

# Consumer Driven Market Report

Specialized Research On Consumer-Driven Health Plans

## market notes...

✚ We're starting to look for a shift in health plan strategies now that **Anthem** has taken the plunge with **Alegeus**. The four major U.S. health insurers are reporting superb financial results, but it's driven by the end of Obamacare losses and HI taxes. Once that's absorbed in 2018 it's back to rising medical trend. **Aetna** for example is telling investors it sees Medicare as a huge priority now that its individual business is evaporating. Most **Blues** plans are in the same boat.

✚ The **Trump Administration** is pulling the plug on the *small group health exchanges* that went nowhere in Obamacare. But it will allow the few small firms left in the market to use their ACA subsidies to buy plans *directly from brokers*. Ironically, that's what the brokers always asked for back when it seemed like the ACA pipeline was a big opportunity – not a threat. Now that there is little possibility of the small group exchanges working, brokers are in the drivers seat...

✚ Financial planning for employees looks as if it needs to remain a workplace effort, according to the 27th Annual Retirement Confidence Survey (RCS) by **Employee Benefit Research Institute** (EBRI) and Greenwald & Associates. The 2017 results released in March indicate that three in 10 workers are badly stressed about retirement. And even though workers are mentally and emotionally worried, just four in 10 have tried to figure out how much money they will need in retirement. Source: *Healthcare Trends Institute*.

✚ Old CDH websites are being upgraded in droves by the two largest CDH portal firms, which now serve over *55 million* users. A detailed review and analysis in this issue finds that a five-year long development period makes it extremely easy for banks, TPAs, insurers and financial services firms to tap into the most-advanced platforms.

## companies...

### New Player Conduent Takes A Big Hit In 1Q

The Xerox spinoff company **Conduent** suffered a big hit in its first quarter as a separate company – but not in its HSA book and the *BenefitWallet* product. SVP **Todd Berkley** tells us the product is strong and has plans for a big expansion. There was actually no mention at all of HSAs in the company's financial report -- amid ugly declines in 1Q revenue, earnings, contracts and other indicators. But with **BNY Mellon** as custodian, earlier reports say Conduent served 20,000 HSA employer customers and managed more than 1.7 million accounts with an accumulated \$2 billion of assets. BNY Mellon's investment arm is a big investor in **HealthEquity**, **Wageworks** and **HSA Bank**.

### Acclaris Absorbed Into Towers Corporate Box

The sale of 1.4 million account Acclaris to **Towers Watson** for \$140 million two years ago left open big questions about who would run the show. *CDMR* sources report that TW has now taken over the ship and installed new management with an in-line command chain. The biggest disappointment has been the *Towers Watson Exchange Solutions* segment, which was initially the home for Acclaris but fell flat on private exchanges. Former Acclaris CEO **Dean Mason** had declared: "The convergence of private exchanges and account-based consumer healthcare administration fundamentally shifts the competitive market landscape for account-based administration services." Recently Acclaris counted over two million accounts.

Health Savings Recommendations  
for Retirement

**\$590K**

**\$260K**

for a 65-year-old couple  
RETIRING TODAY

**\$465K**

for a 55-year-old couple  
RETIRING IN 10 YEARS

for a 45-year-old couple  
RETIRING 20 YEARS  
FROM NOW

## Anthem Deal Could Give Alegeus 40 Million

A partnership deal making Alegeus the exclusive national partner for **Anthem's** CDH accounts could turbocharge the number of members using the Alegeus platform, industry experts told *CDMR*. Alegeus already serves Anthem National Accounts and a ton of its members on its platform in 43 states, and has already rolled out the solution to Anthem's affiliated plans in California, Georgia, Colorado and Nevada. Anthem currently has 40 million health plan members nationwide. With an estimated U.S. employer CDH account penetration of over 25% in recent surveys (including all account types and individuals), we project a potential user base for the Alegeus platform of 40 million-plus on full adoption, and higher if other Anthem products are added. See article for more details.

## Health Plans Wavering, But Tipping Point Nears

Two years of courting carriers is finally paying off for CDH platform firms and banks, although the road ahead is not yet a sure thing. By most accounts the majority of the nation's 500 or so state and regional health plans are still uncommitted -- even as millions of their members use HSAs and HRAs to pay claims. But the tide seems to be turning. **Alegeus** provided confirmation of a potential new era by becoming the CDH portal partner for **Anthem** last month and is likely to be tapping more big prize fish. **WEX Health** is also in the pool featuring **Kaiser Permanente**, the huge **UPMC Health Plan**, and United Healthcare's **UMR** and **Optum** along with multiple large TPA partners. A dark horse could be the new Xerox spinoff **Conduent**, which historically has served a bunch of Blues plan HSA needs.

## HSA Mythology: What Really Drives Accounts?

This Fall Interpro Publications will be publishing a major research study containing several new industry metrics and fresh look at the big picture, including projected growth in HSA investment assets, potential new markets like **Medicaid HSAs** and payment cards, and what is needed in terms of a realistic political agenda. The final product will be open architecture and rely on lots of industry expert input. The latest studies of *retirement savings trends*, HSA investment market penetration and employer attitudes are an example of how the original objectives of the HSA movement have shifted. A private workshop to discuss all this now in the planning for the Fall.

## Discovery Benefits Named Partner Of The Year

**Discovery Benefits**, a national benefits firm with extensive HSA, private exchange and COBRA benefits coverage in every state, was named *Platform Partner of the Year* by **WEX Health** in 2017. The recognition by one of the premier CDH technology firms came just one year after the company was recognized by WEX Health with a *Growth Excellence Award* in honor of its continuous growth, and two years after earning the *Market Maker Award* for reaching new heights in the consumer-driven healthcare market. **Inc.** magazine said the firm is growing over 30% a year and hit \$50 million in sales in 2015. *CDMR* will have a complete list of the other awards along with profiles in an upcoming *Focus* report on WEX Health. 📁



## financial notes...

**Wageworks** popped almost \$3 a share after reporting solid 1Q earnings and drawing many analyst endorsements. Total revenue in the first quarter 2017 reached \$125.0 million, a 44 percent increase year-over-year. First quarter 2017 GAAP net income of \$11.1 million or \$0.29 per diluted share was a 91% increase year-over-year. "Our sales pipeline has doubled year over year and our 2017 selling season is off to a terrific start as we continue to see substantial interest in our full suite of Consumer Directed Benefit offerings," the firm told investors.

**HealthEquity** Inc (NASDAQ:HQY) has earned a consensus recommendation of "Buy" from a dozen ratings firms that are presently covering the firm. Three investment analysts have rated the stock with a hold recommendation, and twelve have issued a buy recommendation. **Chardan Capital** reaffirmed a "buy" rating on February 13th. **Zacks Investment Research** raised shares of HealthEquity from a "sell" rating to a "hold" on March 4th. **CIBC** began coverage on shares of HealthEquity on March 14<sup>th</sup> with an "outperform" rating. **FIX** began coverage March 14<sup>th</sup> with an "outperform" rating. Finally, **Oppenheimer Holdings Inc.** began coverage on March 13<sup>th</sup> with an "Outperform" rating.

### Maestro Health Ushers In Industry-First Hybrid

**Maestro Health** announced "the industry's first launch of Ben Admin 2.0." which the Chicago firm says "represents a new hybrid approach to employee benefits that finally combines an engaging enrollment experience with robust eligibility management to ease the burden on HR professionals and deliver a consumer-like experience for employees. No longer is the industry dependent on paper-based processes, systems that lack support or the clutter of unnecessary and rarely used features. Say goodbye to the old way of doing benefits administration." The product was first unveiled at *HR Executive's 5th Annual Health Benefits Leadership Conference* in Las Vegas on April 19-21. For details call Rob Butler at (630) 926-7668.

### DataPath: Limited Purpose FSAs Rising As A Tool

An excellent primer on limited-purposed FSAs was published on the **DataPath** news blog that is one of the clearest, most-concise explanations we've seen. "A limited purpose FSA is a healthcare spending account that can only be used for eligible vision and dental expenses. Unlike a healthcare FSA, however, an LPFSA can be held at the same time as a Health Savings Account (HSA). When coordinated with an HSA, the LPFSA can further reduce your taxes while allowing you to allocate HSA funds to other purposes – including retirement." By eliminating the need to use HSA funds for these expenses, there is more to spend on regular medical expenses. More important, funding dental and vision expenses from an LPFSA may also allow you to keep more savings in your HSA. Over time, those additional savings can help a retirement nest egg grow larger – a major national priority.

### ConnectYourCare Optimistic About ACA Changes

"The good news is that the AHCA, as passed, places more emphasis on Health Savings Accounts (HSAs)," writes **Harrison Stone**, General Counsel and Compliance Officer **ConnectYourCare** in a letter. Many changes already passed the House. "In general, lawmakers – on both sides of the aisle - have been looking at HSAs as an option to offset rising healthcare costs. While we should expect a wide variety of changes – and plenty of spirited debate - the good news is that we're playing ball now, even if we are only in the first inning." Email the author at [harrison.stone@connectyourcare.com](mailto:harrison.stone@connectyourcare.com)

## Health Plan Member EFT Payments Rising

A big expansion in online medical payments using EFT is coming as companies like **InstaMed** allow patients who are visiting linked hospitals and medical practices to pay all their uncovered bills online using EFT technology. InstaMed for example has now signed up over half of the largest medical center providers in the U.S. using the most popular HIT platform technology (**Epic**), and is just adding a fledgling consumer payments app that allows large health system patients to pay any doctor or hospital in the system directly from the device.

It's still an uphill climb to achieve rapid universal adoption, even if most doctors and hospitals are enabled for payment. Right now only a paltry one percent (1.0%) of insurance members use the most-advanced payment portals, and only in select locations. But we are aware of at least three **Blue Cross Blue Shield** plans wanting to plug in, and **UnitedHealth** is one of the biggest backers of the idea.

CDH accounts are paying all of the same providers already using much more advanced online portals and EFT integration with second and third-generation payment apps. Combined CDH accounts probably pay 90% or more of all doctors and hospitals in the U.S. for at least 50 million patients. But 150 million patients or more pay medical bills with *no pre-funding* and are probably used to it.

CDH accounts also rarely collect or display insurer data like the patient share of claims liability (EOB) or the remaining balance that the doctor sees after a payment (EOP). But the new InstaMed model is viewed by top vendors and some insurers as a great way to provide value-added services to members, and allow patients to develop a more sophisticated consumer experience like budgeting and spending tools across all payment sources. It seems right inline with Uber.

It also has some big marketing advantages. If you sign up in the app from InstaMed, there's no application form to fill out for a bank account -- you simply add your doctor or provider plus your existing checking account EFT, like your are a new iTunes customer. The app connects your insurance bill with your doctor and checking account instantly using a market-leading *totally secure server* by InstaMed.

**M**edical providers this year will receive tens of billions of dollars in direct payments from consumers *not covered by insurance* using direct payments including checking accounts, cash and EFT (cards). The majority of payments are not through a CDH bank account or credit card. But CDH accounts are making a big dent. HSAs for instance now hold \$52 billion in assets with a high percentage disbursed to pay medical bills using cards, and FSAs pay maybe \$20 billion in medical bills. Direct pay is rising.

And it's not at all clear if these are even competing approaches. They might even feed off each other. If most or even all consumer medical payments are some day made online using EFT, for instance, customer service and innovation will drive market share and products. EOBs and EOPs may become buggy whips. So the biggest players which gain dominant market share will likely stay on top -- just like Uber and Amazon -- even with different strategies. ☞

**SPECIAL** Millions of patients are experiencing higher out-of-pocket costs and higher deductibles, slowing U.S. national health spending and making account-based plans viable. But it has also created the widespread demand for the "tools" envisioned by pioneers. In response, the CDH technology platforms are reaching new heights in market adoption – and achieving the original goals of the 'movement.' A two-part special report begins on p. 3.

## Customized Sites See Productivity, Innovation Boost CDH Platform Leaders Reach Record Support

Dozens of first-generation CDH websites created during the early years of the HSA-HRA-FSA growth era will be replaced in 2017 by their owners and designers with new, advanced state-of-the-art portals. In most cases the new technology was developed by the market-leading national firms specializing in CDH platforms and cloud-based connections: Alegeus (MA) and WEX Health (MN). Other firms are also seeing new growth, but on a smaller and more limited scale.

In almost all cases the users of the new technology see no change in brand – the same familiar logo appears for the same bank, TPA or health plan. But they see a massive shift in how they interact with account-based plans -- like dozens of new features and advanced analytics for both the user and the site owner and operator.

CDMR's preliminary estimate is that up to 100 million consumers will be linked to one of the two largest firm's portals by 2020. As much as 75% of all CDH accounts that are accessed online by web or mobile will be using an advanced consumer-driven technology from these two national vendors, and the remainder from smaller firms.

This year the embrace of new CDH industry consumer portal standards is faster and deeper than ever. Conversions to the new platforms now crosses all account ownership segments, including regional and national banks, hundreds of large and small TPAs, and a big slice of the health plan and insurer markets nationwide.

Maybe the biggest driver of adoption in the two market leaders is the fact that their products are white-labelled, and thus extremely adaptable to existing legacy websites and brands -- without changing sponsor. Another huge advantage is that the providers of the technology never compete with the sponsor -- neither of the two dominant firms sells directly to employers.

That avoids any conflict-of-interest and allows more universal adoption. All payers and benefit administrators can adopt the technology and customize it, so even companies like national financial services firms can upgrade in the same markets as competitors. In effect, the new technology is a massive *national upgrade* of the fastest-growing health benefit designs in the health insurance market -- FSAs, HRAs, HSAs and account-based plans.

The two major companies that overwhelmingly dominate the wide-scale adoption curve both launched over five years ago and have each undergone extremely-detailed testing and product development. Some smaller firms have also advanced to a high standard, but in a smaller space and across a smaller footprint. And more and more of those firms have become partners or clients.

As a practical matter, the companies that now offer advanced, cloud-based consumer healthcare technology are really driving the adoption rate of HSAs, FSAs and HRAs and other accounts. The "consumer experience" from using these new platforms and tools is in effect the product, and potentially all payers and consumers will see this medium as the message as adoption spreads.

In our view this is one of the great success stories in the business of health care payment technology, and deserves special focus. CDMR has thus visited the annual company events for both firms for the past five years and observed their evolution. Here is a short summary of our notes, and what the companies themselves are emphasizing (text in quotes comes from company materials or public releases).

## Alegeus: Explosive Growth, Big Carrier Tested

The Alegeus clients at this year's 2017 conference were greeted by a huge array of new platform enhancements, allowing the new and existing platform adopters to deliver a superior customer experience. The event included industry perspectives and CDH product strategies from a bunch of industry thought leaders, and showcased best practices and strategies to optimize client use of the platform.

Some highlights of the new platform capabilities announced by Alegeus at the event: 1) an enhanced member portal that is more intuitive and engaging, 2) slick new features such as voice recognition capabilities in its mobile application that are designed to make the experience easier for consumers, 3) comprehensive new engagement capabilities that enable clients "to engage the right consumer, at the right time, with the right message, through the right channel" to influence behavior, 4) expanded analytics capabilities to allow clients to better benchmark their performance, and 5) increased partnership focus on sales/marketing support for Alegeus clients.

"These new innovations will allow Alegeus clients to add value to every individual consumer interaction. The design and functionality is flawless, reflecting years of underlying development."

Alegeus is the largest CDH technology provider today, supporting over 40 percent of the CDH benefit accounts including HSAs, HRAs, FSAs and wellness incentives, plus dependent care and commuter accounts. Alegeus' impressive roster of clients includes some of the largest health insurance plans, third-party administrators and financial institutions -- who administer health benefit accounts and process more than \$9.1 billion in consumer healthcare payments annually. Alegeus had a record-breaking sales year which included wins from several marquee clients who are seeing tremendous growth and adoption from their current base -- more than 40% growth in HSAs on their platforms in the last twelve months.

With the unveiling of the new engagement platform at this year's conference, Alegeus engagement capabilities include unparalleled tools to help clients analyze customer data, uncover strategic insights and deploy powerful engagement strategies to influence consumer behavior -- driving outcomes such as maximizing adoption/account funding, optimizing account usage, and maximizing consumer satisfaction. "With one platform and one consumer experience for all benefit account types, Alegeus enables clients to simplify business operations, reduce costs, and improve participant satisfaction using its time-proven algorithms that are built into the model."

Alegeus says it has had particular success with larger TPAs and health plans, with a proven record that it can land a major national account. Its biggest win this year was a new exclusive partnership with **Anthem**, the second-biggest health insurer in the U.S. by sales. Alegeus has been working on the deal for over two years and won the national award based on its performance with the Anthem national accounts business. Four state markets are also online, and CDMR is predicting they will net more than 10 million users from the deal.

This makes Alegeus bigger than WEX Health on key size metrics, although both companies have significant market share to dominate the space. Alegeus powers more than 30 million consumers and is the CDH connection for 250,000 employer groups whose administrators have taken advantage of the Alegeus end-to-end solution. And WEX Health reports it serves 225,000 employers and 24 million consumers.

## WEX Health: Making It Easier For The Millions

WEX Health partners got many treats at this year's 2017 partner conference, including dozens of upgrades mixed with a surprising expansion of the types of partners using the platform and a well-organized series of technical discussions and product insights.

WEX Health (formerly Evolution1/Lighthouse1) was focused early and heavily on the key interface between HSA bank accounts and the end user, allowing the client to customize everything. That paid off. The company now says its platform is under rapid adoption by multiple major banks and financial services firms, many of which were present for the first time at the annual partners event.

*Nine out of the top 20 HSA providers use WEX Health Cloud.* Some of the biggest names in HSA banks use WEX Health technology as a base to interact with accountholders. The WEX Health mobile app has also been a core development priority, even back when mobile apps and cloud technology were new and controversial. That has paid off big time: eight out of the top 10 HSA apps in the Apple App Store, and two-thirds of the top 100 apps handling HSAs accounts are powered by *WEX Health Mobile*. This plays particularly well with new users, as they are able to easily switch from older apps to a new standard.

Another set of WEX company statistics shows how fast this achievement has borne fruit. Between 2011 and 2016 the number of employers whose administrators are using the WEX Health platform rose from 25,000 to a stunning 225,000 employers. The number of U.S. consumers using the WEX Health platform skyrocketed from two million to 24 million. And the value of CDH health benefits managed by the *WEX Health Cloud* rocketed from \$2 billion to \$14.5 billion.

WEX Health's parent company is strongly benefitting. Its Health and Employee Benefits Solutions segment grew 33% last quarter, entirely through organic growth, including a newly-acquired Brazil unit that is booming. In the U.S. market, WEX Health counted 16 new partner and cross-selling sign-ups in the 1Q alone. The Health business unit in the U.S. just saw its largest enrollment season ever. Spend volume year-over-year increased by over 23% last quarter as onboarding and overall usage had scale throughout the partner base.

WEX says it experienced continued strength in all partner types, and signed a number of key wins including *Bravo Wellness* that provides wellness reward cards to **Capital Blue Cross**. A recent product release which focused on partner enhancements is designed to provide both new features for enhanced usability and cost savings for partners. These include updates to the employer dashboard which

give partners unique insights into customer behavior and consumer directed healthcare accounts, all from user-friendly graphs and reports that WEX Health has standardized and perfected. WEX also added superb data analytics enhancements to help employers benchmark their performance and offerings.

## ANALYSIS End-Game Of Consumer-Driven Health Starts With Understanding The Original Goals

Fifteen years ago when we first researched the new theoretical concept of 'consumer driven health care' the world was a different place. Virtually all medical claims were paid by consumers using paper checks, and after receiving a mailed invoice from the provider. The idea of account-based health plans was years off in the future.

In those days a few early and very crude 'PC programs' did allow manual data entry of your claims and showed displays on the screen. But the employer or insurer still paid most of the cost of care – and the patient had no idea of or influence on the actual cost, let alone the impact on savings or the ability of families to finance care.

The original early adopters of the CDH concept – four startup companies now long-vanished – had varying views of what the product should be. But they all agreed on two main features: (1) use of a bank account like a medical savings account (MSA) circa the early 90s prototypes, and (2) linking these old accounts to "the Internet" and "computers" using new applications that had yet to be invented.

This linkage was the core design. It was described as a sort of 'turbocharged MSA.' The thinking was that MSAs had failed because digital "consumer tools" were missing. The key was to *enable* the accounts by linking them to new technology and computers. How to define that technology or how it worked was almost totally unknown and undefined. But they knew it went beyond just accounts.

Today the CDH industry is nearing full realization of that crude concept envisioned by the original visionaries. A large percentage of claims are still paid by mail by consumers, but with four changes: (1) using a debit or credit card instead of a check (2) after receiving detailed payment info about the charges, (3) using their own account funds with amounts added by their employer or insurer, and (4) using cloud-based tools and AI to create longitudinal awareness. 📁

**NOTE** A full *Focus* report on Alegeus and its products was published in March and is now available at [bit.ly/2ageus](http://bit.ly/2ageus). A full *Focus* report on WEX Health will be published soon. Special thanks to the marketing staff of Alegeus and WEX Health for their assistance.

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