roles, and broad market perspective.



The ChapterHouse team has a track record of helping health plans, benefit administrators, network companies, and others grow share across all employer size bands and funding arrangements. We possess deep and local knowledge on how the health benefits market operates and how it is evolving.



ChapterHouse brings a collaborative style to each assignment that builds buy-in and organizational momentum into the process. While we are organizationally sensitive, clients experience our firm as candid and direct.



ChapterHouse has developed advanced dynamic market segmentation and sizing models that will both speed the analysis process and provide unique insight into the market environment and opportunity. We also maintain an exhaustive data warehouse to power these tools.