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Health Meets Wealth

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How health care and financial services can converge to revolutionize employee benefits.

by Joni Bessler, Susanne Leisy, and Sanjay Saxena

Desperate for relief from the growing burden of health-care costs, employers have started shifting more of the responsibility for health decisions and financing onto employees. It is not yet certain where these moves will ultimately lead: which tests, procedures, treatments, and medications will actually be covered, and what percentage of them will be reimbursed. Forecasts range from the moderate — employers carving off noncore benefits and making dependent coverage an option, with employees bearing most of the cost — to the draconian, with dramatic cuts in benefits.

Employers and employees alike will need help navigating this evolution, and we believe the financial-services and health-care industries will come together to answer the concerns of both groups. Indeed, we've already seen signs that this is happening, although the movement is still in its very early stages.

As the two industries converge, they can capitalize on at least three types of opportunities: technological integration, which could, for example, lead to credit cards that are embedded with the holder's electronic health record; new financial arrangements, such as collection services for doctors and other providers, including assumption of bad-debt risk; and unique blended products. Under the last category, we've already seen the emergence of consumer-directed health plans (CDHPs), which typically pair high-deductible major medical policies with tax-advantaged health savings accounts (HSAs) or health reimbursement arrangements/accounts (HRAs). Over the long term, we expect to see the emergence of a whole new class of innovative products and services that bring the sophistication of financial planning to health-care management, so that individuals will prepare for their future medical costs the way they now plan for their retirement expenses.

"Although it's impossible to predict exactly how the system will operate over the long run, we are looking at ways to foster simpler, secure transactions while allowing for real-time information exchanges," says Jay Gellert, CEO and president of Health Net. "We

Illustration by Lars Leetaru

are focused on integrating the best of financial services and health-care management to improve the health-care experience."

How can the health–wealth industry players best approach this opportunity? The key lies in the framework of the financial planning life cycle, which has long driven the creation and marketing of consumer and business banking products. The four stages of that framework are transact (to enable purchases when income is low), borrow (to finance purchases), accumulate (to ensure long-term security), and protect (to pay now to avoid a big hit later). There's every reason to believe the framework can also be a useful guide to devising new classes of products that help consumers, employers, and health-care providers manage, plan for, and finance their health-related expenses. The company that adapts that framework to the evolving needs of those groups will have a real strategic advantage in the emerging health–wealth environment.

The marriage of health-care benefits and broader financial services carries the potential for new thinking about the nation's savings behavior and lifelong wealth creation and management. One index to the size of the opportunity is the savings behavior of employees presently enrolled in employer-sponsored high-deductible health plans (HDHPs) with HSAs. According to Aetna HealthFund 2005 data, individuals deposited an average of $903 a year in their HSAs, most of it contributed by employers; 70.5 percent supplemented their employer's contribution with their own funds, adding an average of $1,280 a year. Aetna also found that the average HSA balance at the end of 2005 was $847. Similarly, WellPoint's Lumenos Consumer-Directed Health Plans found that among 66,819 employees enrolled after one year, 72.6 percent had an average of $940 in rollover funds in their HSAs; and of 25,659 employees enrolled after three years, 84.9 percent had an average of $1,382 in rollover funds.

Although CDHPs now cover just 7 percent of the privately insured population in the United States, that number has doubled in each of the three years the plans have been in existence. If the percentage caps at 25 percent, as some observers suggest, the total amount of money in HSAs/HRAs could amount to as much as $14 billion (25 percent of the privately insured market of roughly 43 million accounts, which can cover two or more individuals, multiplied by $1,000). Extend that calculation over the 40 years of an individual's employment, factor in the growth of HSAs/HRAs, and you end up with an even more staggering sum of money.

The imperatives for both the financial-services industry and the health-care industry to address the health–wealth gap will be overwhelming. Employers are clamoring for help; corporate executives tell us that covering health-care costs is a paramount concern. For good reason: Goldman Sachs recently found that retiree health plans at U.S. companies among the S&P 500 are underfunded by almost $325 billion, compared with a shortfall of $80 billion in defined-benefit pension plans. Short of a significant change in public policy, it will be virtually impossible for the government to fill that gap.

The costs of sitting out the

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health–wealth convergence are high. We hypothesize that as much as 10 percent of a bank's net income could be at risk as both corporate and individual customers start seeking a one-stop shop. That could translate to a drop of $1 billion or more in profits for a major bank. Increasingly, the edge will belong to the institution that can take on benefit plan design and administration, risk assumption, bridge financing, and other matters related to benefits, and integrate those with a broader range of private client and treasury management services.

"Convergence is where the industry is going. It could have as much potential as 401(k)s."

"Convergence is where I believe the industry is going," says José Becquer, executive vice president of the health benefit services group at Wells Fargo. "I think it could have as much potential as 401(k)s."

Health-care players will have to respond to the same set of dynamics to defend their core business and answer to the needs of the changing market. If they do not acknowledge the shift, the risks are considerable. Among the conceivable scenarios: Health plans could lose employers to other plans, along with an average of more than $4,000 in annual premiums per individual and more than $11,000 per family; they could lose the enrollees most likely to choose HDHPs and HSAs/HRAs, who tend to be younger and healthier. The health plans might then find themselves saddled with a disproportionate number of members with a greater need for health-care services; they could be reduced over time to manufacturing indemnity/catastrophic coverage policies, which will increasingly become commodities. Or the market could move to ever-greater transparency with providers listing prices, obviating the health plans' proprietary network discounts.

For many health-care and financial-services organizations, failure to meet the evolving needs of consumers and employers could provoke a fundamental transformation of core business models. For those players, it will be a question not of *whether* to get into the health–wealth arena, but of how and when.

Reframing Personal Finance

The health–wealth intersection is already taking shape. Players from each sector are experimenting with offerings that cross the boundary between the two, such as reverse mortgages to finance nursing-home costs and arrangements that let individuals tap into their life insurance policies to cover medical costs. But the new health–wealth business will evolve and change shape for at least the next couple of decades, as the retail health-care market coalesces and consumers take on more responsibility for their medical needs.

Understanding how an individual's health needs will inform his or her financial needs will reframe the way everyone — consumers, employers, providers, and the health–wealth industry — plans for the future. Employers have always covered most health expenses, but soon employees will have to weave health care into their financial planning. To answer the integrated need, traditional health and financial-services products will be bundled at each stage of the life cycle and, given that medical needs can be so unpredictable, they will have to accommodate great variability.

The financial-planning life cycle provides the real insight into how the new health–wealth arena might develop. For consumers, employers, and providers, the products will become more innovative over the next decade. We envision products that fall into classic financial-services life-cycle categories. Products for consumers at the stages described above might include:

Transact

- Debit cards for out-of-pocket payments, with rewards programs; these will eventually use algorithms to draw funds sequentially from multiple consumer accounts.
- Stored-value or credit cards embedded with electronic health records and plan information with network access, eliminating the need for claims processing.

Borrow

- Health plan–branded credit cards with rewards programs.
- Loans to cover out-of-pocket expenses and elective procedures, such as in vitro fertilization, cosmetic surgery, and laser eye surgery, using other assets — for example, a house or 529 education savings plan — as collateral.
- Nontraditional group insurance for such communities as church groups.

Accumulate

• Investment options for HSA/HRA funds, à la 401(k) plans.

• HSAs/HRAs that are combined with flexible spending accounts (FSAs) into portable lifetime tax savings vehicles.

• Tax-advantaged savings vehicles (like 529s for college) to save for such critical, largely unplanned needs as a heart transplant, with options for rollover and designation of beneficiaries.

• Consolidated savings vehicles for a broad spectrum of expenses, including education, health care, and child care.

Protect

• Supplemental risk products (e.g., gap insurance for non-covered services, especially experimental drugs and treatments).

• Melded health–retirement benefits packages.

• Multipurpose life-stage insurance that morphs over time from health insurance to long-term-care insurance to a death benefit.

For employers, additional product possibilities include ways to move health-care liability off the balance sheet, more innovative cafeteria plans that combine financial services and health benefits, and protection against catastrophic employee expenses.

And for providers, we might see products that provide real-time full payment for services rendered (both consumer and health plan components) and that assume risk for bad debt; outsource all business activities, including payroll and benefits; and automate point-of-service billing and collection with the ability to check a patient's spending against the remaining deductible in real time, and assign responsibility to the plan or consumer accordingly.

For employers, providers, and consumers, we'll see a heightened need for advice. They will need help with comprehensive planning and help in choosing the right plans and offerings from an increasingly complex menu. They will also need decision support tools that calculate costs and, eventually, quality of providers and procedures, and that factor health-care needs into financial planning. For employers, we might someday see products that advise on everything from the best mix of retirement and health-care benefits to explicit links between those benefits and productivity.

Insurers that sit out the early stages of the health–wealth intersection could lose younger, healthier enrollees.

How and When to Play

Many players have started to address the needs highlighted by our framework. Most financial-services firms are taking a low-risk route into the health–wealth arena by repackaging their existing products and services. For example, J.P. Morgan Chase and others are marketing existing custodial accounts as HSAs/HRAs that tap into ATMs, checking accounts, debit cards, interest-bearing deposits, and mutual funds. In addition, they are cobranding debit cards with health plans, offering transaction processing and providing credit for health-care expenses. Among the more aggressive players today is Fidelity. Its new Health and Wealth group builds on the decision-making tools and provider ratings produced by its partners, WebMD and Health Dialog, to augment its core retirement planning with health advisory services.

There has also been movement on the health-care side. UnitedHealthcare is actively pursuing an integrated offering through acquisition, organic business development, and strategic partnerships. UnitedHealthcare acquired CDHP specialist Definity Health, insurer Golden Rule, and IT solutions provider Claredi to form its Exante Bank subsidiary, and partnered with MasterCard, Discover Card, and credit card processor TSYS. WellPoint recently announced that it was seeking an industrial bank charter to become a custodian and transaction processor for HSAs/HRAs. And the Blue Cross Blue Shield Association just received federal approval to create a bank to administer HSAs/HRAs.

Many other players, however, are sitting out the early stages of the health–wealth convergence — and that's a mistake. With the retail market still fairly unformed, a measure of restraint is certainly prudent; we estimate that there's breathing room for the next five years. But the opportunities to capitalize on new business opportunities are growing even now.

For financial-services organizations, HSAs/HRAs and other products offer opportunities for new high-margin income streams; account and service fees; interchange fees; and net interest income from a spectrum of services, including borrowing and risk management. For the institution that offers a competitive individual insurance product, something that more and more consumers will have to buy for themselves, there's a huge opportunity to further cement retail relationships and lock in customers for life. And in dealing with providers, there's a particular need for services that address the heightened risks of bad debt and the increased administrative burden that the retail evolution will bring.

For health care, potential lies in new finance-related products and innovative lifelong insurance, supplemental high-deductible gap insurance, and savings products. With health plans offering such similar products and provider networks, the new offerings could be critical differentiators. And as more financial-services and health-care organizations move to partner with one another, a health plan that manages its medical costs and demonstrably improves the health outcomes of its members will be all the more attractive to potential financial-services partners.

Although existing players in financial services and health care don't need to worry about new entrants with the soup-to-nuts offerings, they will probably need to defend themselves against niche players. We expect to see upstarts carve off high-margin health–wealth businesses, just as they've already done in health care. For example, we foresee a role for independent aggregators who assemble packages of products and services tailored to particular consumer segments; eHealthInsurance has already moved in this direction, with a retail portal where consumers can compare and select health-plan coverage and get advice from licensed health insurance agents. Healthways and Matria are positioning themselves as health-care support providers that can improve outcomes and reduce costs.

Getting There from Here

The hybrid industry we envision is still years away. It will develop in tandem with the growth of the retail environment. However, leaders in both industries can and should be asking themselves a series of questions:

- Are we going to play in this space, and can we afford not to?
- If we are going to play, what strengths can we capitalize on, and where are our gaps?
- Will our offerings be comprehensive or specialized?
- Given our company's historical strengths and weaknesses, how are we going to assemble our offerings? Will we join a network? Acquire? Make or buy?

It's vital to recognize that change is coming and to see its contours. Yet the evolution of the marketplace is already under way, and smart players will begin forming their health–wealth strategies now, before it's too late. +

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