

# HEALTH PLAN WEEK

## Where Are They Now? A Decade After HRAs, CDH Entrepreneurs Look Back...and Ahead

Ten years have passed since the Treasury Dept. and IRS issued guidance that gave the green light to health reimbursement arrangements (HRAs), which fueled the growth of consumer-directed health (CDH) plans in the early part of the decade (*HPW* 7/1/02, p. 1). Since then, account-based health plans have moved into the mainstream, with more than 25 million people now enrolled. But those who pioneered the space say their original vision of health care consumerism is a far from being a reality.

Companies such as Definity Health, Lumenos, HealthMarket and Destiny Health defined the concept of CDH. In 1999, several former health insurance executives came together to work on “a volunteer operation” aimed at creating a role for consumers in health care, recalls Michael Showalter, who later served as Definity’s vice president for product and public affairs. One of their early concepts, he says, was a personal care account, which would be funded by an employer. Showalter says he still has the original piece of paper where 12 concepts of CDH were scribbled down.

“We jotted those ideas down a few years before Treasury’s [guidance], and I spent a lot of time talking with lawyers about the legalities of those accounts,” he recalls.

Bill Sweetnam, now an attorney at the Groom Law Group in Washington, D.C., remembers seeing a presentation on defined-contribution health plans during a 2001 American Bar Association meeting. At the time, he was benefits tax counsel at the Dept. of Treasury where he oversaw tax guidance related to health or retirement.

“People kept saying there are a lot of questions that haven’t been answered. I knew that if we didn’t answer some of them, there would be problems five years down the road,” he tells *HPW*. Kevin Knopf, who worked in Sweetnam’s office, wound up writing “the definitive memo” on defined-contribution issues that needed be resolved. One of those issues was what became known as a health reimbursement arrangement. The guidance, issued in July 2002, distinguished HRAs from flexible spending accounts and clarified that the notional accounts were non-taxable and that balances could be rolled over at the end of the year. Sweetnam recalls conversations with Definity’s leaders, who had been asking Treasury to clarify the rules.

“I was at Treasury for four years and this is probably the accomplishment that I’m most proud of,” he says.

### Acquisitions ‘Blunted’ CDH

HealtheCare, Inc., which changed its name in 2000 to Definity Health, was acquired by UnitedHealth Group in late 2004 for \$300 million. At the time, Definity had about 500,000 members. Lumenos, another venture capital-backed CDH company, was acquired by WellPoint, Inc. for \$185 million about six months later.

Lumenos’ former chief health and medical director, Mike Parkinson, M.D., says he’s proud of the trailblazing work done by Lumenos and Definity. But he admits he’s disappointed that the consumerism movement was “blunted” when those companies were acquired and assimilated by large commercial carriers. If done correctly, he says, CDH is “transformative and revolutionary” for consumers, doctors and the entire delivery system. But the acquisitions turned CDH into just another plan option that “preserved the copay mentality” that keeps members from being true health care consumers. Moreover, proprietary contracts keep the system from becoming truly transparent and ensure the survival of an inefficient industry with a huge overcapacity, he says.

Parkinson now is senior medical director for health and productivity at UPMC Health Plan and WorkPartners. He also is a principal at P3 Health, a company that assists employers to optimize prevention, performance and productivity, and a senior consultant for EHE International, a 100-year-old national preventive care company.

### Little Innovation Now in CDH

Showalter says he’s been frustrated by the pace of innovation in the CDH space. “Largely what we drew on the board 13 years ago is what is still being sold in the marketplace today. And that’s somewhat of a disappointment because we know so much more about consumer behavior now,” he says. HRAs and health savings accounts (HSAs), he adds, are blunt instruments that can help get consumers involved in their health care. He says he’s also concerned that there appears to be little room for plan-design innovation within the state health insurance exchanges envisioned by the reform law. While exchanges will make it easier for consumers to find appropriate

coverage, they won't do anything to slow the growth of health care costs.

After several years as chief marketing officer at Cigna Corp., Showalter is now chief marketing officer at Prime Therapeutics LLC, a Minnesota-based pharmacy benefit management company that provides services to nearly 20 million lives. The company is collectively owned by 13 Blue Cross and Blue Shield plans, subsidiaries or affiliates.

Amit Gupta, M.D., who cofounded CareGain in 2000, agrees that health plans have blunted the concept of consumerism by allowing members to continue to pay a copayment for drugs, even if the full cost of the drug is \$600. "That's where employers backed off too much. They worried that with too much transparency, people would get scared about the costs," he tells *HPW*. Health accounts simply became surrogates for paying out-of-pocket costs under one's health plan, instead of paying actual costs.

CareGain was a software company that provided a technology platform that connected commercial insurance carriers to the banking industry to manage health accounts. "Definity and Lumenos were going after the [large] employer market. We knew the big health plans would realize that they need a technology platform to do what Definity and Lumenos were doing," Gupta tells *HPW*.

Gupta's model for "healthcare IRAs" was presented to Reps. Nancy Johnson (R-Conn.) and Bill Thomas (R-Calif.), and adopted as part of the health savings accounts (HSA) legislation, Gupta says.

CareGain was acquired by Fiserv in 2006. Shortly after, Fiserv exited health care altogether by selling its health division to UnitedHealth. After several acquisitions, the CareGain unit was purchased by PayFlex, which was acquired by Aetna last summer.

A two-year non-compete contract after the Fiserv deal pushed Gupta to leave health care for Hollywood. In 2010 he wrote and directed *Let the Game Begin*, a romantic comedy starring Stephen Baldwin, Michael Madsen and Thomas Ian Nicholas.

### Price Drivers Must Be Addressed

Showalter says too little is being done to deal with the key drivers of growth in health care spending: technology and third-party payment. If those two areas aren't addressed, the government will have no choice but to cap what doctors can charge. Other countries have kept health care costs low by paying their doctors less, though they still face the problem of rising costs, he says.

"People want to focus on preventive care and wellness because it accounts for some cost and seems easy to address. But those aren't the primary drivers of the growth in health care costs. And that is where we still have a lot of work to do," he says. "What works best in

this country is consumer purchasing and we must continue to unleash that in the health care space where appropriate."

Looking back, Gupta says one problem HRAs and HSAs continue to face is that health plans and employers have too much control over the accounts. Employers, he explains, wanted to dictate how the accounts were to be used because they were funding them. But that control caused employees to conclude that "this is just another type of employer health plan, it's not something that I own," he says. "With health care, it is always driven by the business model." Health insurers, he adds, didn't innovate during the early years of CDH. They only reacted to employer demand, Gupta says.

### Caution: More Innovations Ahead

Here's a look at several companies being headed by former CDH innovators:

◆ **RedBrick Health:** The idea of CDH was to take the dollars that flow through the system, preserve the tax efficiencies, but have individuals feel like they were spending their own dollars on care. With their own money at stake, patients would think twice about seeking unnecessary care, pay attention to price and demand transparency, explains Kyle Roling, a cofounder of Definity Health who took over as president after the company was acquired by UnitedHealth.

The argument against that strategy in the early days was that there were few tools to help consumers shop for health. "It's sort of a chicken-and-the egg situation. And if you had great tools, but no financial control, no one would use the tools," he says. In early 2006, Roling left UnitedHealth and partnered with Definity alumnus Abir Sen to launch RedBrick Health. In 2009, Sen founded Bloom Health, a private insurance exchange (*HPW* 7/18/11, p. 1).

RedBrick Health, Roling says, was "built on the shoulders of Definity." During those years, and while at UnitedHealth, he says it was surprising that not all members took advantage of free programs (e.g., smoking cessation, preventive care) aimed at improving health. "It was a head scratcher. But people just don't see the long-term implications of their behavior." While CDH created consumers of health care, it failed to create consumers of health, he says.

His firm targets large employers and uses claims data, health risk assessments and biometric screenings to create a personalized health strategy that helps employees understand their long-term health. Members who participate in the program receive financial rewards in the form of lower premiums or health account contributions.

◆ **Welvie:** To help members better understand what would happen during a surgery, Lumenos contracted

with a small animation company in St. Louis to use a series of animated programs, which offered a step-by-step overview of the procedure. Surgery represents a little more than 30% of total medical spend, but virtually nothing is done to help individuals manage the process, says Doug Kronenberg, Lumenos' former chief strategy officer.

"People will go to the doctor, have knee surgery recommended and then let themselves fall into the system. Most of the time, they don't get a second opinion. And most of the time, they don't understand they have other options," he explains. "We looked at that [research] and saw a real opportunity for shared decision making." Kronenberg says surgery and a week-long stay in the hospital helped solidify the notion that better information was needed for surgical patients.

Shortly after fulfilling their two-year contracts with WellPoint, Kronenberg says he and former Lumenos CEO Chip Tooke joined and re-engineered the animation company. What emerged was Welvie, a company launched four years ago that works with health insurers to arm members with tools that help them prepare for surgery. Welvie offers a six-step curriculum that helps patients understand their ailment and surgical and non-surgical treatment options, as well as what to expect after a surgery and how to improve recovery at home.

Health plans are the target market. A health plan, for example, might make Welvie's tools available to its members through a Web portal, or could offer them to its large employer clients. A health plan also can use the company's outreach engine to identify surgical candidates and enroll them in the program. Aetna is one of Welvie's largest clients.

The privately funded company has 17 employees, including several former Lumenos executives. Welvie this month was one of 107 companies to receive a grant from CMS. The three-year, nearly \$7 million grant will be used to fund a demonstration program in the Ohio Medicare market. As part of the project, Kronenberg says Welvie will test the role community plays in the surgical experience. "If you can create a community of people who have had similar experiences and can share those,...there is a big opportunity to improve outcomes."

◆ **HealthyU:** Parkinson helped develop UPMC HealthyU, a full-replacement product that combines a high-deductible plan with an incentive program that rewards members for healthy living. Unlike more traditional health plan operators, UPMC Health Plan is part of a system that includes 20 hospitals and more than 3,000 network physicians. "That's something we didn't have at Lumenos or at WellPoint," he says. "It allows me and my colleagues to innovate not only the financing of care but also its delivery." For example, he is optimizing the use of incentivized e-visits and the use of regional corporate medical directors who would work directly with small employers.

◆ **KlearHealth:** The direct-to-provider marketplace Gupta is helping to launch lets patients purchase services or plans directly from doctors. For example, members can pay a one-time annual fee posted by a provider (e.g., \$1,200) but don't face deductibles, copays or coinsurance and receive a "host of services," similar to pre-paid legal plans, he explains. A high-deductible plan is used to cover catastrophic cases or high-cost chronic conditions. Gupta also is founder and advisor of Healthper, a company that focuses on improving health engagement through gamification.

Gupta says CDH only solved part of the problem by allowing a new payment mechanism to take hold that was partially consumer-owned. But he adds that the rise of a "free-form" health care marketplace is needed, where doctors directly post services and bundled plans for patients to purchase, with full cost transparency, seamless appointments and provider ratings. "Direct primary care and concierge medicine models pulled together in such a marketplace have the potential to alter the delivery system by giving more power to consumers," he says.

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