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New PPO, SeeChange, Tests Waters With Value-Based Design

BY CHRIS LEWIS

Given the mature insurance market and the uncertainty of federal healthcare reforms, starting the first full-blown health plan in recent memory in California might be considered an iffy proposition.

But SeeChange Health isn't an ordinary health plan. Its owners are betting their startup will carve a viable niche—first in Fresno—by offering something they say no other carrier is doing: a health plan model intentionally built on value-based insurance design model.

Table 4-1: SeeChange Health Plan Design Example—Classic 2200

Member's Share of Costs (partial list of benefits)

Feature	Standard	Enhanced
Deductible (single): in-network/out-of-network	\$2,200/\$4,400	\$2,200/\$4,400
Coinsurance	20% up to \$5,000	0%
Out-of-pocket maximum (single): in-network/out-of-network	\$3,200/\$5,400	\$2,200/\$4,400
Lifetime maximum	\$5M	\$5M
Office visits	20%	0%
Lab and X-ray	20%	0%
Hospital (inpatient and outpatient)	20%	0%
Preventive care (annual physicals, well-child, baby, etc.)	0%	0%

Source: SeeChange Health

This new industry catchphrase, known as VBID for short, can mean many things. For this new commercial PPO, it means that customers will be able to reduce out-of-pocket expenses by getting the prescribed dosage of primary, preventive and chronic care to keep them healthy as long as possible. Fundamentally, the concept is to foster proactive health management and early detection of health conditions, said Martin Watson, CEO of SeeChange Health.

“Our differentiator is that we believe that insurance has been fundamentally delivered incorrectly to the

marketplace,” said Watson, a former senior vice president of strategy for UnitedHealthcare’s product division. “Traditional insurance is all about call and claim avoidance. When you turn into a train wreck, you’ll be somebody else’s problem. We’re trying to help people identify conditions and manage them and have relationships with the doctors and lead a better life.”

SeeChange is endorsed by one of the nation’s premier promoters of value-based design, the Center for Health Value Innovation, a nonprofit group that sprang from the workplace VBID efforts of Pitney Bowes.

“It’s an activity-based coinsurance. So [employers say], ‘You do this and we’ll lower your rates.’ By lowering the rate, you’re really teaching the patient how to manage their health, which makes them a shared partner in the total health management of the company. You’re raising everybody now to a layer of shared accountability,” said Cyndy Nayer, CEO of the center.

She said what SeeChange brings to the table is a wellness incentive and care-management strategy focused on the small-group market. That may help small businesses stay in the insurance game. “If you’re trying to put a value-based design in place that will manage the person beyond prevention and screening, it can be incredibly cost prohibitive for the small employer,” she said. “What SeeChange has been able to do is to work and develop an actuarial model that makes a value-based design affordable for a small employer.”

Typically health plans and self-insured companies practicing value-based insurance design will start on the pharmacy side, lowering copays for drugs deemed most effective in treating chronic conditions, such as making statins free for heart disease patients. Because SeeChange takes a different approach, focusing on prevention and activity for health protection, it can use the coinsurance and deductible reductions to free up consumer dollars to buy needed pharmaceuticals as part of the total health management incentive.

“It’s about the total out-of-pocket costs for the patient,” Nayer said. “More people are not sick than are sick. You start at the prevention and wellness side, you’re going to influence many more people and hopefully push the diagnosis of [chronic disease] further in the future. That’s exactly what we want to have happen.”

SeeChange is owned by Triveris LLC of Minneapolis., a holding company that acquired the licenses of Central Benefits National Life Insurance in 25 states. It also owns HealthInsight, a value-based, third-party administrator that serves the self-insured market and provides value-based solutions for other payors, such as UnitedHealthcare.

Table 4-2: SeeChange Health Prescription Drug Benefit

	30-day supply at network pharmacies	Mail order
Generic drugs	\$10 copay	\$25 copay
Formulary brand-name drugs	\$35 copay	\$90 copay
Non-formulary drugs	50% coinsurance with \$200 deductible (single)	50% coinsurance with \$200 deductible (single)
Specialty pharmacy and injectables	35% coinsurance	35% coinsurance

Source: SeeChange Health

Company Maps Expansion Strategy

SeeChange aims to make its mark in the fully insured small-business market, starting in Fresno during this fall’s open enrollment season. The carrier plans to move into San Francisco by the end of the year, Los Angeles and Bakersfield the first quarter of 2010 and into Colorado and Illinois later next year. The carrier also intends to start selling in the individual market in the second half of 2010.

Watson said he'd be thrilled if SeeChange enrolled 300,000 to 500,000 customers in all its markets within five years. "We have a narrow network play, so we choose specific geographies that we're going to go into," he said.

In Fresno, the company will be competing with industry giants Kaiser Foundation Health Plan and Anthem Blue Cross, which together control about 60 percent of the fully insured commercial market with nearly 160,000 lives, according to HealthLeaders-InterStudy data as of January 2009.

The Department of Insurance, which licenses PPOs, was unable to say when the last full-service PPO was approved in California, but the Department of Managed Health Care, which licenses HMOs, said the last full-service commercial HMO was Western Health Advantage in 1997.

Fresno broker Charles Trogdon of Renberg-Trogdon Insurance Services said that in his territory, Anthem Blue Cross, Blue Shield of California, Aetna and UnitedHealthcare are battling one another for members.

"It's really exciting to see a new carrier come into California or any new market in the United States, quite frankly," Trogdon said. "For us, it will be a great opportunity, especially here in the central valley in Fresno, where we will be able to kind of lead with this product. It's different, it's timely, it has aspects that are connected to wellness initiatives, which is something you're hearing a lot about on the national scene."

SeeChange's philosophy seems to lend itself better to the traditional California HMO model that emphasizes coordinated care by physician groups taking on the financial risk of caring for members on a prepaid basis from the health plans. But because SeeChange chose to go the less-regulated PPO route, the health plan contracts with providers on a fee-for-service basis.

Building A Network For Hospital, Ancillary Services

In Fresno, SeeChange has provider contracts in place so far with Santé Community Physicians, the region's largest physician association, as well as Community Medical Centers and Adventist Health hospitals. The company is also in the process of talking to brokers and explaining its unusual approach.

For starters, Watson emphasizes that this is a full-service PPO with coverage of medical, hospital care, physical therapy, mental health and chiropractic and prescription drugs, with a lifetime maximum payout of \$5 million.

The two-tier formulary is managed by Express Scripts, which also handles all the administration and distribution of drug benefits. In general, generic medications are \$10 and formulary drugs are \$35, with a 50 percent coinsurance for non-formulary drugs and 35 percent coinsurance for specialty medications. Brand-name drugs also carry a \$200 deductible.

In one departure from the typical health plan, the company doesn't use a traditional disease management model, instead relying on the physician-patient relationship, with help from the plan's online interactive health coaching tools.

"We've got all the tools and the bells and whistles, but our main driver is, we want you to see your physician and we want you to manage your care with your physician," Watson said. "We just think it's inherently crazy to have someone in a call center 2,000 miles away calling you up working off the claims data. It's ludicrous."

The health plan distinguishes itself by its incentives built into the three coinsurance and three deductible designs.

For instance, the Classic 2200 has a 20 percent coinsurance after the \$2,200 deductible and caps an individual's yearly out-of-pocket medical expenses at \$3,200. Members can get their coinsurance down to zero and reduce their annual exposure to \$2,200 by doing three things. They must see their physician for annual

routine wellness visits, sign up for biometric screenings to gauge their health status and complete a health risk questionnaire in conjunction with an online personal health record. In addition, the carrier puts \$200 every year into a ‘health incentive account’ for the member to use for out-of-pocket medical expenses.

If a member is diagnosed with a chronic condition, he or she gets incentives to help manage the disease. For instance, diabetics are expected to get regular blood-sugar screens and regular eye and foot exams. Their HIA is doubled to include \$400 for out-of-pocket expenses.

Putting Emphasis On Preventive Care

Watson said the business model is predicated on the knowledge that prevention saves money in the long run. For instance, catching a colon cancer at stage one, where there are typically no symptoms, will cost about \$10,000 less a month in treatments than a stage three or four.

“Everyone is going to face some sort of issue at some point of time, so we believe it makes sense, because we’ve done the math, that we’d rather have you go and see your physician and try and identify any chronic conditions as early as possible,” Watson said. “We provide richer benefits so if you do have chronic conditions, we try to incent you to take care of your condition.”

Trogdon said it’s not unusual for carriers in the small-group market to encourage preventive care by covering such services at no or low cost, but he said no carrier is taking it to the level of SeeChange, that is, correlating proactive care directly to reducing the insured’s expenses.

Trogdon said he has been working with SeeChange on its Fresno market strategy and intends to train other brokers on the product. He said brokers are generally cautious until they’re assured of the company’s financial backing and stability, but he has no doubt that SeeChange is a serious player.

Table 4-3: Cancer—Costs Of Treatment By Diagnosis Stage*

	Cervical Cancer	Breast Cancer	Prostate Cancer	Colon Cancer
Early stage per month	\$1,350	\$1,327	\$1,100	\$1,032
Late stage per month	\$6,816	\$9,352	\$4,500	\$10,610
Difference over total treatment course	\$65,594	\$96,306	\$40,800	\$114,936

*Example is for a plan with 75,000 members

Source: SeeChange Health

But he said pricing will make or break its success among employers. Trogdon said he has yet to see the premium package, and Watson was vague on the subject of price, saying the product will be competitive in the market.

Trogdon isn’t too worried about the price. Hospitals are usually the underlying drivers of the medical trend, he said, and Fresno area hospital fees are still very reasonable. Also, California small-group rating laws limit rate variation among carriers. “They’re going to have to be in one of the Blue’s price ranges or very close. I believe that’s their target,” Trogdon said. “I think they’ve got a pretty good bead on where they have to be to be competitively.”

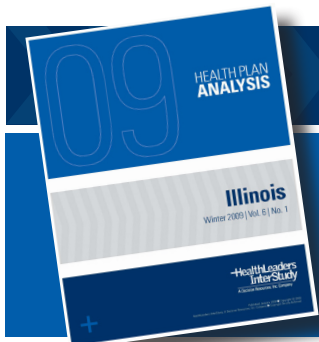
Small-business brokers have seen carriers dangle carrots before—such as lowered premiums, fully covered preventive care and general health savings accounts—only to sharply increase prices a year later. Watson said as a new company, SeeChange is able to focus on medical management up front, which should help rein in costs and keep premium trends from getting way ahead of the consumer price index.

“We’re a new company that has a much lower cost administration platform, and we’re factoring in right from the get-go a significant increase in benefit utilization,” he said. “A [legacy] carrier doesn’t always think about,

‘What’s my existing cost structure and medical loss ratio?’ ... To introduce a product that would actually have you see a physician is totally counter to how they’ve been operating on a legacy basis.”

Outlook

As the first full-blown health plan in recent memory to launch in California, SeeChange knows it must distinguish itself to get a toehold in the state’s mature insurance market. Its unique value-based design business model gives something for brokers to talk about to clients in the Fresno area. SeeChange is wise to start slowly and plot gradual expansion. Its success will depend a lot on pricing, the buzzword of small business these days. ■



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