

Content from HealthLeaders-InterStudy's  
Mid-Atlantic Health Plan Analysis, Winter 2009, Vol. 9 No. 1:

March 5, 2009

# nHealth Charts New Way With Separate Physician Deductible

BY JAN SHUXTEAU

In these rough economic times, Virginia small employers are taking a close look at the consumer-driven health plan first offered in 2008 by nHealth, a new Virginia-based insurer. Coupled with a health savings account, the high-deductible nHealth plan has lower premiums than other CDHPs because of its approach to physician fees.

“Right now, the state of Virginia is a perfect storm for this plan,” said Becky Pollard, a broker and president of Business Solutions Inc., in Roanoke. “The premium prices for traditional plans have risen year after year. Now, people are losing jobs, going out of business or stretching dollars to maintain benefits. They’re looking for something they can get at a competitive price. That’s what nHealth brings to the table.”

Chris Nagle, managing partner of Main Street Benefits in Richmond, said nHealth brings down premium costs from 35 percent to 50 percent off traditional insurance.

The lowest deductible for a single plan is \$1,500, and the lowest for a family is \$2,500. Deductibles go up in \$500 increments—all fairly typical of CDHPs. Prescription drugs factor into the deductibles. After the deductible payments are met, nHealth covers 100 percent of in-network covered services, including prescription drugs, diagnostics, laboratory and hospital fees.

Table 5-1: Employee Health Benefits Costs By Product Type

Year	CDHP	HMO	PPO	POS
2006	\$5,770	\$6,616	\$6,932	\$6,937
2007	\$5,970	\$7,120	\$7,352	\$7,714
% increase	3.5	7.6	6.1	11.2

Source: Mercer

## nHealth Has A New Old Formula For Health Insurance

Some aspects of nHealth are not so typical. The nHealth plan takes a page from the playbooks of early health insurance models for catastrophic coverage. “In essence, we created a modern-day, private version

of Medicare Part A and B. The nHealth Part A covers hospitalization, labs, X-rays, prescription drugs and other ancillaries under one deductible. The Part B covers physicians under a separate deductible. “The unique nHealth approach to physician services has a huge actuarial impact on the premiums,” said Paul Kitchen, cofounder, president and CEO of nHealth.

He said that though insurance in general is characterized by low premiums to cover fairly rare but catastrophic events, health insurance has changed into something else. “Health insurance is now characterized by high premiums that cover a lot of low-cost services,” he said. “Sending healthcare dollars off to an insurance company to pay for routine healthcare services, especially high frequency, low-cost services, is not necessarily the most efficient use of a person’s healthcare dollars. It is also an administratively expensive and intrusive process.”

nHealth’s business model works much like homeowner’s and automobile insurance, Pollard said. With a car, for example, the owner pays for such things as oil changes, windshield wipers and tires, and insurance covers bigger things such as fender-benders and major accidents. Similarly, the nHealth member is insured against catastrophic healthcare expenses and pays directly for lower incremental bills known as the physician/provider professional services. Since the member pays the doctor directly, there are no copays.

Eliminating copays is nothing short of revolutionary, some analysts said. However, the notion of copays has only been around for the last 20 years or so, and they were equally revolutionary when created.

Leslie Rose, M.D., who owns a medical practice in Richmond and is a member of the nHealth network, said that a great deal of time and money is spent administering copays. “The expense associated for both insurance companies and consumers in complying with the copays is so large that it makes insurance cost more. I would much rather give patients the same breaks I give insurance companies and eliminate the copay. Most doctors would,” he said.

“It’s incumbent on me to be an educator to employers and employees about the cost-savings they will experience through this concept,” Nagle said. “I explain that I may go to the doctor once or twice a year, and maybe I’ll pay \$70 each time, versus a \$20 copay. But I’m not paying potentially hundreds of dollars a month more in insurance in order to have a copay.”

Kitchen said the concept of copays ignores the laws of economics, artificially lowering the cost of a valuable service. “For lots of years in health insurance, no one had copays. They were probably started to create access, but now access has overrun the system. We use a lot more healthcare than we need,” he said.

**Approaching Physician Fee Payment Differently**

The premium savings that comes with a separate deductible for physicians can be used by employers to help fund their employees’ HSAs, which nHealth strongly advises. “We tell employers to take the cash they would have spent on premiums and use it to fund the member HSA to help employees pay doctors and meet their deductible,” Kitchen said.

.....  
**“We keep doctors under a separate deductible because of their low unit cost for most services,”  
- Paul Kitchen, president and CEO of nHealth.**  
.....

“Most of the time employers are giving employees half, if not more of the \$1,500 deductible to manage their health,” Nagle said.

Kitchen, who was CEO of the Medical Society of Virginia until leaving the organization in 2007, said that most people are surprised to learn how reasonable doctor fees are. “Copays have had the effect of mask-

ing the true value physicians bring to the healthcare system. The common belief is that physicians are all rich and charge outrageous fees. It's the other things—the radiology, labs, drugs and inpatient care—that add up, not typically discounted physician fees,” he said. “Our studies show that 48 percent of all professional fees are under \$100.”

Kitchen's own experience, writing a check to pay the surgeon who repaired his ruptured patella tendon, brought this all home to him. “It was less than the check I wrote to my mechanic for transmission repair,” Kitchen said. He said nHealth covers physician expenses over \$5,000. “In the rare event that physician fees go over that amount, patients will not pay out of pocket.”

All nonprofessional bills accumulate to one deductible, Kitchen said. “We keep doctors under a separate deductible because of their low unit cost for most services. Consumers are principally responsible for paying their physicians, but doctors aren't the high-dollar expense in healthcare.”

nHealth contracted with the Virginia Health Network, a statewide rental network, to act as its provider network. “We approached Virginia Health Network because we wanted to have as broad a reach initially as we could,” Kitchen said.

Virginia Health Network physicians allow nHealth's direct-pay members the same discount they would get by going through an insurance company. Rose said doctors will agree to give direct-paying patients a discount since they would not have to wait at least 30 days for their payment from insurers.

“Accepting direct pay is a bold move for physicians because it is a subtle change in focus. Their customer is the patient, not the insurance company, and patients want to know how much things cost,” Kitchen said. “Physicians are starting to post the costs of various services, using language, not codes, that patients can understand.”

### **Handling Claims Processing And Operations**

nHealth got off the ground with the help of 70 investors, including three significant anchor investors—a PBM, an insurance company and a brokerage. nHealth had enrolled 11 groups as clients by the end of 2008.

Early in the planning process, Kitchen talked over his ideas with Jim Slabaugh, now executive vice president of sales and marketing of nHealth and cofounder of the company. Slabaugh, whose background is in employee benefits, founded Slabaugh Group Associates, now Wachovia Insurance Services. Knowing that nHealth would need an experienced claims and operation team, Slabaugh recommended ACMG Inc., an Ohio healthcare management company that had started six HMOs. nHealth later acquired the company. “With this, we owned our own infrastructure to handle customer service, claims processing, underwriting and all the functions insurance companies have,” Kitchen said.

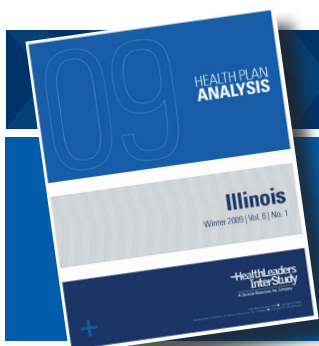
nHealth has an agreement with Fulton Bank, a regional bank, to operate its health savings accounts.

Nagle said the fact that nHealth processes its own HSA claims differentiates it from other carriers that use a third party administrator. “It may not sound significant, but I've been doing qualified high-deductible plans coupled with HSAs since they came out four years ago, and I've noticed that there has sometimes been a disjoint with other carriers that also offer traditional HMO, POS or PPO plans. The idea of creating employee consumerism—where people make their decisions about how to spend their healthcare dollars—gets lost,” he said.

When a claim comes into nHealth, it is auto adjudicated through the HSA. “Because we're the HSA administrator, we simplify file when the bill comes in to the insurance side,” Kitchen said. “We figure out what was charged, allowable, discounted and determine what the member owes Dr. Smith—say, \$100. Then, as the HSA administrator, we take the \$100 out of the HSA account and send it to Dr. Smith and send the member an EOB. This helps providers know we're committed to helping them get paid.”

**Outlook**

*nHealth took an old and tested idea, dusted it off and reinvented it with HSAs and a unique carve-out to be able to offer business owners a health insurance alternative. It's an interesting concept. A few questions arise: Is the change from copays sustainable among physicians? Will the company be successful in showing potential clients that copays drive up their overall expenditures?* ■



## Get To Know Us Better

HealthLeaders  
InterStudy  
A Decision Resources, Inc. Company

This article is just one example of the comprehensive managed care and healthcare market intelligence HealthLeaders-InterStudy delivers. To learn more about how our national and market-specific data and analysis products can meet your business needs, visit [www.HL-ISY.com](http://www.HL-ISY.com).

To purchase our Health Plan Data & Analysis reports, contact **Randy Hagopian** at **781.296.2694**.