



definity health

# **Galen Institute Briefing on Consumer Choice Health Care**

February 11, 2004

# Definity Health Overview

## Background and Product Features

Recognizing that employers need new solutions to the health benefit problems of today, Definity Health pioneered a solution that combines the evolution of care management, medical information, and managed care with consumer choice, incentives, and accountability. Definity Health, founded in 1998 and based in Minneapolis, is leading this new direction in healthcare. The Definity Health benefit consists of three key components:

- > Health Reimbursement Account (HRA) or Health Savings Account (HSA)
- > Health Coverage (high deductible)
- > Medical Informational Tools and Resources

Our program improves the value and performance of health benefits by allowing and encouraging consumers to become more active in their healthcare decisions. It offers consumers extensive choice, greater autonomy, and promotes member responsibility when making healthcare decisions.

The economics of our consumer-based model – e.g. supply, demand, and the decision dynamics that come from this interaction – are absent in managed care health benefit models where consumers are controlled, poorly informed, and insulated from the consequences of their decisions. The Definity Health program has proven its ability to deliver increased cost control for employers and increased satisfaction for employees.

## Current Enrollment and Success

Definity Health began offering consumer-driven benefits to our first client on October 1, 2000. We serve roughly 85 self-insured clients and 300,000 consumer-driven members throughout the country. Our clients include Fortune 100 companies, mid-sized employers, and large public organizations, such as universities, school districts, and Federal employees.

This consistent enrollment and growth has helped Definity Health achieve not only significant utilization and financial impacts for our clients but high levels of satisfaction for their employees.

Definity Health has achieved:

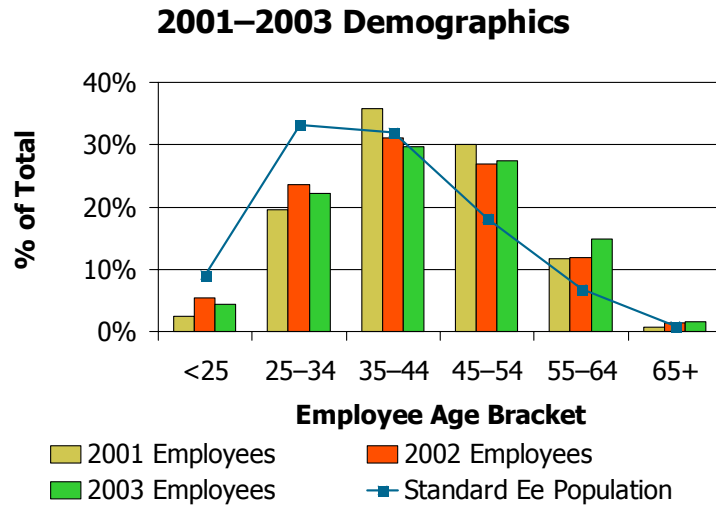
- > 10% enrollment average for first year clients
- > 95% re-enrollment
- > 90% member satisfaction
- > Overall renewal rates of 0% in 2003 and a 3.2% increase in 2004, which is significant in comparison to double digit increases across the industry

## Facts and Results

### Who is Enrolling?

Definity Health has experienced enrollment from a broad demographic cross-section of the population.

#### *Age Breakout of Enrolled Employees*



#### *Single versus Family Coverage*

| Coverage Type | 2001 (% of enrollment) | 2002 (% of enrollment) | 2003 (% of enrollment) |
|---------------|------------------------|------------------------|------------------------|
| Employee Only | 37%                    | 43%                    | 41%                    |
| Employee + 1  | 19%                    | 18%                    | 19%                    |
| Family        | 44%                    | 39%                    | 40%                    |

### ***Case Example***

The following information is based on a Definity Health client (Rohm and Haas Company) that has a multi-site employee population of approximately 10,000 benefit eligible employees. Approximately 9% of these employees are enrolled in the Definity Health consumer-driven benefit. Below we have provided additional demographic data, which is similar to enrollment results from other clients:

| <b><i>Category</i></b>        | <b><i>Definity Health</i></b> | <b><i>Total Population</i></b> |
|-------------------------------|-------------------------------|--------------------------------|
| • Average Age                 | 44                            | 47 (2003)                      |
| • Number with Single Coverage | 30% (158)                     | 23%                            |
| • Number with Employee + One  | 24% (124)                     | 29%                            |
| • Number with Family Coverage | 46% (240)                     | 48%                            |
| • Average Salary              | \$45,000                      | \$58,453                       |

### **What is Happening with Selection?**

Risk selection is a factor whenever a choice of health plans is offered. It is not unique to consumer-driven health plans.

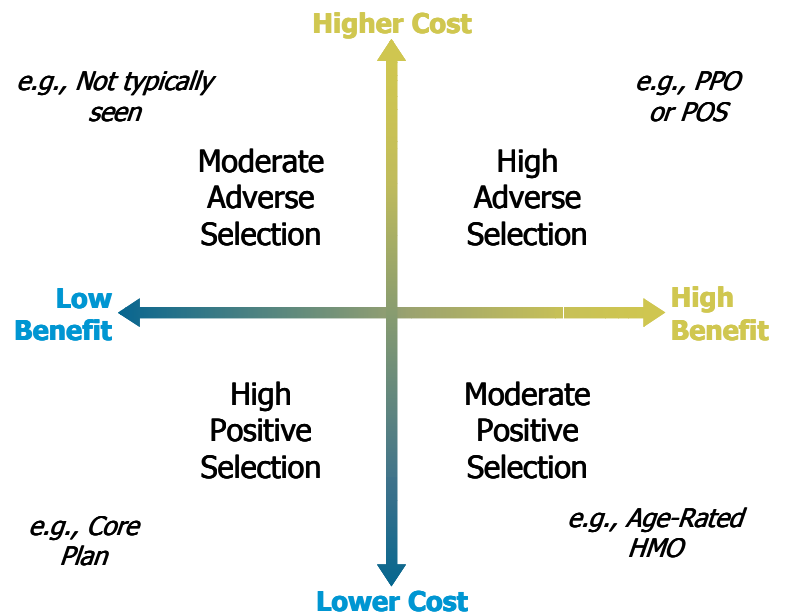
- > Definity Health is philosophically and structurally different from managed care. The tendency of HMOs to select favorable risk cannot be likened to consumer-driven healthcare (e.g., smaller provider panels, highly invasive care management and pre-authorizations, lower contributions).
- > HRA cannot be converted to cash
- > Out-of-Pocket maximums tend to equalize out-of-pocket exposure for members with truly significant health care expenses
- > There is substantial inertia to change health plans for both the healthy and unhealthy
- > Consumers use both economic and other factors in making health plan choices

### ***Large Claim Experience***

From January through November 2003, we had a large claim incidence rate (claims greater than \$50K) of 4.6 per 1,000 members. Based on a standard claim distribution, we would expect this incidence rate to be about 2.3 per 1,000 members.

**Understanding Risk Selection**

- > The primary drivers of risk selection are employee cost and the relative benefit richness of the competing options.
- > Employees will tend to choose the option expected to provide the best economic benefit for their situation.
  - For healthy individuals the selection is usually low cost/low benefit options.
  - For less healthy individuals the selection is usually high cost/high benefit options.
  - Selection effect is at least directionally predictable in most cases.
- > Mitigating factors tend to reduce the magnitude of selection.
  - Health care costs are not fully predictable.
  - Plan choices are usually made at a family unit level versus the individual level.



- > It is important to note that Definity Health offers a self-funded program and gains no direct financial advantage on risk selection, which is unique from fully-insured programs.

**Case Example**

The Federal Employee Health Benefit Plan (FEHBP) is a good example of an offering where selection is possible.

- > This program offers many health plan choices at varying contribution rates.

### How is Utilization Changing?

The Definity Health model not only offers employees an attractive program and an improved healthcare experience, it also leads to effective employer savings potential. When employees are positively incented to make effective healthcare choices and are engaged in the process, services are consumed with greater care. Our experience proves it – we have analyzed our experience with current customers, comparing Definity Health utilization trends against commonly recommended guidelines. Initial results indicate a significant improvement – proving that employees will utilize healthcare services more effectively if provided more information.

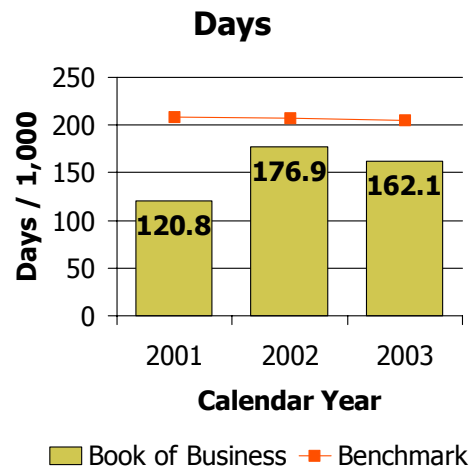
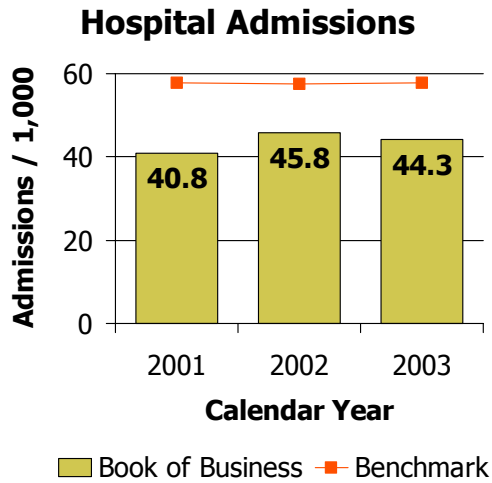
### *Independent Consumer-Driven Comparison Study<sup>1</sup>*

In addition to the utilization reduction reflected in this table, the study also showed no shifting of cost from younger employees to older employees. Older participants actually experienced a 17% utilization decline while the younger participants had a 9% utilization decline.

| Type of Service      | Utilization Change |
|----------------------|--------------------|
| Hospital IP and OP   | -8%                |
| Surgeries/Procedures | -8%                |
| Physician Visits     | -18%               |
| DXL (x-ray and lab)  | -8%                |
| All Medical          | -12%               |
| Rx                   | -6%                |
| Total                | -11%               |

<sup>1</sup> Results are based on an independent study created by the Synhrgy Healthcare Solutions Group and reported in Employee Benefit News in April of 2003. This study examined a Fortune 500 employer that implemented a total replacement consumer-driven plan on 1,500 employees. The utilization change shown is from 2001 to 2002.

**Admits and Days Per 1,000**

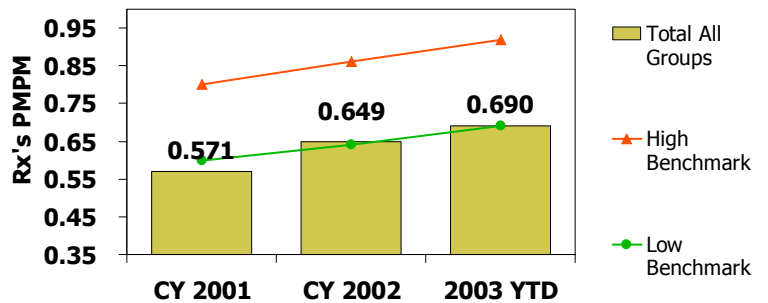


**Pharmacy Utilization Results**

Our average pharmacy utilization rate has ranged from 0.57 to 0.69 prescriptions per member per month (compared to typical traditional plan results which run at 0.6 to 0.8 or higher). This utilization is 12% below the low industry benchmark and 34% below the high industry benchmark.

For drugs that have generic alternatives available, our generic substitution rate is 95% (compared to typical traditional plan results which run about 85%, often with tiered copays to incent generic substitution). In addition, we have secured best pricing discounts, while retaining the flexibility to work with a variety of prescription benefit managers (PBMs).

**Definity Health Prescription Utilization All Clients 2001–2003**



**Case Example**

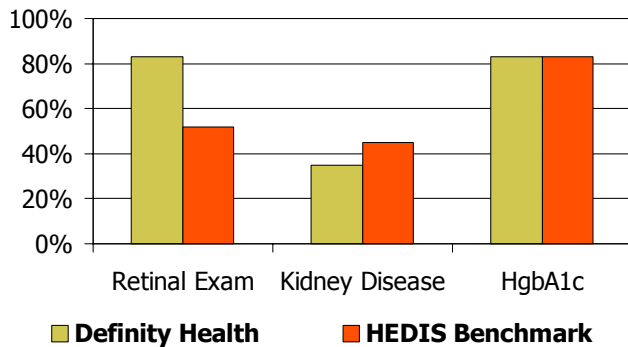
Definity Health has also completed a comparative analysis in coordination with one of its large group clients. This analysis compares existing plan options to Definity Health’s benefit plan. This comparison, which is summarized in the table below, is designed to show utilization results between more traditional plan options and the Definity Health product.

|                             | Plan A        | Plan B     | Definity Health |
|-----------------------------|---------------|------------|-----------------|
| <b>Admits/1000</b>          | 30.24         | 30.46      | 31.22           |
| <b>Days/1000</b>            | Not Avail.    | 83.92      | 80.39           |
| <b>Office Visits/1000</b>   | 3,628.56      | 3,472.07   | 2,627.81        |
| <b>Rx Claims/1000</b>       | 7,774.34      | 7,361.64   | 5,543.62        |
| <b>ER/1000</b>              | 146.28        | 92.28      | 88.19           |
| <b>Members per Employee</b> | 2.58          | 2.69       | 2.71            |
| <b>Average Employee Age</b> | Not available | 40.5 years | 41.8 years      |

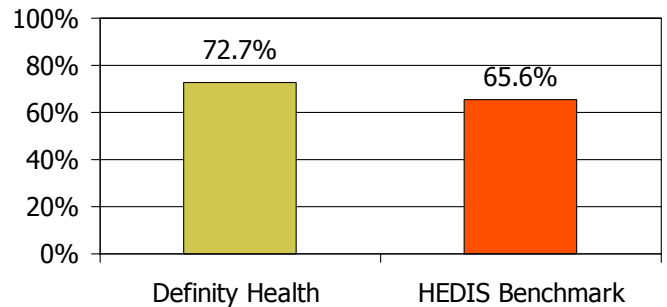
**Quality Indicators**

The following data compares Definity Health results in 2002 against common HEDIS benchmarks. While we continue to experience utilization controls and savings, quality performance is still consistent with national indicators.

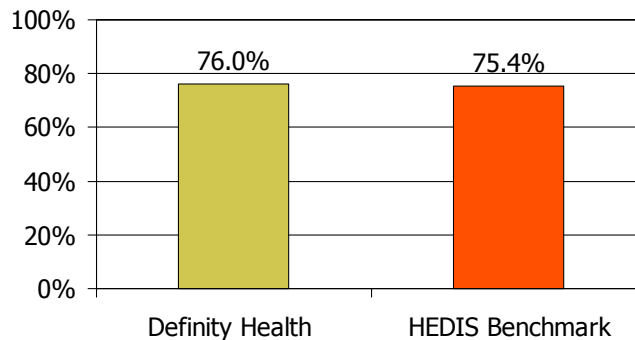
**Diabetes Preventive Testing**



**Controller Medications in Asthmatics**



**Mammograms**

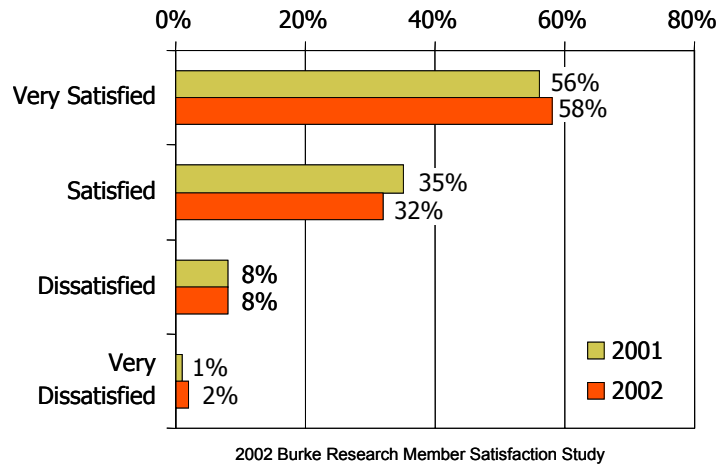




## Are Enrollees Happy with the Program?

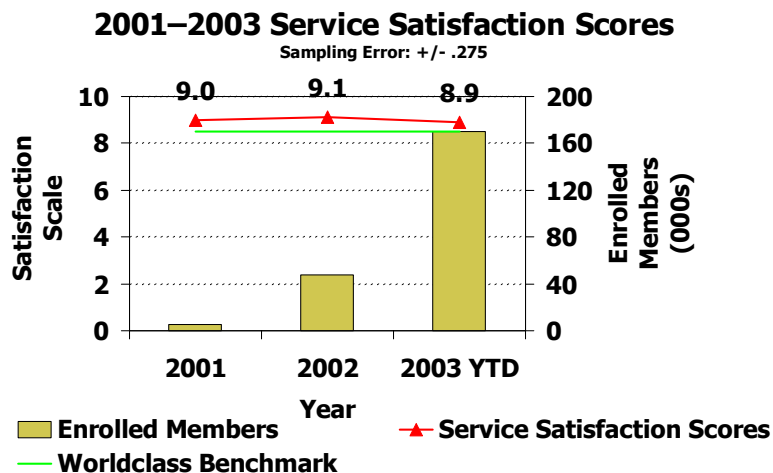
### **Overall Member Satisfaction**

Below, we have provided results comparing our member satisfaction surveys for 2001 and 2002. The surveys were distributed predominantly via employer email with a URL link to an online survey. The research firm distributed print surveys when online distribution was unavailable.

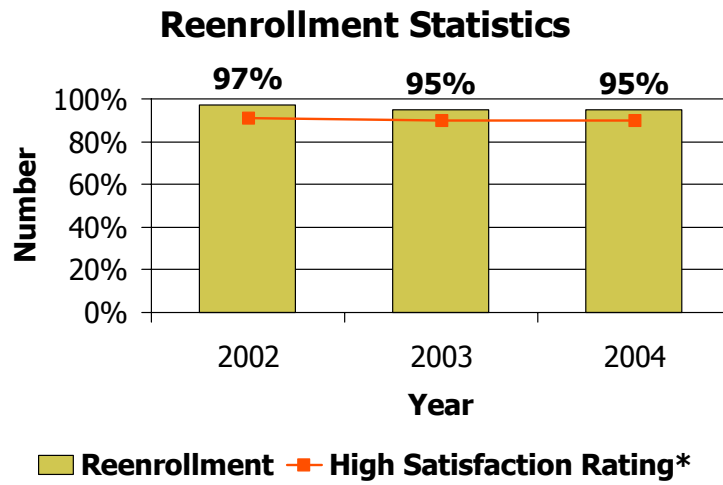


### **Satisfaction with Member Service**

Definity Health’s member service group completes ongoing call satisfaction surveys based on a ranking scale from 1 to 10. Below, we have provided results of these surveys:



**Re-Enrollment Results**



**Additional Information**

For additional information about Definity Health’s consumer-driven services, please feel free to contact Michael Showalter, Vice President, Market Solutions at:

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[www.galen.org](http://www.galen.org).