



*Industry Convergence
Health Care & Financial Services*

Disclaimer

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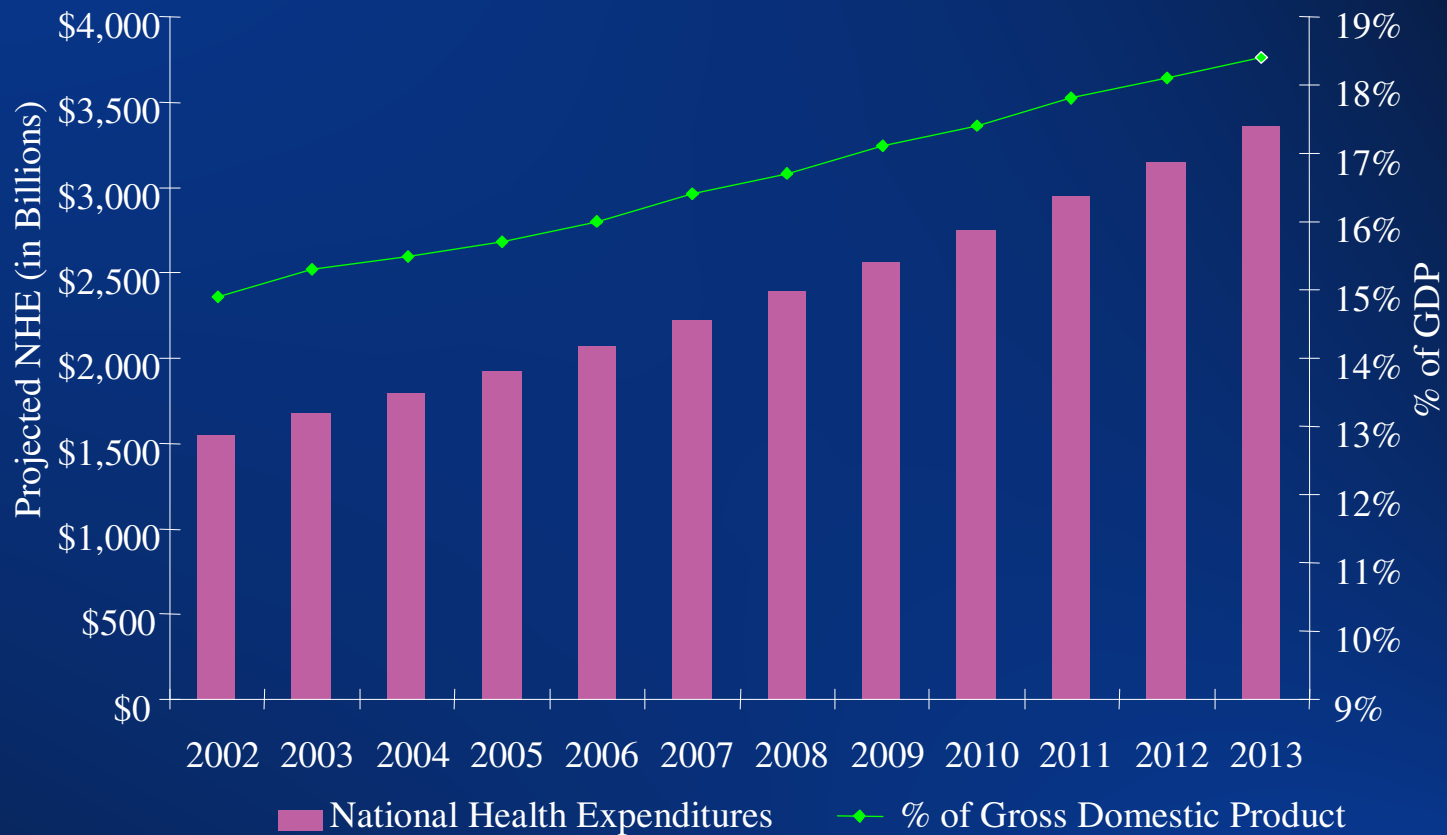
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'THAT'S IT. WE'RE RETIRING TO NEBRASKA.'

How High Are Healthcare Costs?

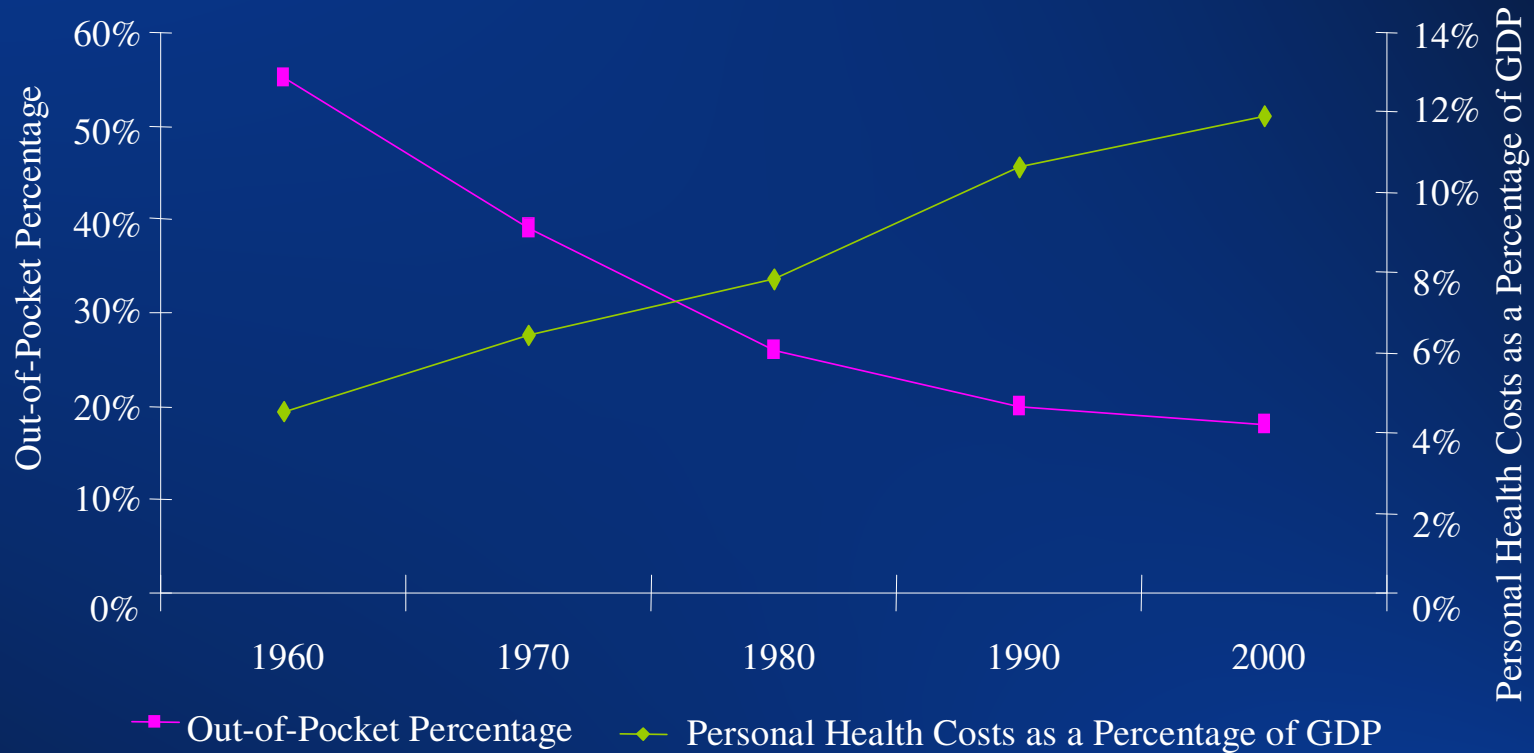
Projected National Health Expenditures



Source: CMS, "National Health Care Expenditures Projections 2003-2013".

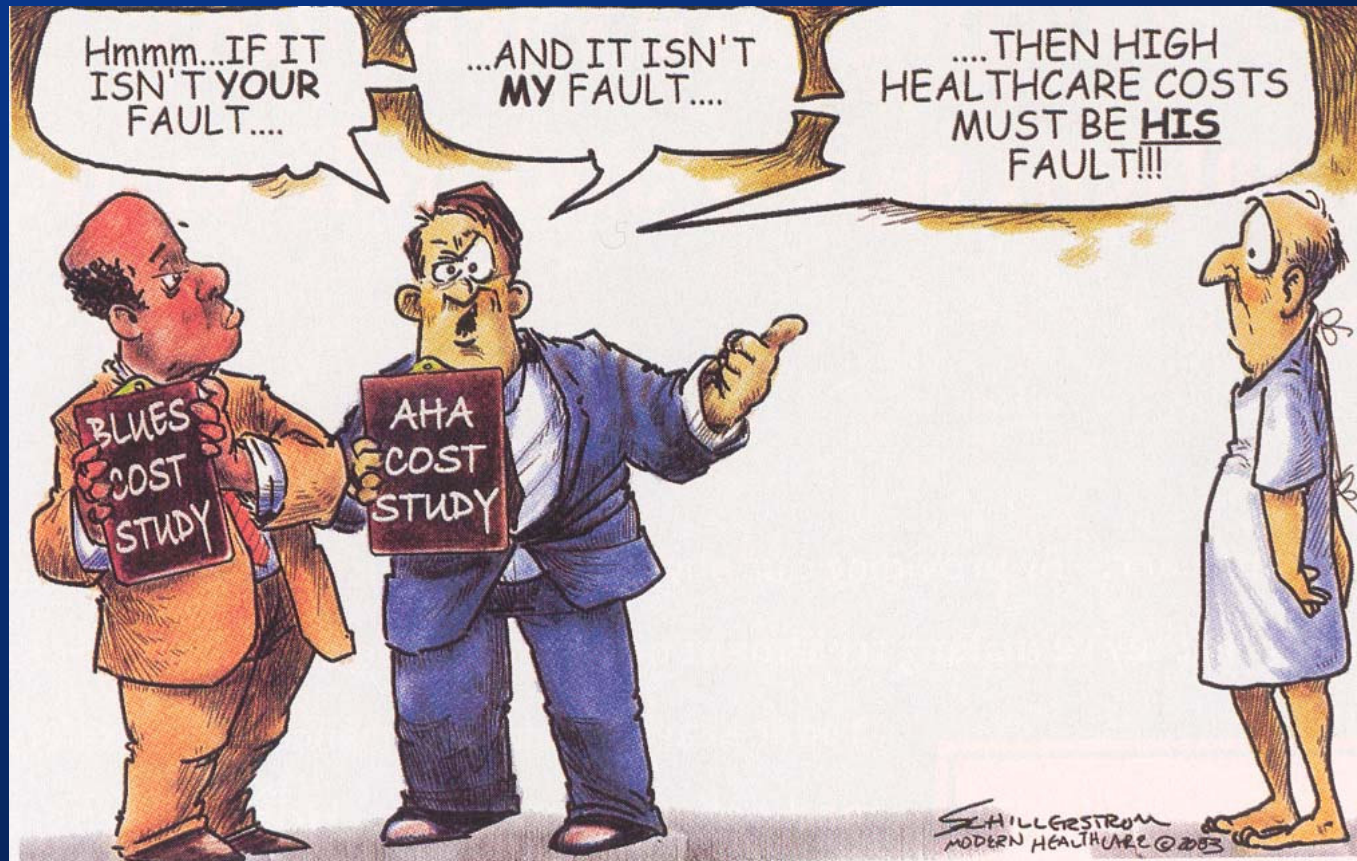
Consumer Responsibility for Healthcare

Percentage of Health Costs Paid Out-of-Pocket vs Percentage of GDP Spent on Personal Healthcare



Source: Watson Wyatt; "Retiree Health Benefits: Time to Resuscitate?", 2002.

Increase Consumer Responsibility for Healthcare



Source: Modern Healthcare

Health Care Funds – A Growing Phenomenon

- ◆ 1984 - NCPA Proposal to Use Medical IRAs to solve Medicare Funding Issues
 - ▶ Singapore institutes Medisave Program
- ◆ 1992 - “Hillary Care” – Republicans support alternative espoused in *Patient Power*
- ◆ 1996 - MSA Pilot Project
- ◆ 2002 – IRS recognizes HRAs
- ◆ 2003 – HSAs legislated into existence

{ Insert HSA Review }

Retiree Health

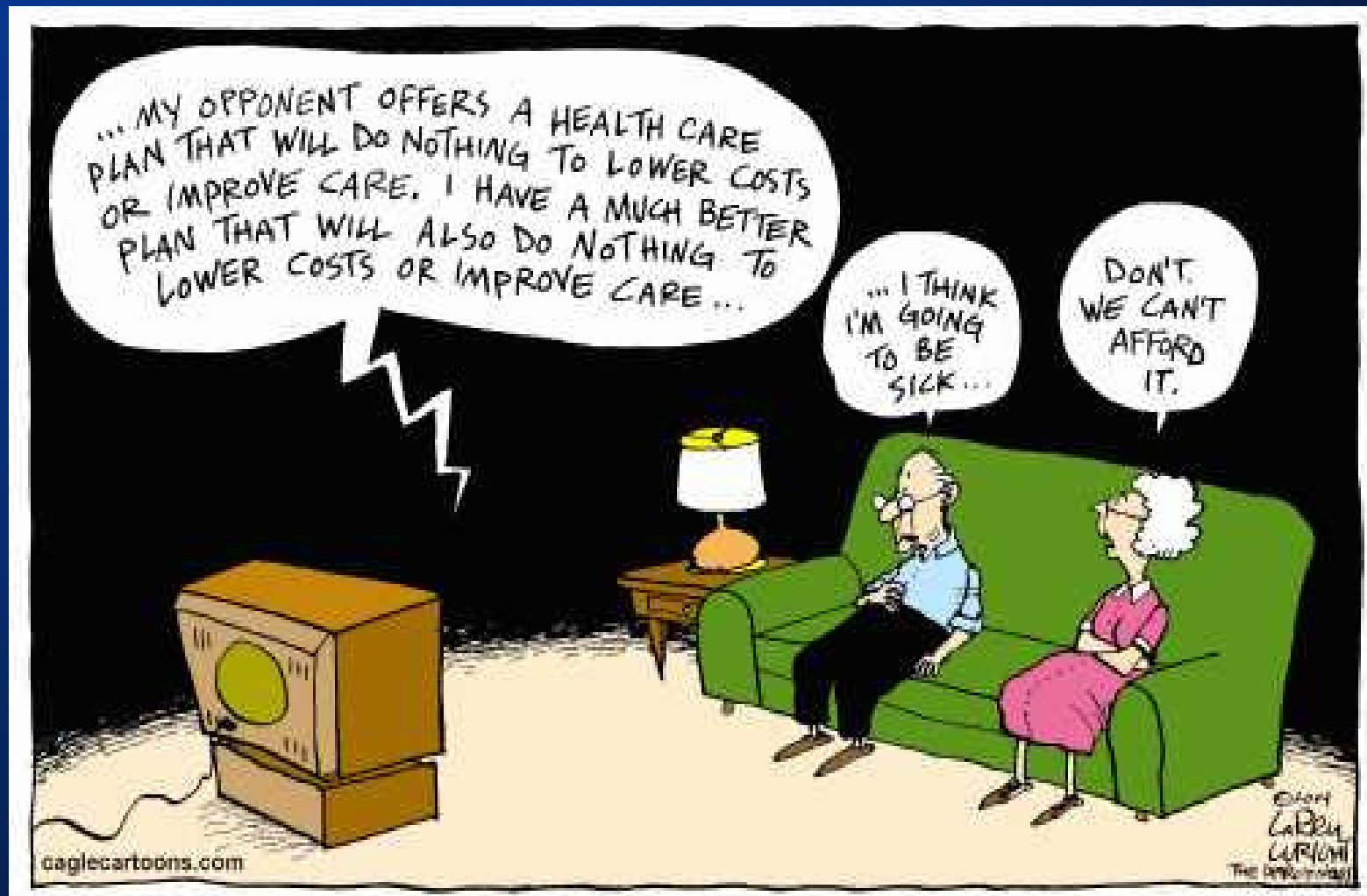
- ◆ **Pre-1960 – Blues Established; Group-based Employer Coverage Created**
- ◆ **1960s/70s – Medicare Enacted; Health Benefits Expanded to Retirees**
- ◆ **1980s/90s – Cost Controls; Restrictive Tax Policy; FAS 106**
- ◆ **21st Century – Consumer-Driven Health Care; Personal Responsibility; and “Ownership Society”**

Employers Eliminating or Reducing Defined Benefit Retiree Health Care . . .

- ◆ **In 1988 66% of large employers offered a defined benefit retiree health care plan**
- ◆ **In 2004, the number fell to 36% of large employers**
- ◆ **And of those that offered the benefits - restrictions and limitations were instituted**

**YET Retiree Medical Accounts are on the Rise
Especially for New Hires**

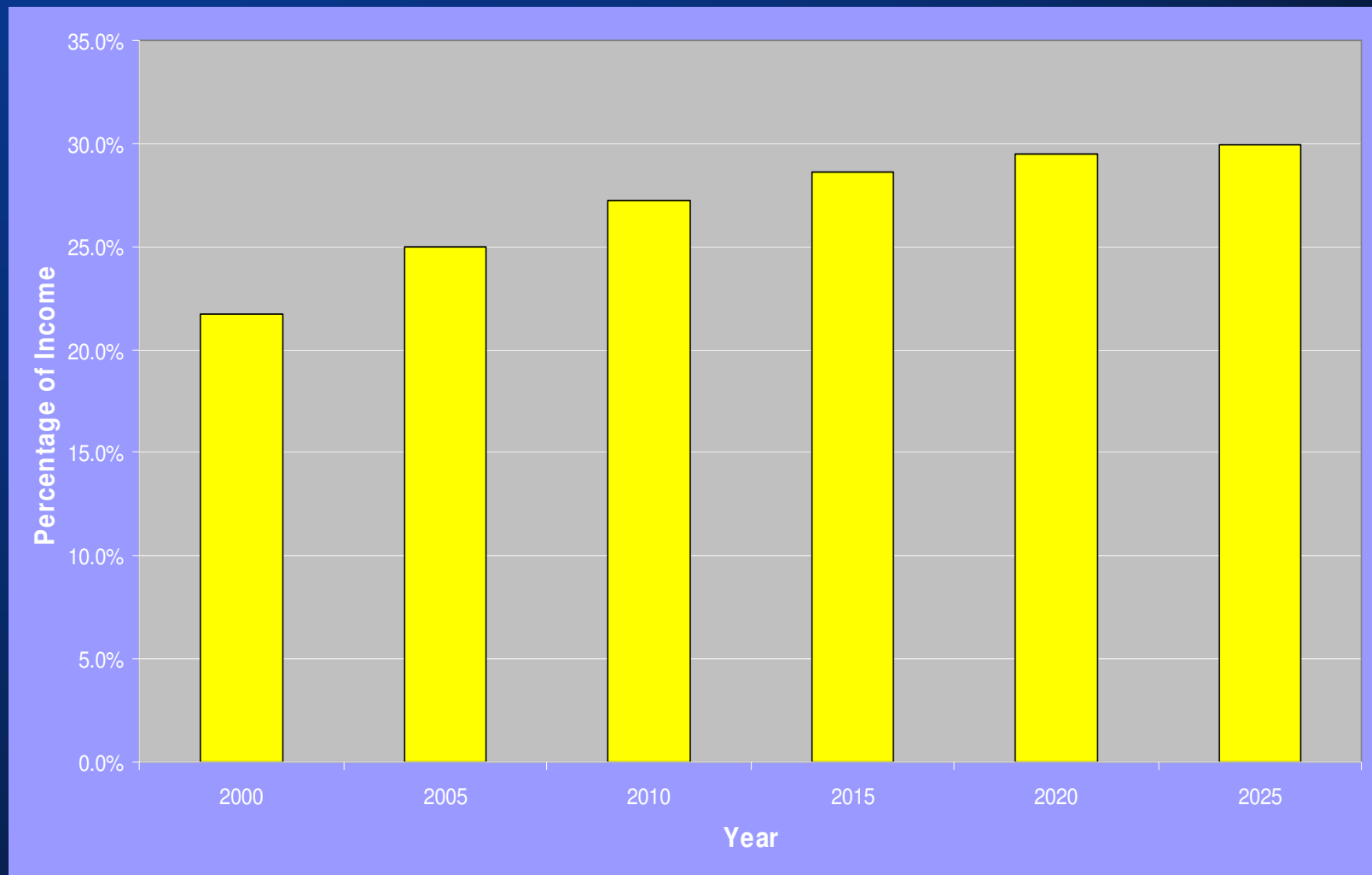
Health Care – An Intractable Problem?



Retirees Are Feeling the Pinch

- ◆ **Typical 1980's plan – Retiree paid 39% of their lifetime medical costs**
- ◆ **In 2001, a typical retiree paid 68%, and**
- ◆ **In 2031, the typical retiree is expected to pay 92% of their lifetime medical needs**
- ◆ **Lifetime medical costs are increasing as a percentage of final pay**

Out of Pocket Costs Are Increasing For The Elderly (as % of Income)



Source: The Urban Institute's 1999 Medicare Projection Model

Implications

- ◆ **Health Care Asset Accumulation – A Growth Opportunity**
- ◆ **Consumer-Directed Health Care, HSAs, and HRAs will see growing asset balances**
- ◆ **Funds in HSAs and HRAs Represent the New Retiree Medical Accounts**

Retiree Health Care – Market Potential

- ◆ Urban Institute's 2005 Estimate for Out-of-Pocket Costs - \$3,765
- ◆ Medicare Population – 40 million
- ◆ Annual Out-of-Pocket Costs - \$150 billion
- ◆ Assume Average Life Expectancy 10 years

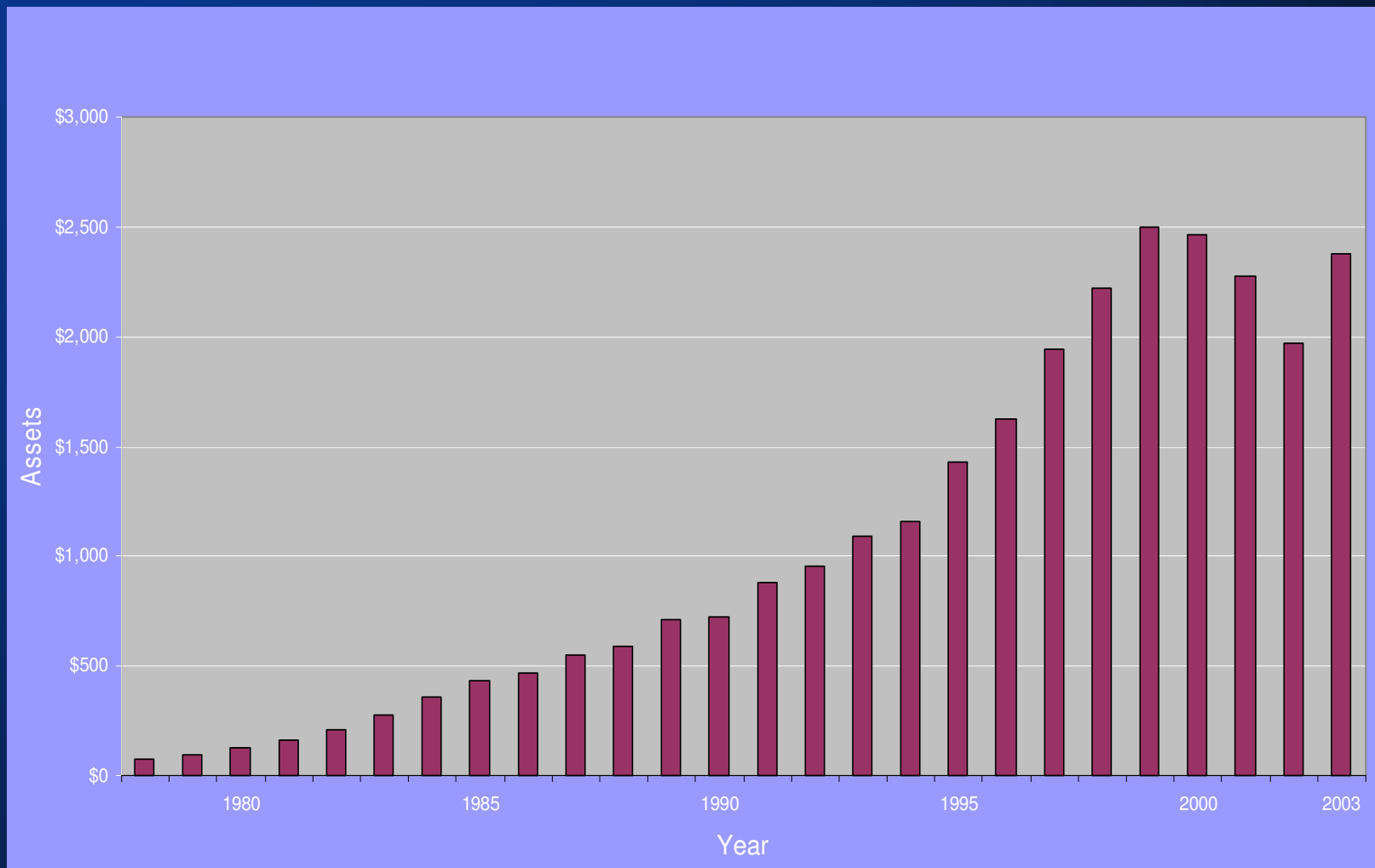
\$1.5 Trillion Asset Potential !!!

Can Potential Become A Reality?

◆ South Africa Experience

- ▶ Began in 1993
- ▶ Captured 2/3rds of the Market

Defined Contribution Assets (billions)



Sources: Federal Reserve Statistical Release

Industry Convergence – Are We Ready?

- ◆ Health Care Expertise
- ◆ Financial Expertise
- ◆ Participant Education/Communication -
Health Care and Financial
- ◆ Pick A Partner

Where Can I Get More Information?

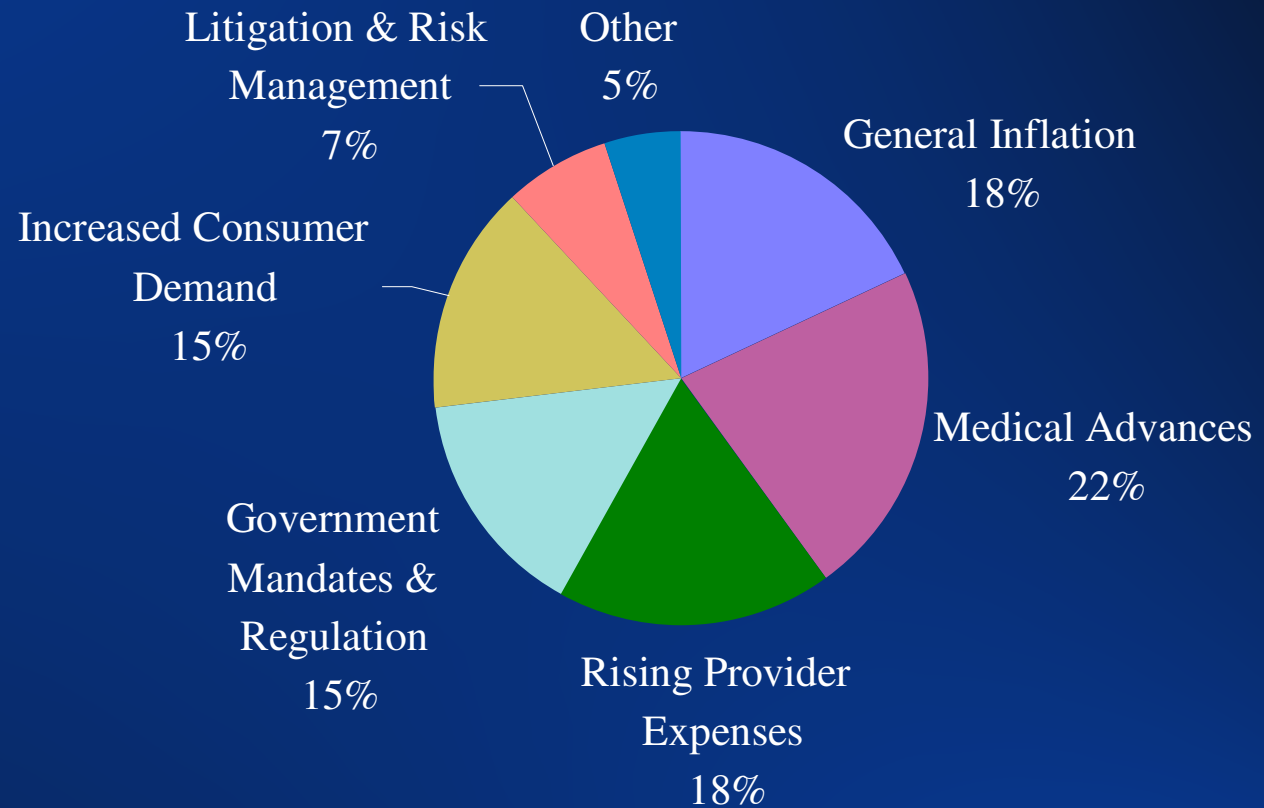
- ◆ KPMG Insiders (www.kpmginsiders.com)
- ◆ KPMG 2004 Healthcare Industry Report
- ◆ KPMG 2004 Managed Care Industry Report

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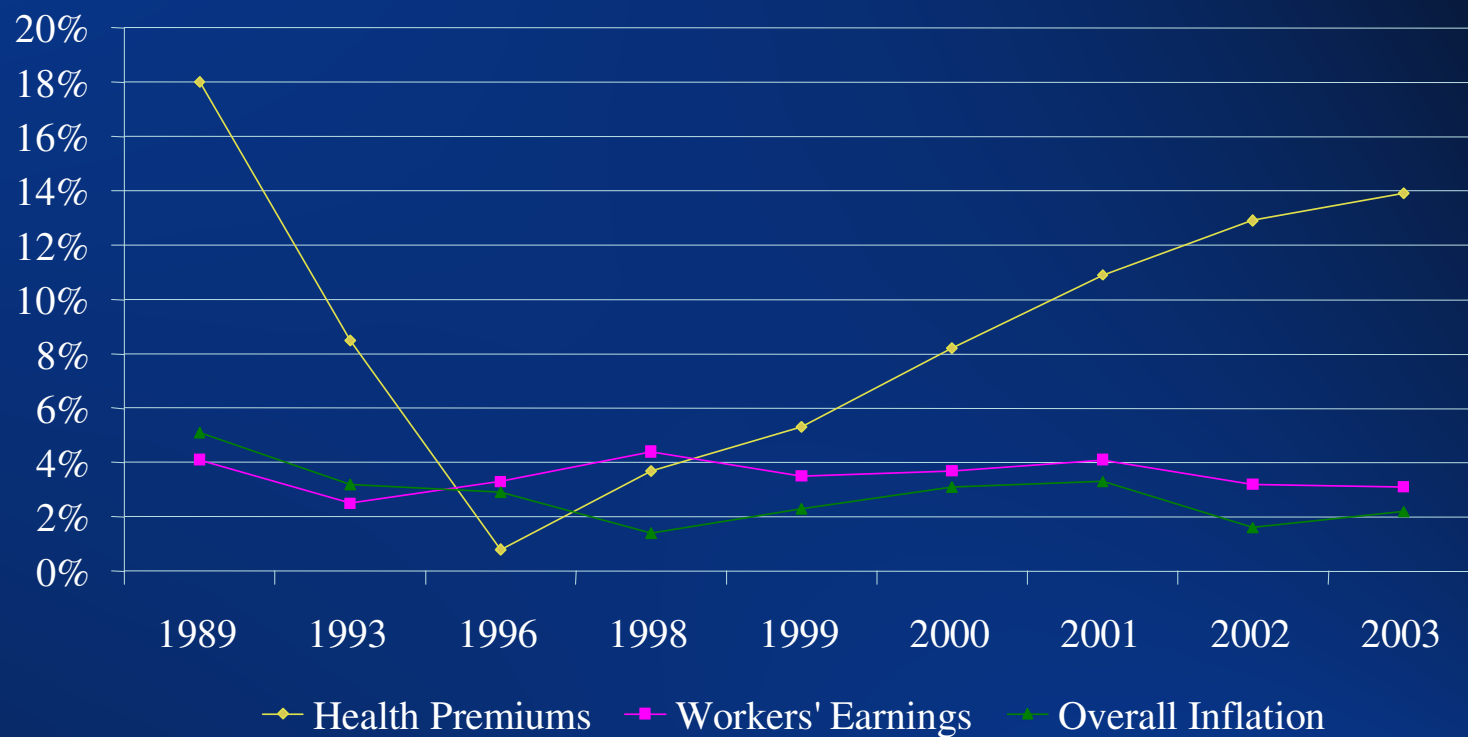
'THAT'S IT. WE'RE Not Retiring I Need to Work!

Why Are Costs Rising So Rapidly?



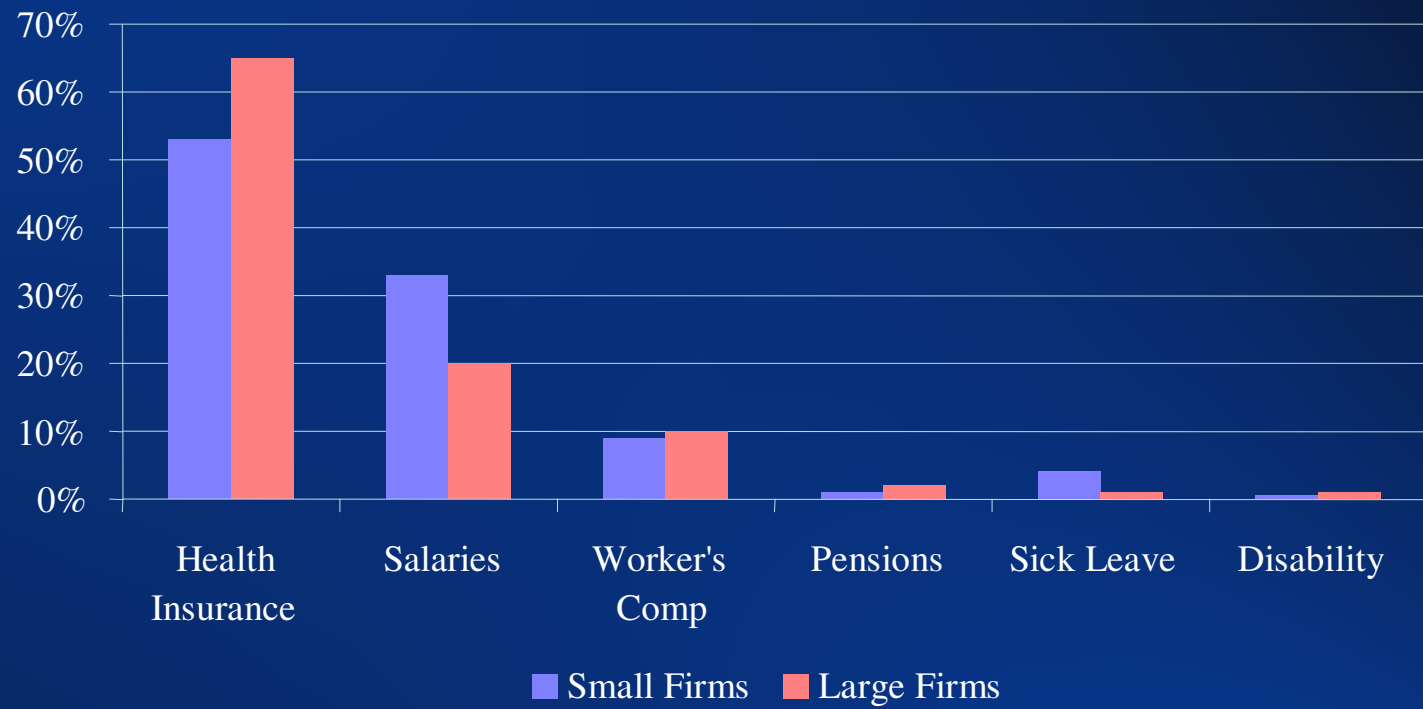
Source: AAHP "The Factors Fueling Rising Health Care Costs", 2002.

Premiums vs. Worker Earnings



Source: Kaiser Family Foundation, Health Research and Educational Trust and KPMG, "Employee Health Benefits – 2003 Annual Survey"

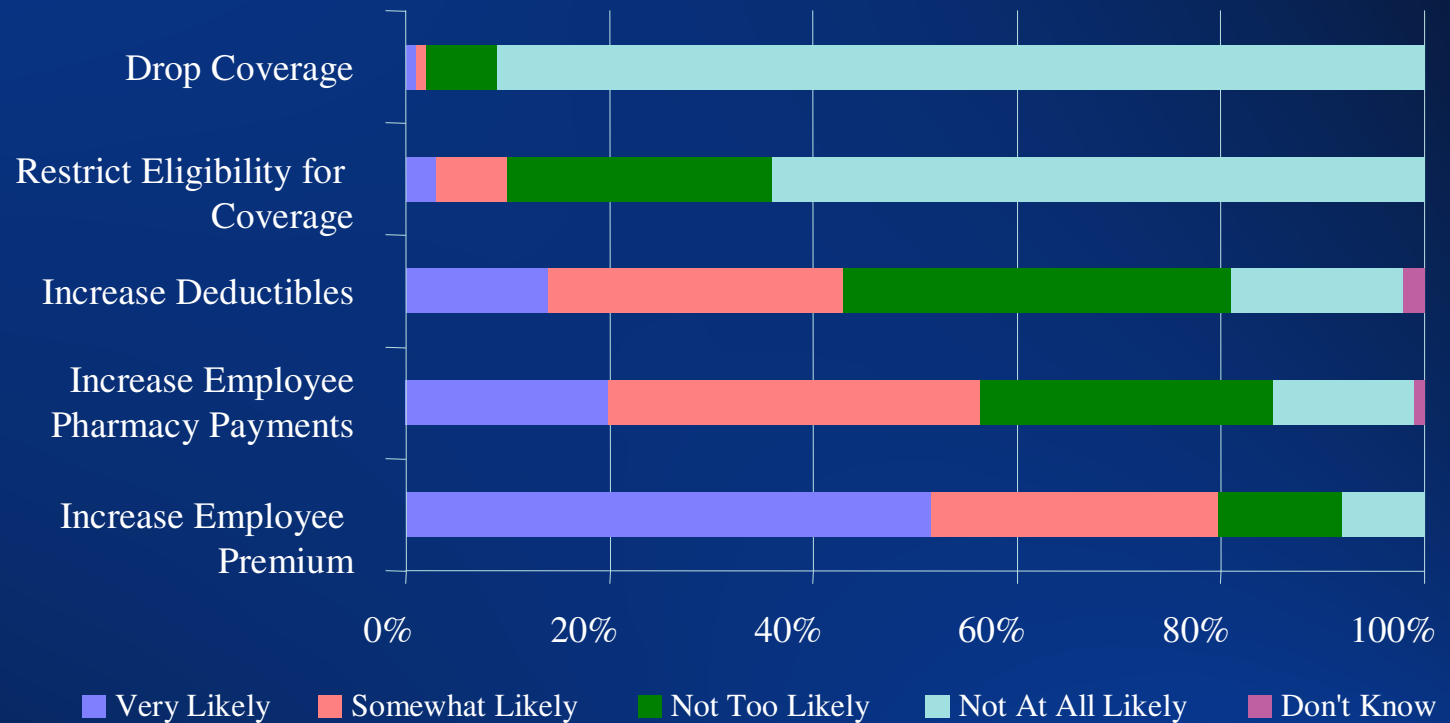
Employer Benefit Concerns



Source: The Kaiser Family Foundation and Health Research and Educational Trust, and KPMG "Employer Health Benefits – 2003 Annual Survey".

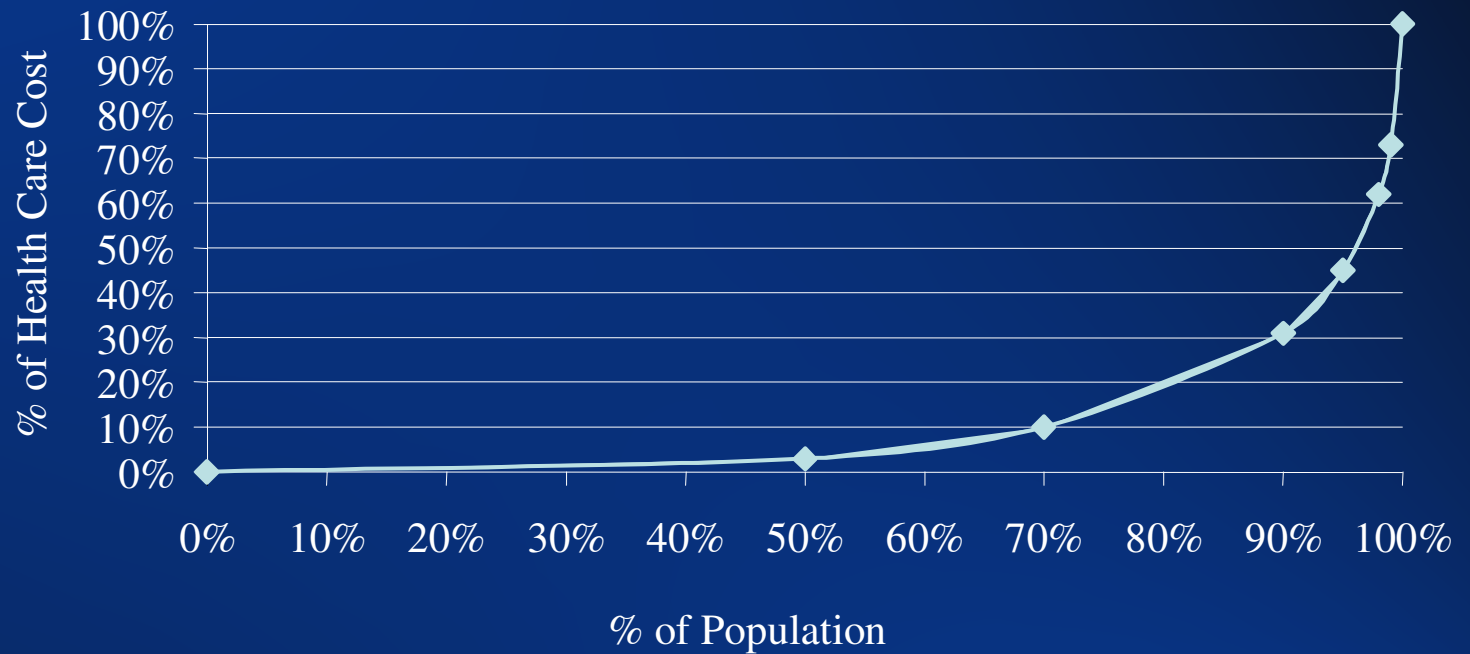
How Are Employers Addressing Increasing Costs?

Likelihood of Plan Changes - Large Employers



Source: Kaiser Family Foundation, Health Research and Educational Trust and KPMG, "Employer Health Benefits – 2003 Annual Survey".

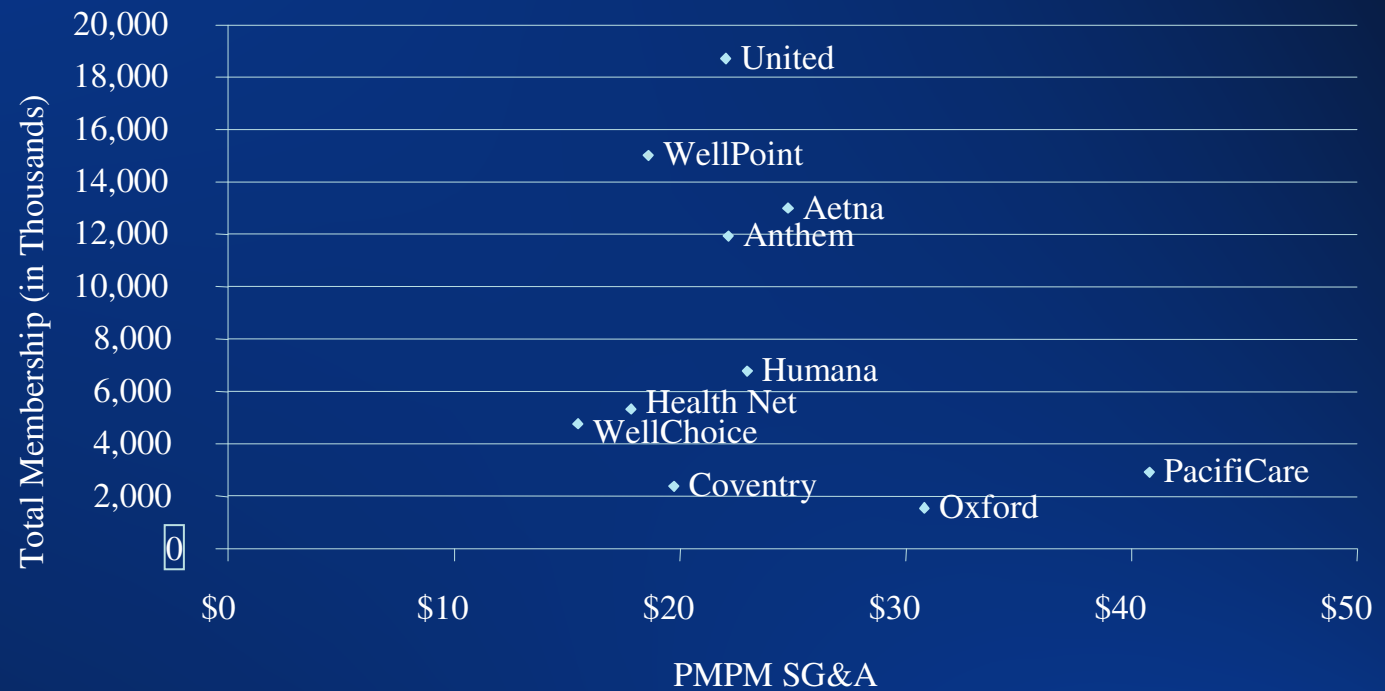
Distribution of Healthcare Costs



Source: Mark L. Berk and Alan C. Monheit, "The Concentration of Health Care Expenditures, Revisited", Health Affairs, March/April 2001 based on the 1999 Medical Expenditure Panel Survey.

Health Plan SG&A Ratios

2003 PMPM SG&A vs. Membership



Source: KPMG analysis of company financial disclosures.

What's the Problem?

- ◆ **Healthcare services look like a bargain to consumers**
- ◆ **Clinical quality should be improved**
- ◆ **System overhead is too high**
- ◆ **Americans have poor health habits**
- ◆ **16% of Americans are uninsured**

So What Do We Do?

- ◆ **Increase Consumer Responsibility for Healthcare**
- ◆ **Practice Evidence-Based Medicine**
- ◆ **Reduce Overhead**
- ◆ **Live Healthier Lives**
- ◆ **Implement Universal Coverage**

Increase Consumer Responsibility for Healthcare

- ◆ **Responsibility for Cost**
- ◆ **Responsibility for Care**
- ◆ **Responsibility for Decisions**