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CDH Research and Trends

“A Financial Services Perspective”

Speakers:

***Kirsten Trusko, Banking Insurance Group
Practice Lead – Banking***

***James Dean, Banking Insurance Group
Practice Lead - Insurance***

BearingPoint's CDH and Health Banking Practice:

4 years, 55+ projects across Health, Banking, Employer clients

- Supporting success across CDH value chain: banking, insurance, health payor, health provider, employer, government, market investors, vendors/processors
- M&A support of Private Equity, Venture Capital, and vertical market clients
- 55+ engagements in this market over the past 4 years
- Deep financial services expertise, with executives from: retail/commercial banking, payments, investments, cards, ACH, etc
- Business models developed for each CDH value chain player
- Active thought leadership: industry speaking, writing, panels, boards, media
- Knowledge across CDH and medical claim software vendors and processors – bringing independent unbiased perspective.
- Tool kit as accelerators: current research, vendor analysis, ideation, operational roadmap tools and collateral
- Deep experience supporting Healthcare product development, implementation, process improvement and operational readiness
- Health care expertise with background in underwriting, claims payments, managed care, provider relations, and health sales
- Project/Change Management expertise
- Extensive Business Process Requirements/Process Redesign knowledge, Vendor analysis/selection
- Experienced team providing Third Party Application Integration/Development, Data Mapping / Conversion, and System Build and Testing



Overview

- Trends in Healthcare
- Key Trends in Consumer Driven Healthcare
- The Numbers
- Leading Practices and Coming Trends
- Summary



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Health Market Trends Related to Payments

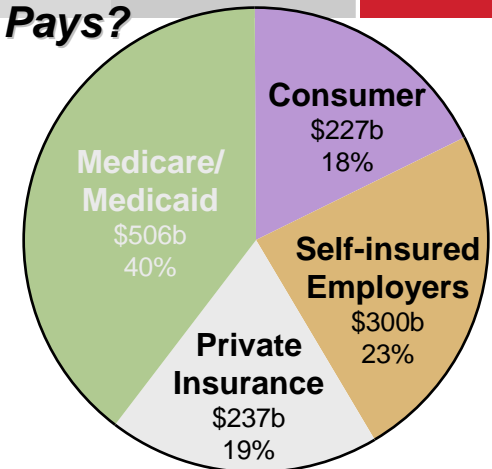
Consumer out-of-pocket spend is increasing,
both in traditional and in new CDHPs

What is happening in today's healthcare marketplace?

Sustained healthcare cost increases outpace wage/inflation; legislation changes; employers demanding a change

- Healthcare is the largest sector of the US economy
- Employers state that healthcare is one of their top three business concerns
- Nearly 16% of the US population is uninsured due to rising costs
- Some state governments are enacting legislation to require employers supply health coverage to employees (or pay into a central state fund)
- Employee contribution to health premiums has reached \$3281 per family
(Kaiser Family Foundation 2007 Health Benefits Survey)

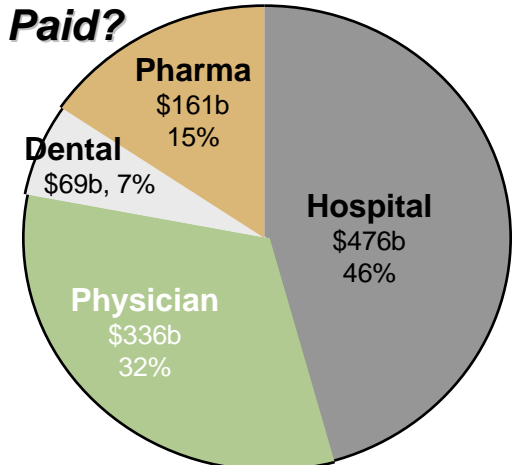
Who Pays?



\$2.2 trillion projected Health Related Expenditures in 2006



Who Gets Paid?



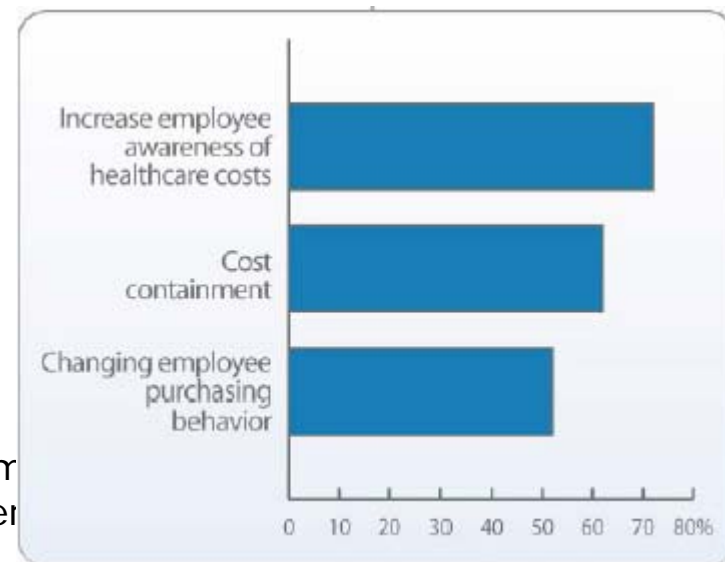
Employers state that healthcare is one of their top three business concerns

Rising cost of employee health premiums

- Health insurance premiums have grown dramatically faster than inflation or wages over the last several years
- Employers state this as one of their top concerns
- Labor unions are striking over health costs

Desire to “get out of the health business” and empower employees to choose

- The fastest growing market for HSA/HDHP products is group coverage, which has grown from about 20 percent of the CDH market in September 2004 to approximately 60 percent in January 2006
- In particular, the large-group market for HSA/HDHP plans has grown from a very small share of the market in AHIP's September 2004 survey to 33 percent in January 2006



Frequently Cited Employer Expectations for CDH

Recent legislation drives growth of CDH: HDHPs and HSAs

Tax Relief and Healthcare Act of 2006 (signed 12/06)

Federal

- Expands Funding for HSAs
 - Allows existing FSA/HRA/IRA funds to be rolled into an HSA and “anytime” funding
- Expands Annual Limits on Contributions
 - Repeals annual deductible limitation on HSA contributions
 - Repeals pro-rating contribution limitation
- Expands Ability to Help Lower Paid Employees
 - Employers able to make additional contributions for lower-paid workers

Massachusetts and California Health Reform Plans

State

- In MA, businesses with > 10 employees must pay a “fair and reasonable share” towards healthcare (if don’t offer health plan, must contribute \$295 per worker annually to state purchasing pool that helps EEs get coverage). In CA, businesses would pay 4% of their payroll, up to a limit.
- Subsidized coverage offered to low income residents

Fewer uninsured



More HDHPS



More HSAs



Increased Deposits

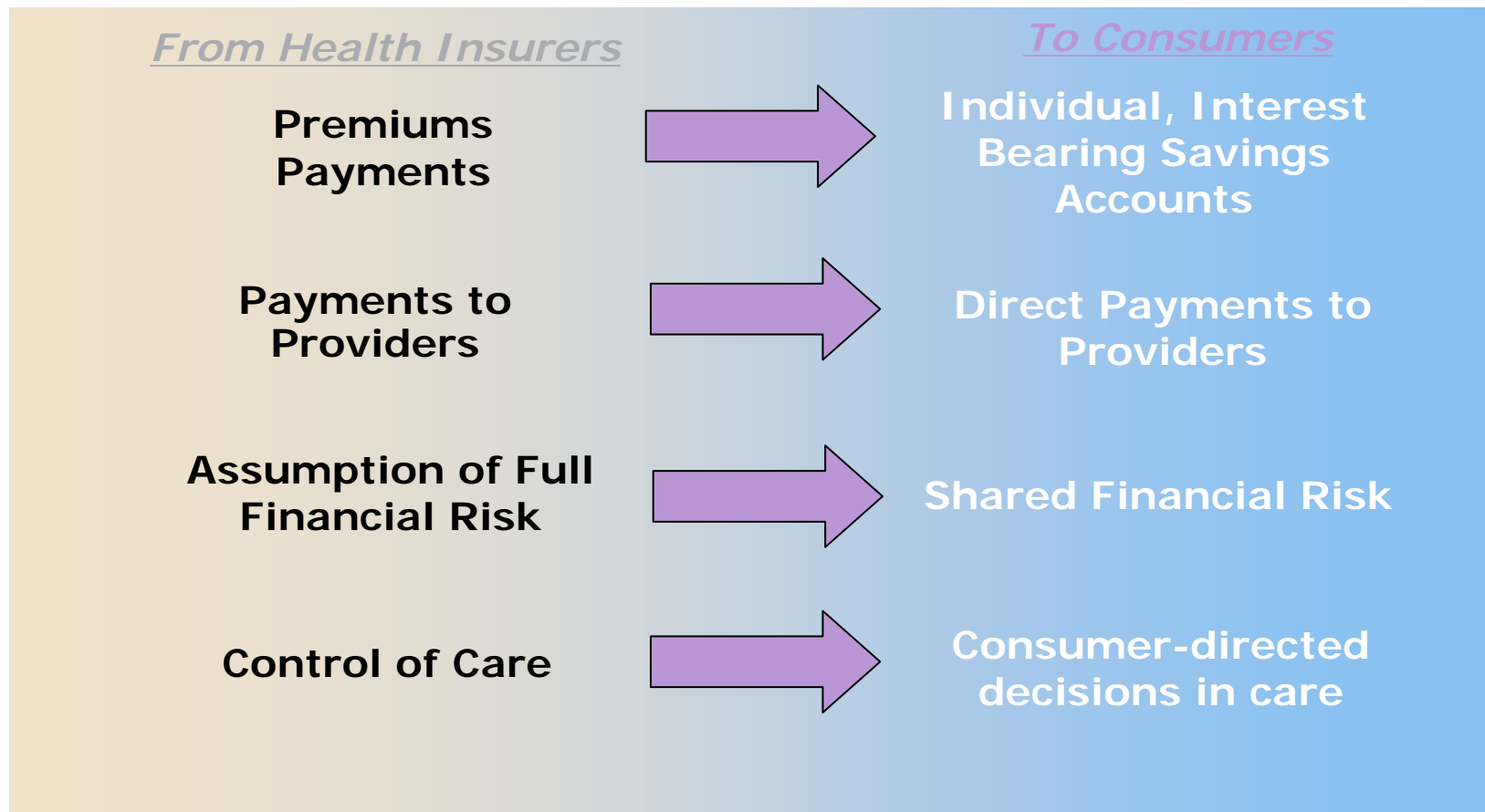


Greater accumulation of balances



CDH is Driving the Need for a New Financial Services Offering

CDH is consumerism in health: greater knowledge, decision making and pricing transparency



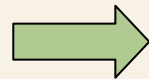
Employers and Consumers Have Spent Decades Defining Selection Criteria

Traditional insurance was purchased based on a set of well defined criteria

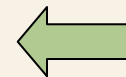
Carrier Offering

Decision Factors

Traditional Insurance offering



Employer And Participant



- Premium
- Deductible
- Coverage
- Network quality
- Claim Service
- Cost Reductions

Increased Out-of-Pocket: Drives new Considerations for Employers and Consumers

With increased financial responsibility, risk control and financial planning become key parts of the health plan decision making process

PARTNERSHIP

Insurance HDHP
(high deductible health plan)
offering

+

Financial Services Account Offering



Employer And Participant

Now, Health plan decisions will also be based on managing consumers' increased financial risk and responsibility

TOTAL CRITERIA

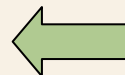
OLD- Decision Factors

- Premium
- Deductible
- Coverage
- Network quality
- Claim Service
- Cost Reductions

+

NEW- Decision Factors

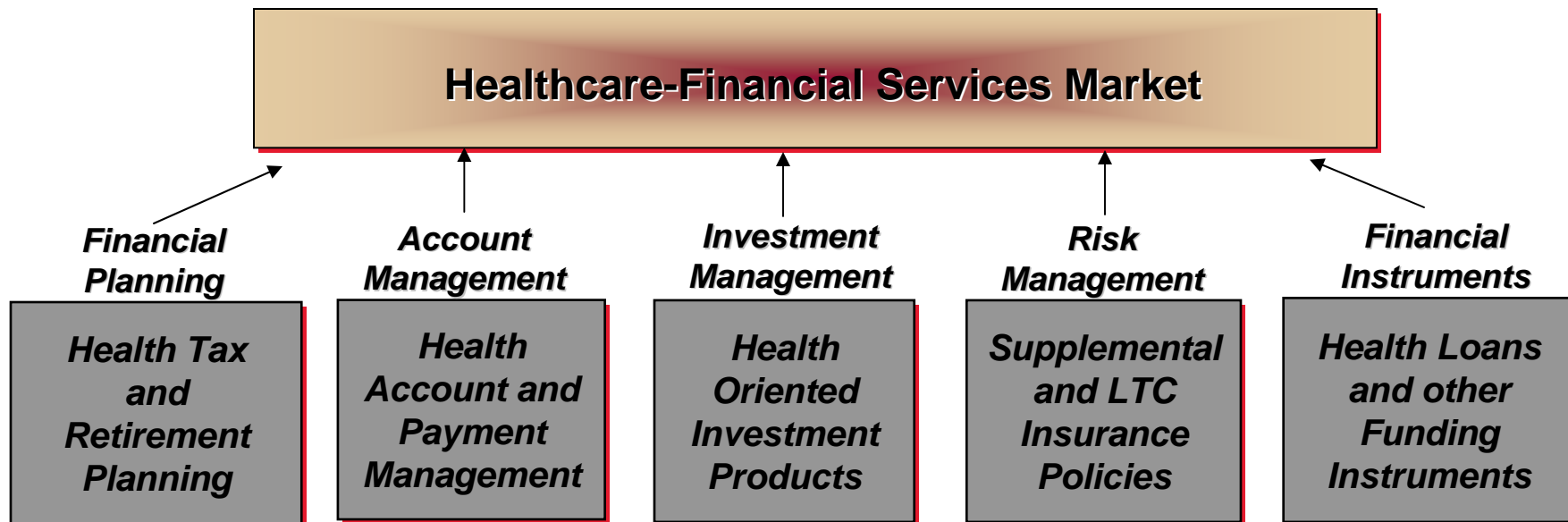
- Medical financial planning
- Tax implications
- Account management
- Financial risk protection
- Investment options
- Retirement health planning
- Shared contribution



Increased Out-of-Pocket is Driving Needs Across Many Financial Products

Increased consumer financial responsibility is driving a need for new offerings to:

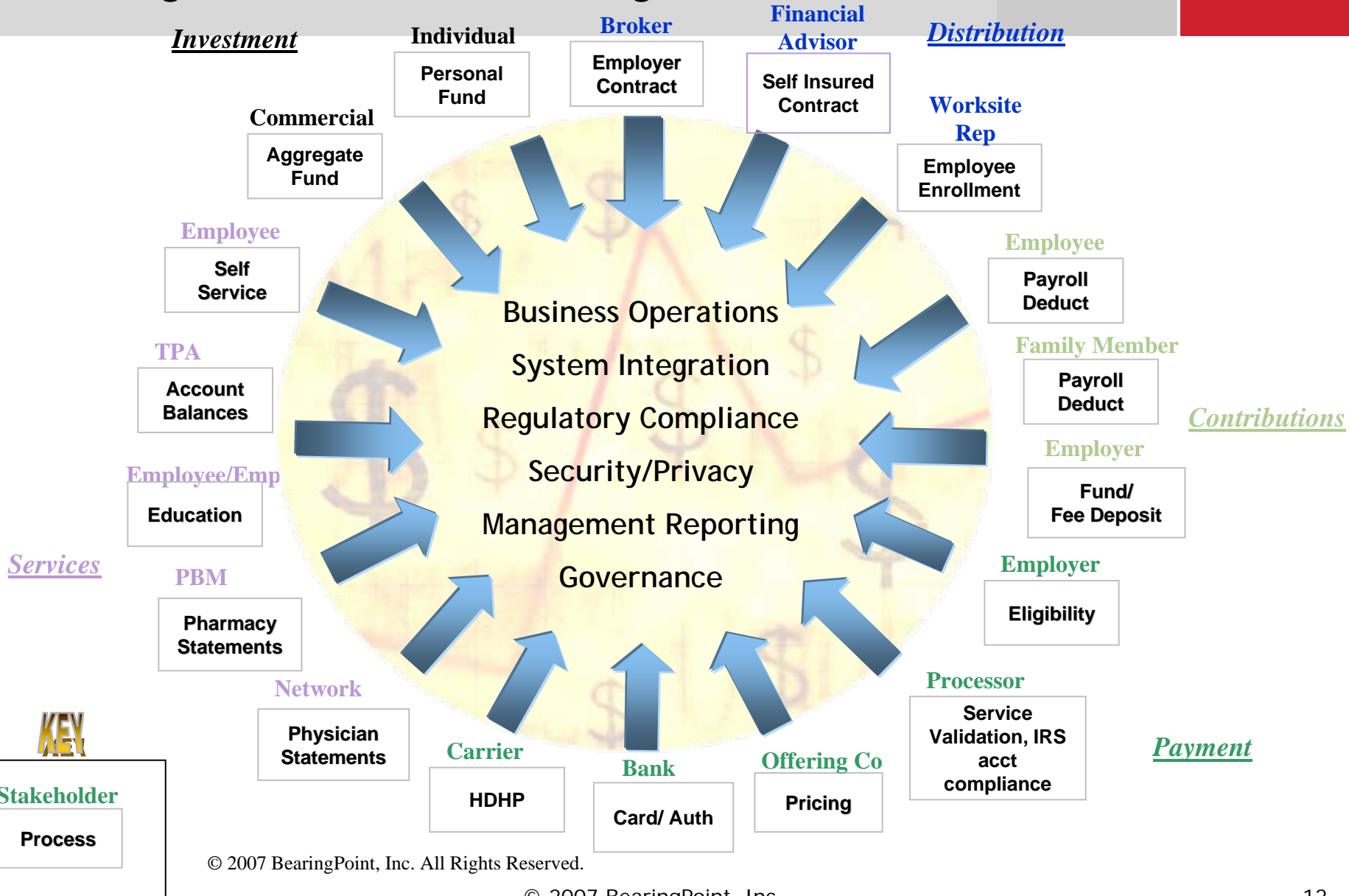
- **Mitigate and manage their financial risk for health care**
- **Plan for health spend/save needs now and into retirement**



Consumers can fund these new accounts from savings in premiums and from employer contributions (also funded by program savings)

Consumer Driven Healthcare

A Convergence of Health, Banking, Insurance





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Trends in Consumer Driven Healthcare

Increased consumer out-of-pocket spend is
been increasing, across traditional plans and
HDHPs

HSAs as part of standard offering:

"Over the past four years, just about every major health insurer has launched some type of account-based consumer-directed health coverage. Over the next couple of years, we'll see every major financial firm add HSAs to their product portfolios," says ICDC Managing Editor Steve Davis." (Source: AIS Health.com, "At Least \$1.5 Billion Held in Health Savings Accounts, ICDC Reports", 8/29/06)

"...financial asset management firms will spend heavily to advertise the benefits of the HSA as an investment instrument, directly competing with banks for these account dollars". Mercator. HSA Growth in Uncharted Waters 5-07

Universal Coverage and CDH:

"Universal coverage, HSAs and HDHPs should be able to work together in any number of combinations" Uwe Rhinehart, Princeton University, ICDC 1-27-07

"The idea of universal health insurance is probably only possible through health care consumerism...While "universal" typically is used to describe a single-payer, government-run system, it also could be describe a market-based system" Ron Bachman, president and CEO of Healthcare Visions, Inc., and a senior fellow with The Center for Health Transformation.

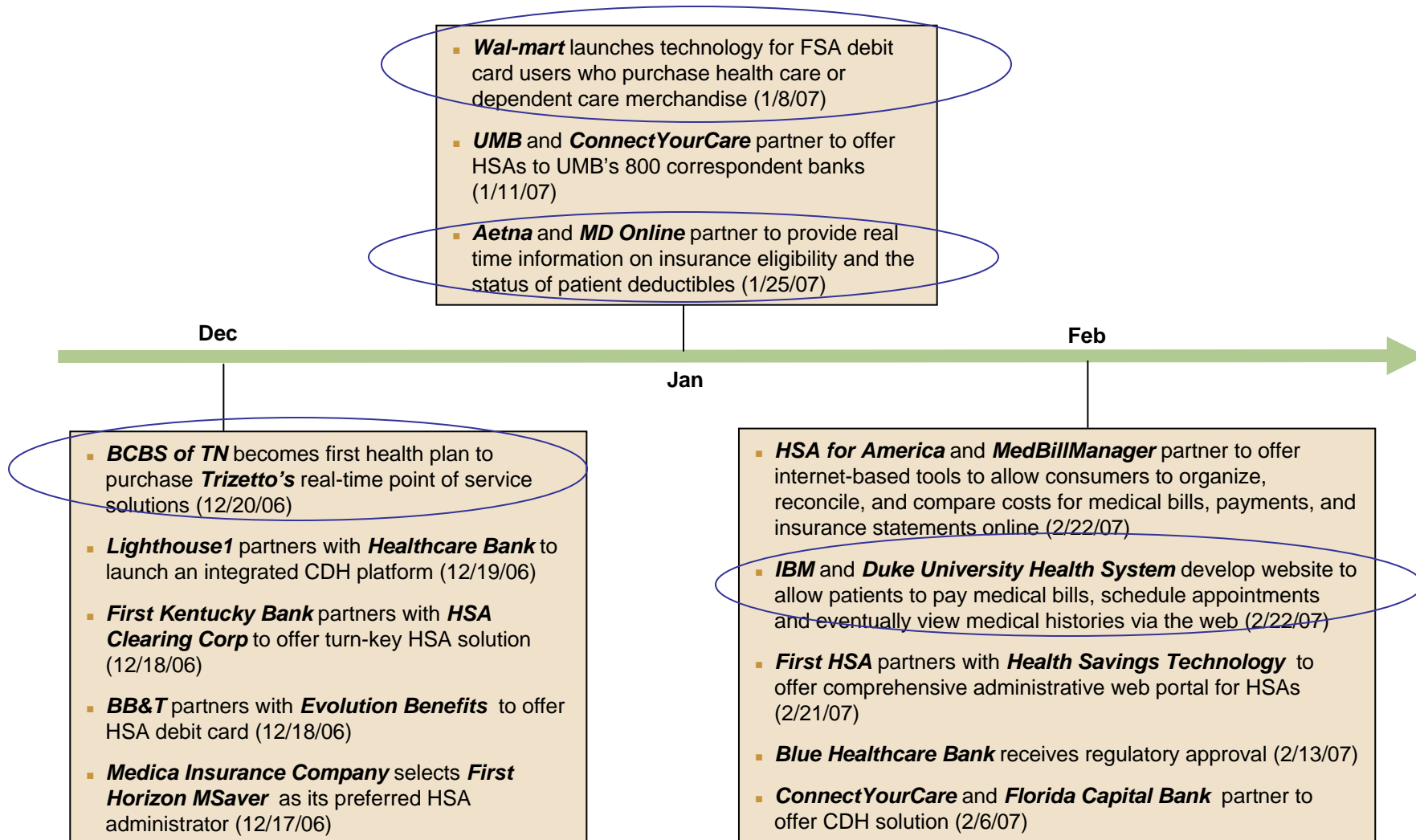
"Account-based plans also could play a central role in state initiatives to broaden health coverage", Alexander Domaszewicz, Mercer Human Resource Consulting.

Sovereign Bancorp Inc. of Philadelphia says a new universal health-care law in Massachusetts has stoked HSA business there. American Banker 6-25-07

“Not since the creation of the individual retirement account in the mid-1970s has such a potentially huge mountain of money landed in the lap of the financial services industry”. WSJ 1-27-06

Corporate Investment

FS/Health Alliances: Dec '06 -Feb '07(sampling)



FS/Health Alliances: Mar '07 -May '07 (sampling)

- *Ben-e-lect* and *Group Link Inc.* partner to introduce first employer-driven, high-deductible dental plan in Colorado (4/27/07)
- In response to consumer demands, *Exante Bank* is offering three new HSA accounts designed for a specific type of consumer (4/30/07)
- *HealthMarkets Inc.* works with subsidiary *The MEGA Life and Health Insurance Company* to launch a HSA-compatible plan, *CareOne Select HSA*, as well as empower consumers to compare the cost and quality of health care services (4/30/07)
- *Henderson State Bank* works with *HSA Clearing Corp.* to launch new HSA product with no minimum balance, an HSA debit card and an HSA checking account with no monthly or annual fees, as well as *HSANebraska.com* (4/30/07)

Mar

Apr

May

- *Sovereign Bank* and *Finity Communications* partner to launch *Sovereign's* new online Health Savings Account (HSA) Learning Tools for health insurance brokers, employers and employees (3/26/07)
- Texas hospitals and *Texas Price Point* develop website that allows consumers to learn the sticker price for common medical procedures ahead of time (3/28/07)

- *National Planning Holdings Inc.* partners with *Millennium Trust Company* to offer *FlexHSA* Health Savings Accounts (5/15/07)
- *Massachusetts Business Association* and *Sovereign Bank* partner to make *Sovereign Banks'* Health Savings Accounts available to *MBA* members (5/16/07)
- *Evolution Benefits* partners with *The Bancorp Bank* to offer Health Savings Accounts with the *Benny Prepaid Benefits Card*, that also coordinates with other benefits (5/17/07)
- *Huntington National Bank* chooses *Fiserv* to offer Health Savings Account (HSA) services to the individual and business customers the banks serves (5/21/07)
- *HSA Clearing* and *brokersXpress* partner to launch *HSAs Financial--a* turnkey HSA brokerage solution for credit unions (5/23/2007)

FS/Health Alliances: Jun '07 (sampling)

Jun



- *The Bank of New York Company, Inc.*'s Pershing Unit partners with *HSA Bank* and *Millennium Trust Company, LLC* to provide customers with access to Health Savings Accounts (6/4/07)
- *Guardian* launches pre-paid MasterCard debit card and web tools to facilitate use of healthcare Flexible Spending Accounts (6/5/07)
- *HSA Trustee Services* offers small businesses Section 125 Plan with HSA enrollment (6/6/07)
- *ConnectYourCare* launches multi-bank solution for national and multi-regional health plans and national employers giving health-plans a competitive advantage by enabling plan sponsors to leverage existing bank relationships for HSA deposits (6/20/07)
- *Misys* healthcare systems enters strategic partnership with *OCS, Inc.* to offer predictive modeling capabilities (6/26/07)
- *Aetna Inc.* reached a deal with the *HR Policy Association*, which represents nearly 250 large corporations, to offer a retiree medical coverage program (6/25/07)
- *JP Morgan Chase* partners with *McKesson* to provide healthcare related claim and payment processing solutions (6/21/07)
- *Canopy Financial* expands solutions to support all CDH account types (6/19/07)

Aggressive M&A Activity over Last 18 Months

Date Announced	Buying Company	Acquired Company	Amt in USD	Buyer: Primary Business	Strengths Purchased
Jan-07	PayFlex	Flexamerica	Not disclosed	TPA	HAS Administrator
Jan-07	The Thurston Group and ABRY Partners	Companion Technologies (BCBS of SC)	Not disclosed	Venture Capital Firms	Healthcare Technology Company
Nov-06	3M Health Information Systems	SoftMed Systems	Not disclosed	Healthcare Software providers	Health Information Systems Management Solution Provider
Nov-06	McKesson Corporation	Per-Se Technologies Inc.	\$1.8 B	Healthcare Services and Information Technology Company	Financial and administrative healthcare solutions for hospitals, physicians and retail pharmacies
Nov-06	WebMD	Subimo	\$60 M	Healthcare Information Services Provider	Healthcare decision support tools for employers, health plans and financial institutions
Nov-06	CVS	Caremark	\$21 B	Retail Drugstore Chain	Pharmacy benefits manager
Oct-06	Fiserv Health	Innovative Cost Solutions	Not disclosed	Processor	Healthcare claims resolution company
Oct-06	Trizetto Group Inc	Plan Data Management Inc.	Not disclosed	Healthcare Information Services Company	Revenue enhancement software and administrative solutions provider for Medicare and Medicaid payers
Sep-06	Trizetto Group Inc	Quality Care Solutions Inc. (QCSI)	\$133 M	Healthcare Information Services Company	Healthcare payer technology company
Sep-06	Bank of America	Heath Logic Systems Corporation	Not disclosed	Bank	Software provider focused on automating claims and billing processes in the healthcare industry
Sep-06	DST Systems	Amisys Synertech	Not disclosed	Transfer Agency	Healthcare software providers and BPO
Aug-06	Sage Group	Emdeon Practice Services	\$565 M	Business Solutions Software provider	Practice Management System software solutions
Jul-06	WebMD Health Corp.	Medsite	\$41M	Health Plan Information Provider and Platform	Physician relationship management platform
Jun-06	CIGNA	Star HRG (division of Health Markets Inc)	Not disclosed	Health Plan	Limited benefit health insurance plans, additional supplemental insurance products
May-06	Ingenix (United Health)	NWH	\$54M	Health Plan	Clearinghouse
May-06	PayFlex	Denver Reserve Corporation	Not disclosed	TPA	TPA Administration (expand footprint)
Apr-06	PNC	Healthcare Administration Technologies	Not disclosed	Bank	Clearinghouse
Jan-06	Fiserv	Caregain	Not disclosed	Processing	CDH platform, access to wellness tools, connection to PBMs

2006 HSA Adoption:

Rollover, Diversity, Uninsured, Savers

“Savers” are beginning to comprise more and more of the HSA market. As of an October ’06 survey, on average, 55% of HSA balances were being carried over to the following year.”

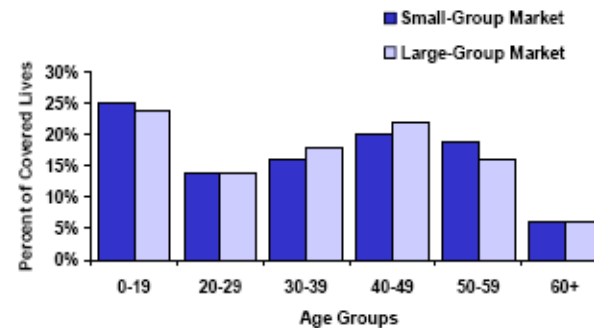
HSAFinder, 01/07

Figure 5. Percentage of HSA/HDHP Policies Purchased by Companies That Previously Did Not Offer Coverage



Companies responding to this question reported HSA/HDHP enrollment of 209,000 lives in the small-group market.

Figure 6. Age Distribution of People Covered by an HSA/HDHPs, Employer Markets



Data as of January 2006

“Darren Baer, first vice president, Mellon Corp... projects that 50% of Mellon’s health savings account holders could be long-term savers, with 5% not using any of the money until they retire”

Steve Garmhausen, American Banker, 09/06





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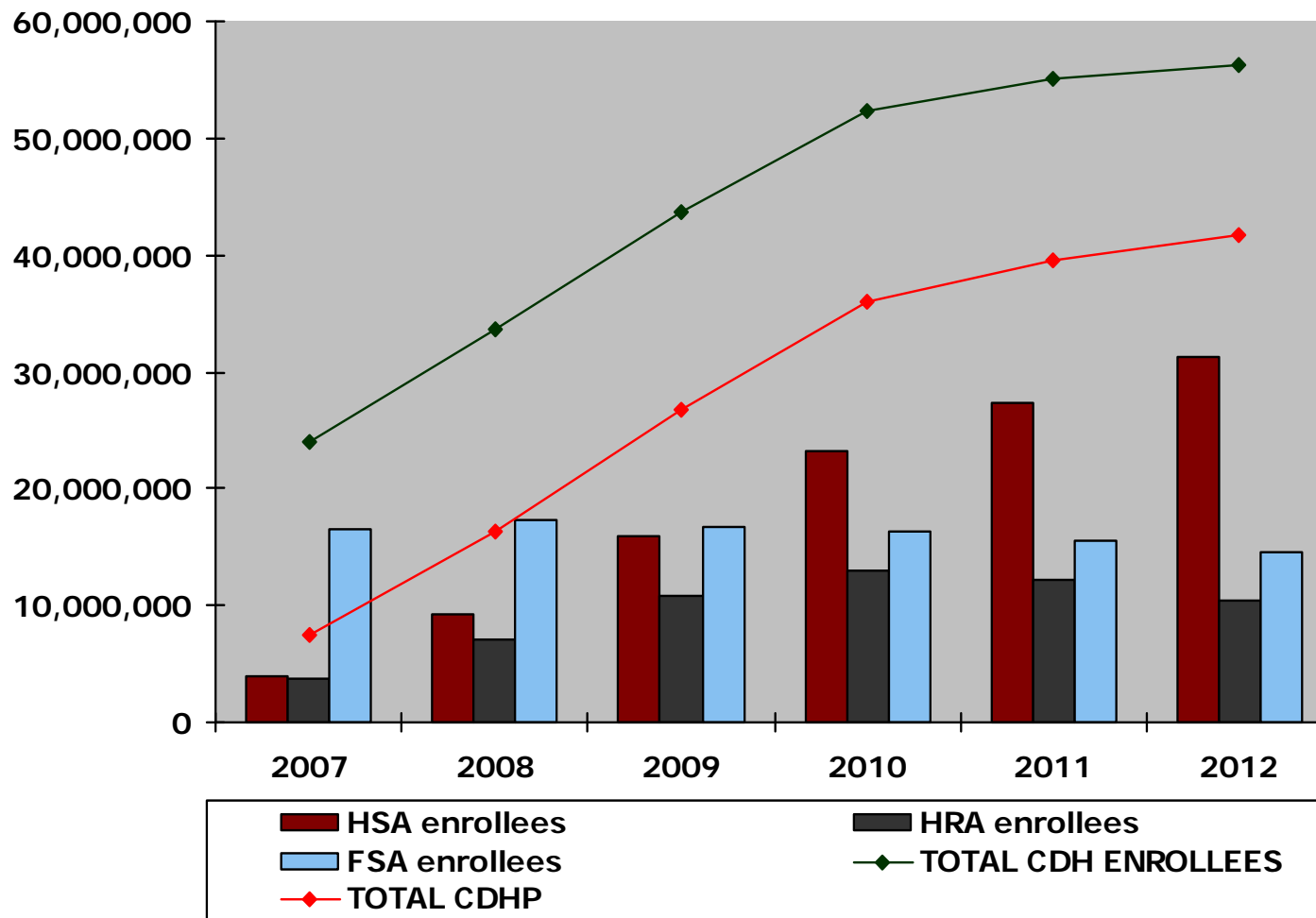


The Numbers

With Health as the largest industry in the US,
Banks are now seeing opportunity and are
creating divisions/offerings specific to health



Forecast: By 2012 ~ 60M CDH accounts



NOTE:

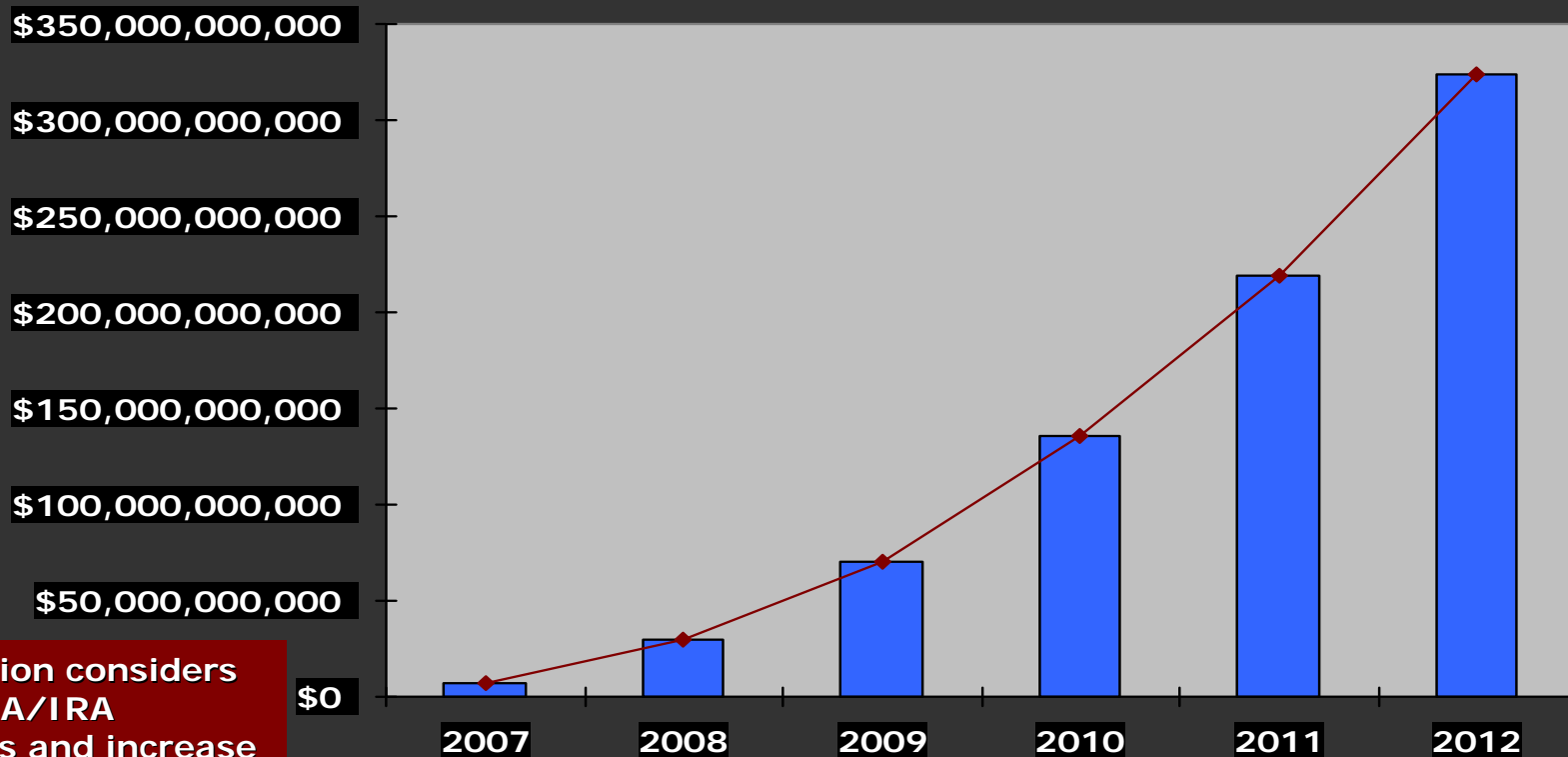
- **CDH includes:** HSA, HRA, FSA
- **CDHP includes:** HSA, HRA

Sources: Leading Research Firm, US Census Bureau, Kaiser Family Foundation, Aetna, eHealthInsurance, Employers Council on Flexible Compensation, Mercer, CFO.com, Benefitnews.com, 100 Best MerchantAccounts.com, Federal Reserve, ISI, Forrester, US government reports/agencies BearingPoint SME, others

Forecast of Total HSA Deposits

2012 ~\$325B: HSA total deposit values (Contribution + Investments)

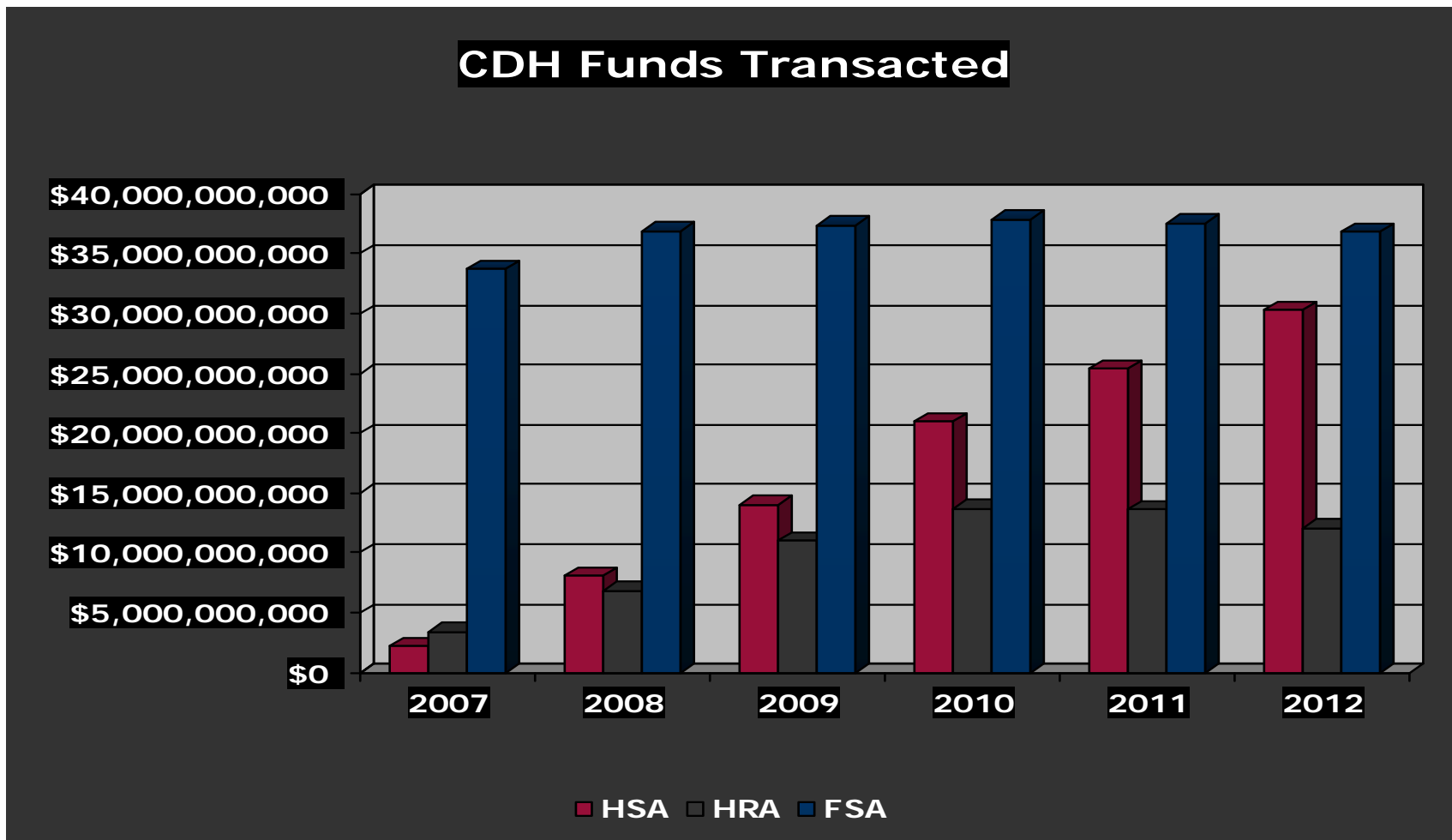
HSA Total Deposit Value



Legislation considers FSA/HRA/IRA rollovers and increase in contribution limits

Projected CDH Funds Transacted

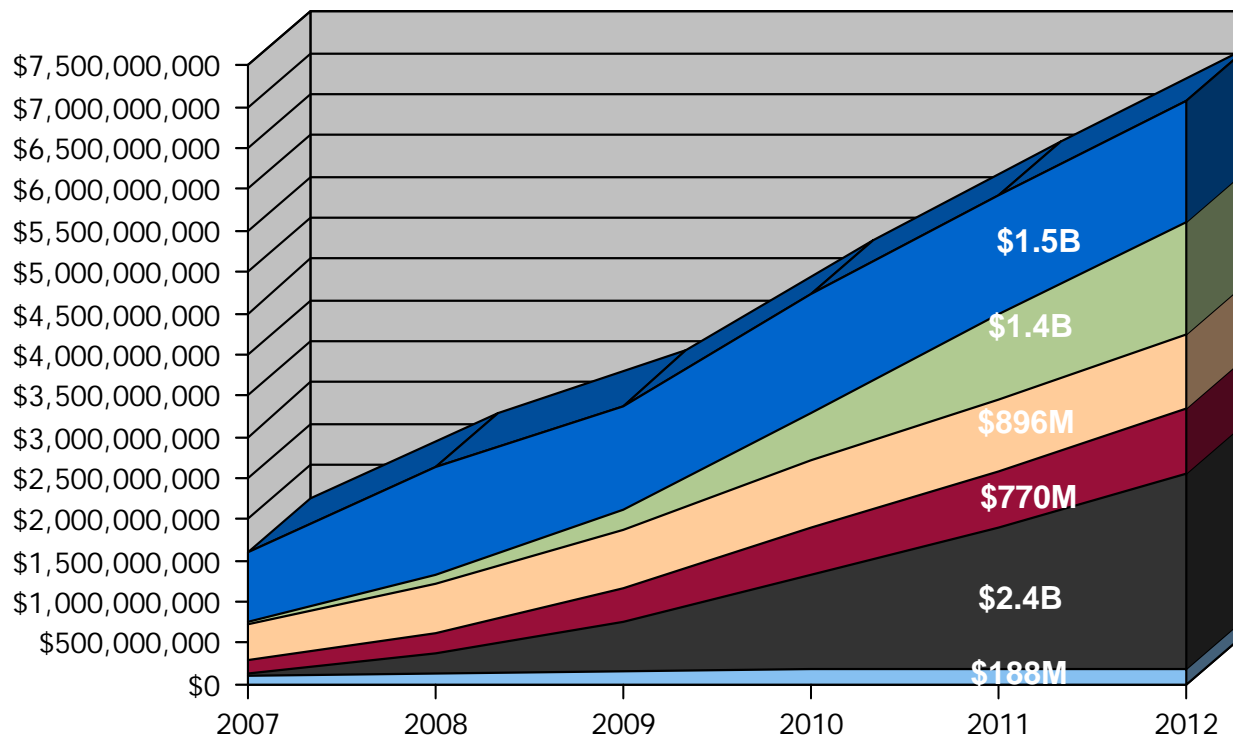
CDH funds transacted could top \$79B by 2012



Sources: Leading Research Firm, Forrester, US Census Bureau, Kaiser Family Foundation, Aetna, eHealthInsurance, Employers Council on Flexible Compensation, Mercer, CFO.com, Benefitnews.com, 100 Best MerchantAccounts.com, Federal Reserve, ISI, BearingPoint SME

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Forecast: CDH Financial Services Revenues



■ CDH Transaction Fees
 ■ Investment Management Fees
 ■ DDA Spread
 ■ Interchange
 ■ Loan Spread Revenue
 ■ CDH Account Fees

Annual Revenues could exceed \$7.0B by 2012

Sources: Leading Research Firm, US Census Bureau, Kaiser Family Foundation, Aetna, eHealthInsurance, Employers Council on Flexible Compensation, Mercer, CFO.com, Benefitnews.com, 100 Best MerchantAccounts.com, Federal Reserve, ISI, Forrester, US government reports/agencies BearingPoint SME, others

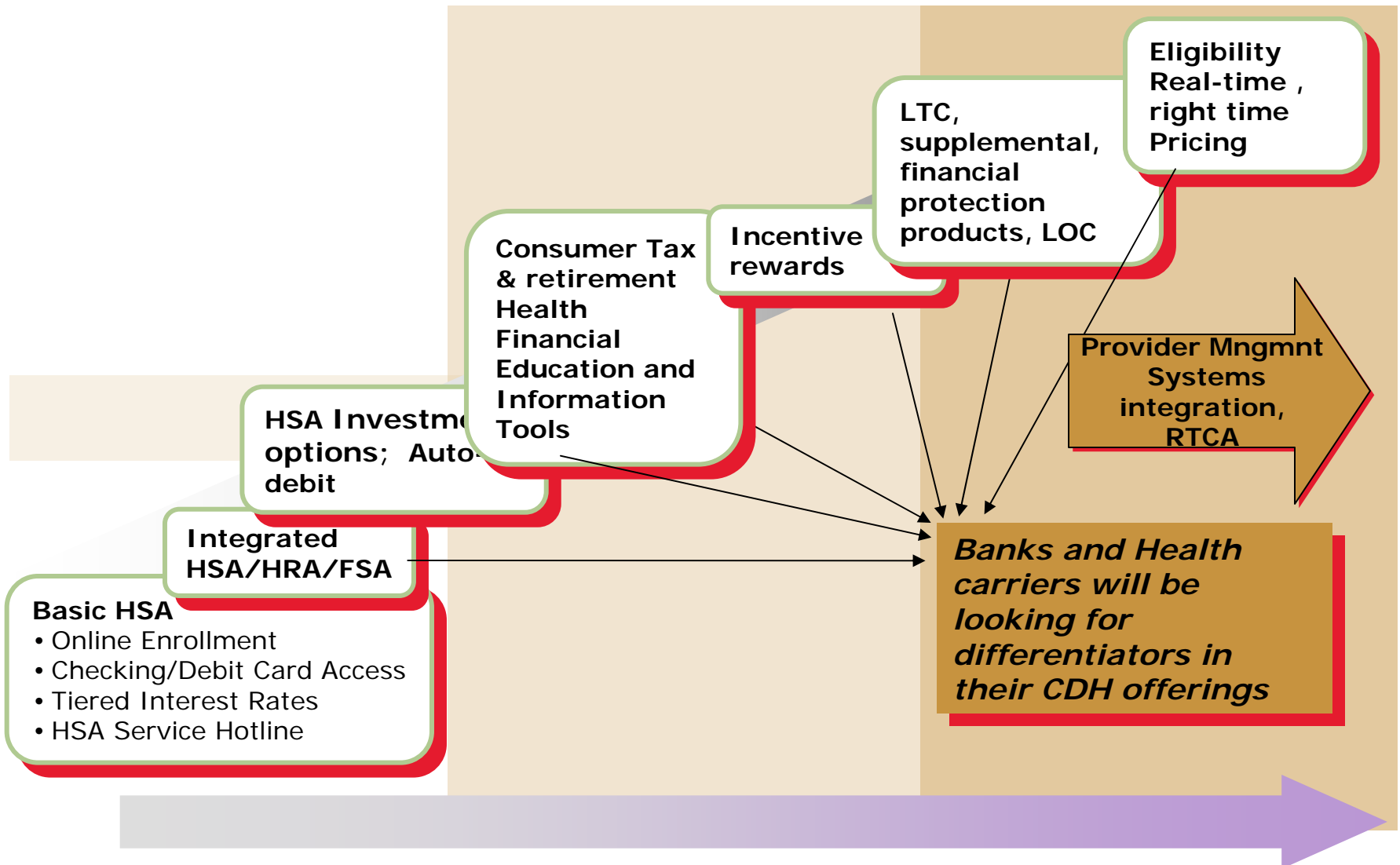


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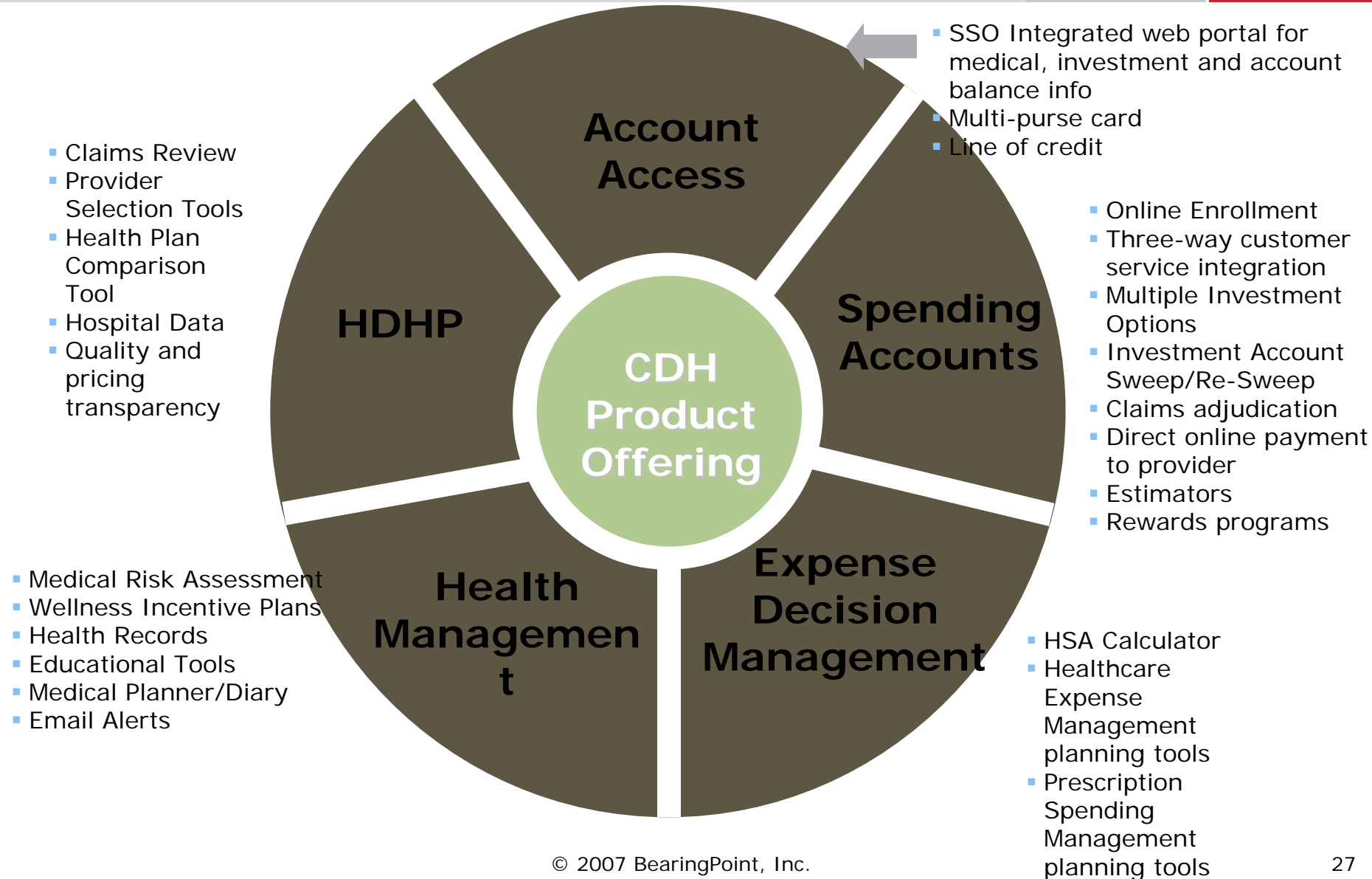
Leading Practices and Coming Trends

**What are employers and carriers seeking and
what should you look for in a financial services
partner**

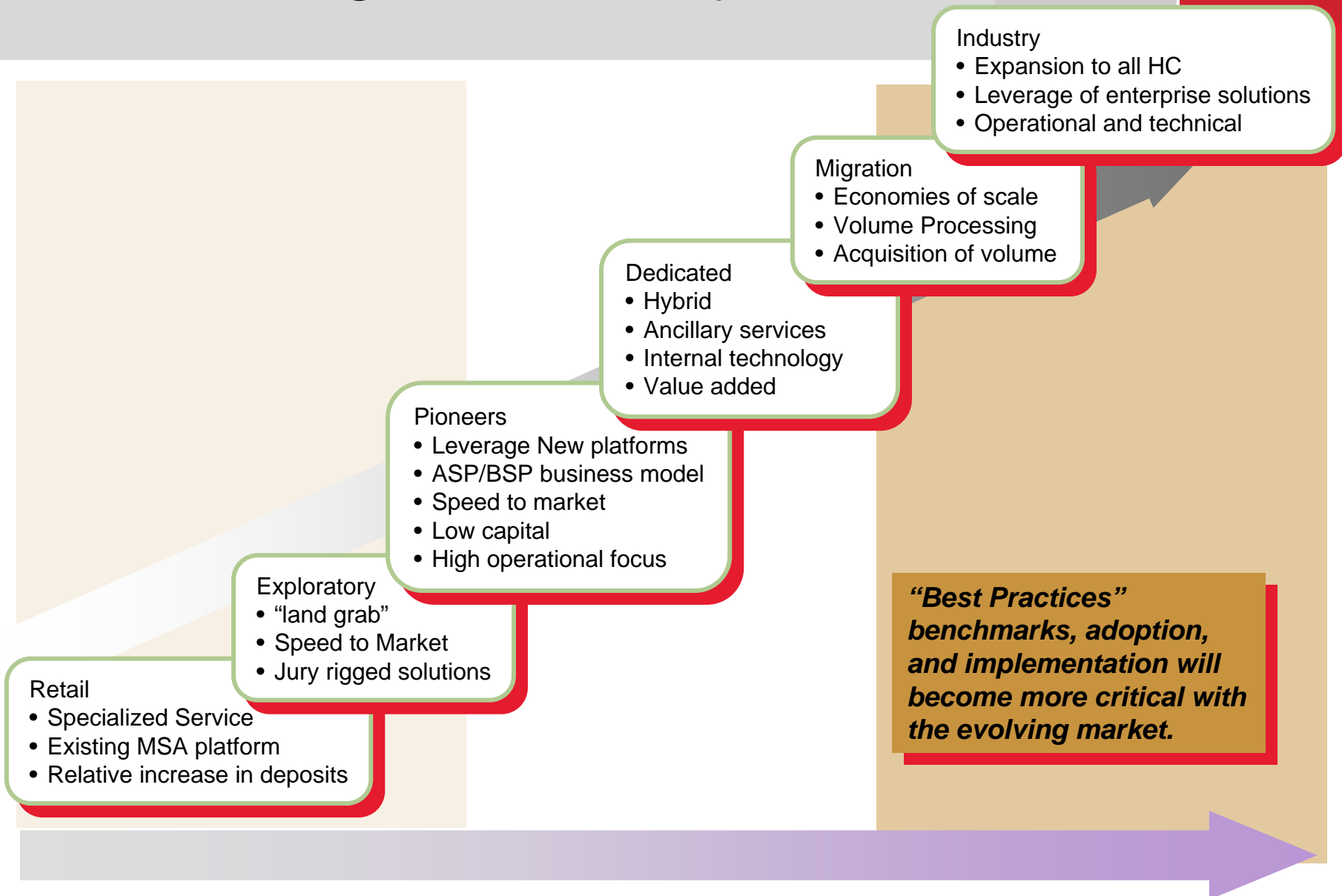
Product Evolution



Leading Competitive Product Features in Consumer Health Finance



Improving Profitability



Banks' Health Offerings – well beyond HSAs

In recent years, banks have entered the healthcare market with an increasing number of products, including CDH offerings, medical lockboxes and provider receivables products

Health Care Offering	ABN AMRO	Bank of America	Citi	Exante	Fifth Third	HSA Bank	JPMC	Mellon	PNC	Principal Financial Group	UMB	US Bank	Wells Fargo
Healthcare Division	X	X		X	X		X		X		X	X	
CDH Offering (either FSA, HRA, HSA)	X	X	X	X	X	X	X	X	X	X	X	X	X
Online Enrollment	X	X	X	X		X		X	X		X	X	
Checking Account	X		X	X	X	X	X	X	X	X	X	X	X
Debit Card	X	X	X	X	X	X	X	X	X	X	X	X	X
Investment Options	X					X	X	X	X	X	X	X	X
Wellness Tools	X			X		X						X	
Overdraft Protection/LOC				X		X							
Supplemental Insurance		X											
Medical Leases	X	X			X		X		X			X	X
Medical Loans	X	X			X		X		X			X	X
Purchasing Card for Providers							X						
Merchant Services		X					X					X	
Receivables Management	X	X					X		X		X		X
Claims Payment/Remittance	X	X		X	X		X						
Medical Lockbox	X	X					X		X		X		X
Collections							X		X				

Executive Summary

- **Employer supplied US health benefits are morphing from defined benefit to defined contribution programs, similar to the 80's with retirement funding**

- **Employers are demanding change to gain control over health expenses...costs which some say are affecting US business' global competitiveness**

- **Legislation at the State level (eg Mass, CA) is driving growth of HDHPs. Federal legislation has been ahead of the financial market's ability to act (eg increased deposit caps, any time funding, etc)**

- **Entrants to the HSA market have been broad and varied, including 1200+ banks, insurance companies leveraging their banks, and non traditional financial firms**

- **HSAs are attractive to financial institutions on multiple fronts:**
 - 60mil new consumer accounts, driving new revenues and cross sell opportunities
 - Stickiness to top employer and carrier core banking clients
- **HSAs can be viewed as similar to 401ks and IRAs:**
 - Are often employer sponsored/co-funded, employee funding comes from payroll deduct
 - Used for retiree health savings (30% of retirement savings is projected for health spend)
 - Tax advantaged individually owned accounts
 - Are moving an area of employer benefits towards defined contribution vs defined benefit

Contact the Speakers

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