REPORT OF THE COUNCIL ON MEDICAL SERVICE

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Subject: Evolving Internet-Based Health Insurance Marts

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Referred to: Reference Committee A
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American Medical Association (AMA) health system reform policy directed at increasing patient choice in medical care supports the development of “voluntary choice cooperatives” (Policy H-165.882, AMA Policy Database). This approach entails a shift away from a defined benefit approach in employers’ provision of health benefits to a defined contribution approach (Policy H-165.983). Voluntary choice cooperatives, or more generally, health insurance marts, are envisioned to expand patient choice by: (1) facilitating pooling of risk in larger groups than those of typical employment-based risk pools, and (2) increasing the number of coverage options available to individuals. The defined contribution approach, whereby employers subsidize employees’ purchase of health coverage with a fixed monetary contribution, is seen as the new paradigm in health benefit management. This new approach should be advantageous to both employers and employees.

In 2000, a number of Internet-based health benefits ventures were started to exploit the advantages of Internet technology for health benefit administration. Success in Internet-based operations would advantageously position these ventures for the widely predicted transition of employer benefit plans from defined benefit to defined contribution. Thus, the introduction of Internet-based health benefits systems has resulted in significant evolutionary advances toward AMA policy goals. In this report to the House of Delegates, the Council on Medical Service describes the character of these evolutionary steps.

ROLE OF THE INTERNET

Industry analysts see the Internet playing a major role in expanding options that employers will make available to workers as part of defined contribution programs. Many view the Internet as the technological basis of a new paradigm in provision of health benefits. In their view, the Internet has the potential to transform the way employers offer coverage by:

- Presenting workers with multiple options from many different vendors in a centralized Internet location.

- Allowing workers to tailor their coverage in terms of premium, deductible and copayment, coverage of preventive and other extra services, choice of physicians, and adjunct financial products such as Medical Savings Accounts and Flexible Spending Accounts that allow employees to fund medical expenses with pre-tax income.

- Providing consumers with information and algorithms to help them choose among plans as well as interact with the plans they choose in selecting physicians, making appointments, and communicating with their physicians.

In addition, analysts believe that Internet-based benefit systems can significantly lower the cost of non-employer-based coverage. Some of the factors that are projected to lower cost are:

- Expanding the pooling of risk to include workers from multiple employers and, thereby, achieve economies of scale.

- Reducing both plans' selling costs and employers' expenses for benefit consultants and paper-based administration of health benefit plans.

- Stimulating a migration toward insurance that will pay only for large, unexpected expenses and reduce the administrative costs associated with processing small, recurring health care bills through third parties.

BUSINESS PLANS

Anticipating the movement from defined benefit to defined contribution employer-provided health benefits, a number of Internet-based online health insurance choice systems were rolled out in 2000. Entrepreneurial ventures based on employers' defined contribution toward employees' purchase of health plans reflect a wide-spread belief that it is only a matter of time before defined contributions begin to displace the traditional employer health benefit system. Wit Capital Research has identified at least 33 start-ups funded primarily with venture capital that emerged through mid-2000 in response to the anticipated shift to defined contribution systems.

There are two reasons a shift to defined contribution is anticipated. First, there is a growing recognition among employers that they should change their benefit approach to reduce benefit administration cost in order, to make future costs more predictable, and to increase the choice and satisfaction of their employees. Second, employees are increasingly unhappy with managed care, and want more latitude to choose the extent of their coverage, their physicians, and other health care providers.

As previously noted, a number of Internet-based online health benefits choice systems started operations in 2000 and are pursuing a variety of business plans. Several of these companies are highlighted below to illustrate the wide range of product designs coming to the market.

HealthMarket

The former Chairman of Oxford Health Plans, Steve Wiggins, founded HealthMarket. Employer clients of HealthMarket establish an annual healthcare spending account for each employee. Funds are then provided (as "allowances") to the employee in three categories:

- Routine care, for which fixed allowances are allocated on a per-service basis;

- Mid-level care, for which a fixed allowance is allocated per episode, e.g. for pregnancy; and

- Catastrophic care, for which full coverage is provided through an insurance policy.

The HealthMarket product includes access to providers through an "Exchange" where prices and other information are posted by participating providers, enabling enrollees to search for providers who do not charge more than the allowances established in relation to their employer's contribution. As of July 1999, the company had more than 175,000 physicians listed on the Exchange through relationships with large preferred provider organizations and physician networks. It expects to be marketing its products nationwide by the end of 2001.

MyHealthBank

Employer clients of MyHealthBank deposit funds into employees' personal healthbank accounts. Employees then select the level of insurance coverage from a wide variety of combinations including medical, dental, pharmacy, disability, and life insurance. Remaining funds can be used to pay for non-covered services and co-payments. The product includes a "Community Exchange" where providers list services, costs, and capabilities. Enrollees are provided a debit card to pay for services at the point of service. After a successful pilot test in Eugene, Oregon, the company announced that it will begin providing its product statewide in 2001.

Vivius

Vivius, headed by former United HealthCare executive Lee Newcomer, MD, acts as a broker for providers. Employer clients establish an annual health care spending account for each employee that may be a Section 125 pre-tax premium plan or a simple bank account. Employees then inspect lists of participating physicians in 22 specialties that together account for 90% of health care costs. Each participating physician lists a monthly capitation rate for services, and employees try various combinations of co-payment levels and providers and determine whether to pay more out of pocket if total capitation is not covered by the employer's contribution. Employees also choose their own level of copayment for hospitals, emergency rooms, pharmacy and outpatient facilities.

Employees choose a primary care physician who presents a suggested network of specialists, but the employee can revise it to substitute his or her own choices of providers. Participating physicians and other providers establish their own rates that are actuarially adjusted based on the age and gender of each enrollee. The plan includes a mandatory catastrophic indemnity policy for incidents not covered by the employee's choice of providers. Funds not spent on monthly capitation go into a "health spending account" to help with copayments or noncovered medical expenses.

Definity Health

This company (formerly HealtheCare) offers a three-part product to employers:

- Medical checking accounts that employees use to purchase routine health care from their chosen providers;

- A high-deductible catastrophic insurance policy; and

- An online/telephone service for employees to track benefits, find physicians and acquire health care information. Definity Health is contracting with existing networks for providers and their information is displayed on the Definity Health web site.

The medical checking account can roll over from year to year and be supplemented by employee contributions.

Sageo

Launched by Hewitt Associates in 2000, Sageo packages benefit plans offered by major health insurers and brokers them to employers. Sageo offers a wide range of plans, expecting employers to choose four or five from among them to offer to employees. Algorithms that compare plans and their costs for health care needs anticipated on the basis of information employees provide aid employee choice. To minimize administrative cost, Sageo does not offer employees the ability to customize their coverage beyond the offering chosen by the employer. Currently, Sageo is marketing to mid-size and large employers.

Highmark

Highmark (BlueChoice Internet) markets a set of 16 health insurance offerings to small to mid-size employers. The options consist of four variations each of HMO, PPO, POS, and indemnity with different cost sharing provisions and coverages for preventive services. Employees complete an on-line survey regarding their preferences among the options and provisions, and are presented the best three choices by an algorithm.

THE STATE OF CONSUMERISM

The Internet ventures described above are pursuing a variety of approaches to the design, packaging and marketing of health benefits. They range from basic health insurance marts that offer only fixed-design health plans (Sageo, Highmark) to ventures that allow almost complete discretion for employees to customize their coverage (Vivius). The approaches they take to employer-provided benefits range from very conservative (e.g., Sageo expands choice among insurers within the traditional defined benefit framework) to those that are explicitly expecting rapid acceptance of defined contribution. The less conservative ventures offer novel and innovative approaches for employees' use of the funds (HealthMarket, MyHealthBank, Definity Health). It is noteworthy that HealthMarket's designation of allowances for specific types of care mirrors a long-standing AMA proposal for "benefit payment schedules" (Policy H-165.944, AMA Policy Database) that has not been offered in the market for many decades. (Under this approach, workers are indemnified specific amounts for each condition enumerated in the benefit payment

schedule). Many of the benefit structures are designed to make employees more aware and accountable for their health care consumption decisions by allowing them to choose providers on the basis of price (MyHealthBank, Vivius), or providing a cash account for routine care (Definity Health).

The wide variety of product designs reflects differing assumptions about the readiness of the market to accept the defined contribution approach and the ability and willingness of consumers to make more complex choices in an environment of expanded options. Even the most conservative ventures, however, are positioning themselves for the eventual acceptance of defined contribution. The business strategy of Sageo, for example, is based on the assumption that the evolution toward defined contribution must proceed through a number of stages, beginning with its model of expanded choice among traditional options that will train employees to be better consumers. Then, systems that allow consumers to directly choose providers, such as Vivius, will meet less resistance and have a better chance for success. Subsequently, Sageo foresees an "underwriting conversion" that will shift consumers from the boundaries of their employers' pool into an expanding individual market that will provide more economical coverage due to expanded risk pools, competition among many plans for market share, and efficiencies provided by Internet technology. For this to happen, consumerism must first emerge as a strong force in the market, according to Sageo.

DESIGN ISSUES

Expanding choices among health insurance products increases the potential for "adverse selection." Adverse selection occurs when high-risk patients gravitate disproportionately toward specific products, increasing those plans' exposure to higher benefit payments and, inevitably, necessitating premium increases. The premium increases then make them less attractive to low-risk patients who gravitate away from them, leaving higher proportions of high-risk users in their pools. A "death spiral" of adverse selection and rate increases can occur, driving the plans out of business.

Sageo, for example, reports that the fear of adverse selection is one of the greatest issues in recruiting plans to participate in its offerings. Several of the new ventures have employed explicit measures to control or manage adverse selection. For example, Highmark engaged Milliman & Robertson actuaries to design its 16 different plans to manage adverse selection. Two design principles were followed:

- Limits were place on the maximum price spread between the highest and lowest cost plans, in order to control the differences in benefits offered between them; and

- A pure high/low benefit strategy was not used. Rather, tradeoffs were included within the various sets of products between cost sharing (e.g., the lowest office visit copayment was not coupled with the lowest pharmacy copayment) so that patients would have to decide which service was most important to them.

A separate report before the House of Delegates at this meeting (CMS Report 3, A-01) discusses the effects of individually owned health insurance on risk pooling and cross-subsidization.

Another issue involves the extent of patient access to and use of the Internet. A survey conducted by the International Foundation of Employee Benefit Plans in late 2000 revealed that about one-third of surveyed benefit plan sponsors currently use the Internet to communicate employee benefit

information, and another third plan on adding this information online in 2001. Despite the attractiveness of the Internet as a communication vehicle, there may be significant limitations to the technology due to the fact that many employees do not use computers in their work, and many do not have access to computers at home or at other locations. Employees' lack of access to the Internet may limit the ability of many employers to utilize the new health insurance mart ventures to expand health benefit choices or convert to a defined contribution. It is noteworthy, however, that some employers are facilitating their workforces' access to the Internet by providing free personal computers and Internet access to all employees, such as Intel, Inc. has done, or by subsidizing their employees' purchase of PCs and Internet service as American Airlines, Ford Motor Company, and Delta Airlines have done.

DISCUSSION

The Council believes that much of the transition to a system of individually selected and owned health insurance is predicated on employers shifting from defined benefit health plans to defined contribution health plans, and the willingness of patients to exercise more choice in the marketplace. Therefore, the Council is encouraged by the recent evolutionary developments in the marketplace that are designed to foster a shift to defined contribution approaches and increased patient involvement in making health care decisions. Clearly, the Internet-based health insurance benefits industry is evolving rapidly and in many directions. However, the success of many of the early start-up ventures is speculative at this point, due in part by their deployment of imaginative features that may be premature in terms of consumer understanding and acceptance. At this time, it remains to be seen which of the business models being implemented by the new ventures will be successful.

RECOMMENDATIONS

The Council on Medical Service recommends that the following be adopted and the remainder of the report be filed:

1. That the AMA endorse the concept and use of Internet-based health insurance marts and health benefits systems as mechanisms for employers and individuals to select and purchase health insurance. (New HOD Policy)

2. That the AMA continue to monitor the evolution of the Internet-based health benefits industry and report to the House of Delegates on important developments. (Directive to Take Action)