MERCHANT MEDICINE®
Taking Medicine to the Marketplace

The ConvUrgentCare® Report
U.S. Walk-In Clinic Market Report

Volume 6, No. 6 June 1, 2013

New Markets for Walk-In Services
The Number Of Small Self-Insured Employers Could Explode

Last month, Jack Curtis, president of a Georgia-based corporate wellness firm called Community Health Network, was speaking before an audience of small employers. By show of hands, he asked, "How many of you are fully insured?" Everyone raised their hands.

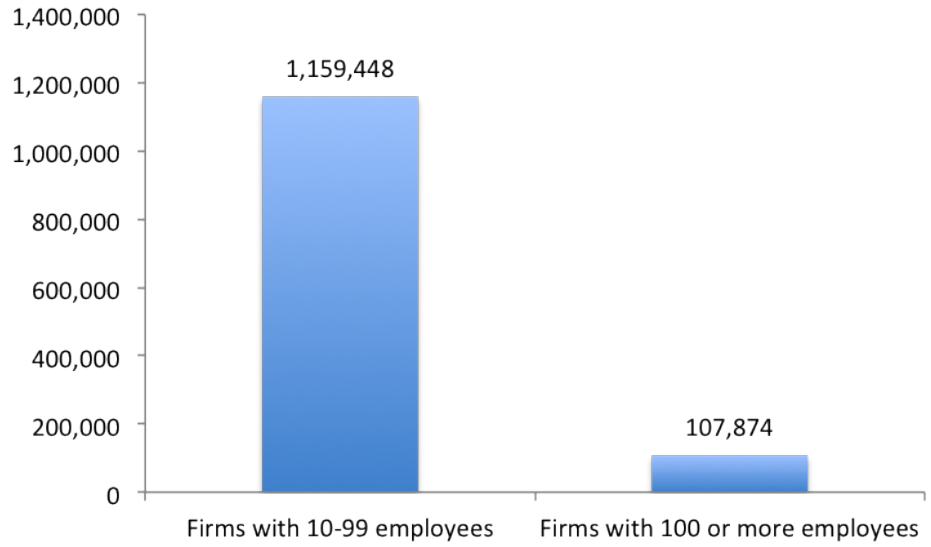
He then asked, "How many of you are pulling out of offering health insurance and sending your employees to the exchanges?" Only three or four people raised their hands.

And finally, he asked, "How many of you are moving to self-funded health insurance?" Virtually everyone else in the room raised their hands.

Below the current of noise about the health insurance exchanges, increasing power of insurance companies and cuts to Medicare payments, a trend is emerging that could help most operators of walk-in clinics. Employers with smaller group sizes are starting to move to self-insured arrangements. With new insurance products for these smaller employers, the momentum in this direction could accelerate and yield an unprecedented market for new, direct-bill healthcare services. If this happens, and if walk-in

(continued next page)

Number of U.S. Firms with 10-99 Employees vs. 100 or More



Source: United States Census Bureau

clinic operators fill the needs of newly self-insured employers, the power that commercial health insurance companies have over these clinic operators will diminished substantially.

A Look At The Numbers

According to health insurance experts, the cutoff line for the number of employees needed to become self-insured was thought to be somewhere around 200 employees until recently. The number of firms with even 100-plus employees is surprisingly small, just 1.5 percent of the full universe of employers in the United States, as shown in the charts on this page.

But if that cutoff line were to drop to 20 or even 10 employees, as some experts predict, the number of potential self-insured employers will grow not just by two or three times, but by an order of magnitude.

Why is this important to walk-in clinic operators? Under self-insured arrangements, employers have a great deal more control over what healthcare services they offer their employees and how those services are offered. Under fully-insured arrangements, small employers are more restricted by their health insurance company and government regulations.

But could this shift happen in 2014 as health insurance reform goes into full force? It will likely happen, but not that quickly.

"We're seeing groups under 100 starting to show curiosity, but not necessarily movement yet," says Chris Bruni, a sales executive with Security Health, a health insurance company that operates in central Wisconsin. "There's still a lot of confusion for these small employers. The great unknown is how much risk they'd be taking on."

"A lot of the confusion is with the brokers as well," says Ginger Wolf, Bruni's sales colleague at Security Health. "They don't have a lot of knowledge on self-funding because it hasn't been available to their groups until now."

Matt McQuide, a vice president of Benefit Controls Company in Charlotte, agrees that there is no data on this number increasing dramatically yet.

"Over the past 10 years the number of firms under 200 employees on self-funded health plans has ranged from 10 to 17 percent," he says. "But there is no specific trend either way."

According to the U.S. Department of Labor's Annual

(continued next page)

Number and Percent of U.S. Firms by Employee Count

Number of Employees	Number of Firms	Percent
Firms with 1 to 4 employees	3,617,764	61.0%
Firms with 5 to 9 employees	1,044,065	17.6%
Firms with 10 to 19 employees	633,141	10.7%
Firms with 20 to 99 employees	526,307	8.9%
Firms with 100 to 499 employees	90,386	1.5%
Firms with 500 to 749 employees	6,060	0.1%
Firms with 750 to 999 employees	3,038	0.05%
Firms with 1,000 to 1,499 employees	3,044	0.1%
Firms with 1,500 to 1,999 employees	1,533	0.03%
Firms with 2,000 to 2,499 employees	904	0.02%
Firms with 2,500 to 4,999 employees	1,934	0.03%
Firms with 5,000 to 9,999 employees	975	0.02%
Firms with 10,000 employees or more	981	0.02%

Source: United States Census Bureau

(continued from page 2)

Report on Self-Insured Group Health Plans, the total number of employee participants in self-funded arrangements has increased from 46 million to 48 million from 2009 to 2010, the latest data available.

Seeds of Change

But things could be changing. The three primary forces that make this shift most possible are economics, new insurance products and the lure of more control.

As illustrated in the charts on this page, since 1999 the cost of healthcare has skyrocketed and smaller employers have had to shift more of that cost to their employees than their large employer counterparts. During that time period, the amount of contribution from employees at smaller firms averages more than $1,000 higher for family coverage compared to employees at larger firms.

"We don't expect costs to go down," says McQuide, "so employers need to get healthier. But if they get healthier under a fully insured contract, they are less likely to get credit for their success."

But cost is not the only driver. With healthcare reform there are three added incentives. First, fully insured employers will pay a 4.5 percent tax that self-insured groups will not pay. Second, starting in 2014, businesses with 50 or more full-time workers that do not offer coverage will be assessed a $2,000 fine for every full-time employee beyond the company's first 30.

And finally, smaller employers with younger populations used to see cost benefits in their premiums because their risk was lower. All of that changes with what is called "community rating," the concept that premiums must now be set at rates that reflect risk from the broader insured community.

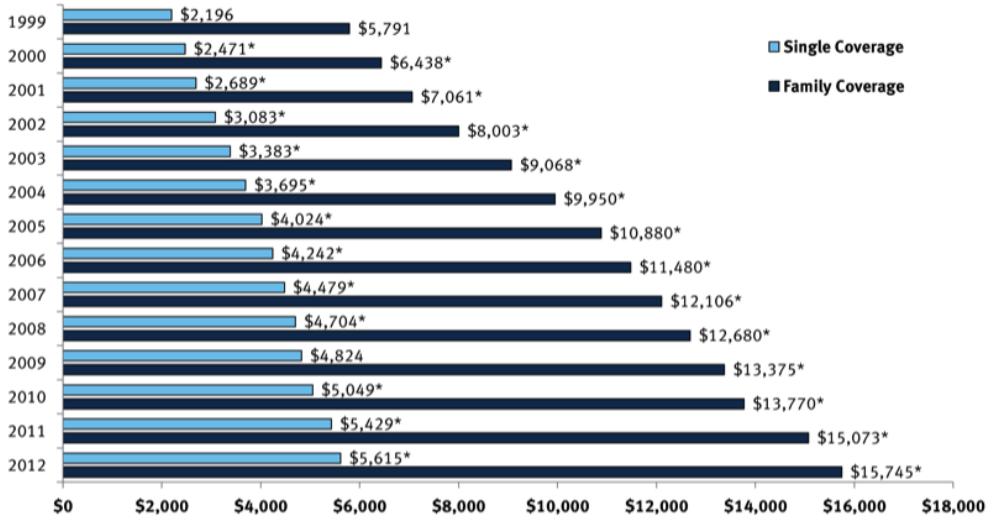
"Depending on who you look at, some fully insured employers, especially younger IT firms, could be seeing 20-30 percent cost increases, others even 50 percent," says Jack Curtis from Community Health Network.

New Insurance Products

Coinciding with the changing

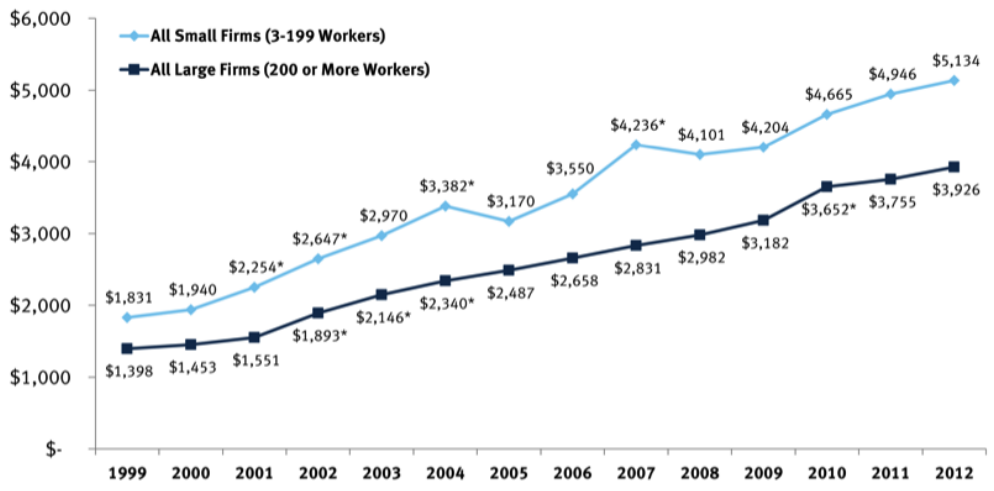
(continued next page)

Average Annual Premiums for Single and Family Coverage, 1999-2012



* Estimate is statistically different from estimate for the previous year shown (p<.05).
SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2012.

Average Annual Worker Contributions for Covered Workers with Family Coverage, by Firm Size, 1999-2012



* Estimate is statistically different from estimate for the previous year shown (p<.05).
SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2012.

(continued from page 3)

economics of healthcare is the arrival of insurance products for smaller employers, the two most important of which are stop-loss insurance plans and insurance captives.

To move to a self-funded insurance plan an employer must have stop-loss insurance to protect against a catastrophic medical occurrence to one or more employees simultaneously. Rarely were these stop-loss insurance products available to employers with fewer than 200 employees until recently. With the changing economics of healthcare, the insurance industry recognizes this could be an exploding market.

"Where you had reinsurers with an entry point of 250, they are beginning to look at 50 and 20 as the cutoffs," says Charles Carlson, CEO of Benefit Intelligence in Phoenix. "Third-party administrators and stop-loss carriers see healthcare reform as a huge opportunity for them. It offers employers lower taxes, more control and flexibility, and better premiums."

Under a typical self-funded arrangement, a plan administrator estimates the cost of medical claims for a given year for members of the plan. The employer and employees contribute funds to an insurance pool based on those claims estimates. If the cost goes beyond the claims estimates, the employer is responsible for the excess cost up to a certain percentage beyond the claims estimate, at which point the stop-loss insurance kicks in.

But even with stop-loss insurance, a catastrophic medical occurrence could cause significant harm to an employer. So another insurance product now available to smaller employers helps reduce risk even further, a product called an insurance captive. Captives are well known to the medical community. Physicians in private practice have used them to purchase medical malpractice insurance for years. The idea is that a group of small practices join together to form a corporation whose primary purpose is to fund a self-insurance plan. These captives work in conjunction with stop-loss insurance products. Theoretically, the more participants in the insurance captive, the more the members can reduce their risk, particularly for that amount between the estimated claims cost and the amount where stop-loss insurance kicks in.

And to reduce that risk even more, there are self-insured captives that go one step further by joining with like-minded employers who want highly assertive corporate wellness programs. These captives agree to require workers and their dependents to participate in health-risk assessments, biometric screenings, health coaching and fitness activities. For these captives, employers must agree to implement a wellness program that meets certain criteria. If they don't, they're kicked out.

Because this can be complicated and confusing, some traditional health insurance companies are trying to simplify self insurance for smaller employers.

Cigna has introduced a self-funded product called Level Funding, which combines financial predictibility with control and data on health care spending. Cigna now sells its self-funded plans to groups with as few as 25 employees. From 2009 to 2011 more than 63 percent of the company's new sales were for self-funded plans.

Taken together, these new insurance products have served to dramatically reduce the number of employees required to participate in a self-insured arrangement.

But perhaps the biggest attraction to self-funded health insurance arrangements is the added control and flexibility they bring.

"If you are below 50 employees, it's pretty hard to get any data on your healthcare spend," says Ginger Wolf at Security Health. "From 50-100 employees you can get some basic claims data. Over 100 you can get pretty detailed data."

Without that data it is almost impossible to know where to aim your cost savings efforts. As a self-insured employer, not only do you own the data, you can see exactly who needs help.

"The self-insured employer can decide what to do with the claims data," says Tim Bowman, principal and founder of Pantheon Health Innovations, a healthcare strategy consulting firm. "If you have a large group of diabetics, you can design special programs and require them to go to a certain healthcare provider if they want health benefits."

And it is this link between getting access to claims data and the availability of wellness programs that seems to be pushing many smaller employers over to the self-funded side.

"We're seeing an extreme

(continued next page)

(continued from page 4)

difference from what we saw 12 to 24 months ago," says Ginger Wolf from Security Health. "Employers are getting a lot more aggressive on wellness participation. Being self-funded allows them to do a lot more. They have lots of data on what is going on in their healthcare spend. We have groups that now say to employees who smoke that they are not eligible for health benefits. That wasn't the case two, three or four years ago. But that's not even an option in a fully-insured arrangement."

Walk-In Medicine Implications

So why should any of this matter to an urgent care or retail clinic operator? When employers have more control over reducing the cost of healthcare, they are much more willing to explore new services. What kinds of services are we talking about? Examples include direct-bill urgent care and primary care, near-site clinics, worksite clinics, health risk assessments, biometric screenings, weight loss and fitness programs. Many of these newly self-insured groups will offer high-deductible catastrophic insurance plans, but look for ways to offer and partially pay for services their employees need before deductibles kick in. Urgent care and retail clinic operators are perfectly suited to offer these services, particularly urgent care operators who already have expertise with direct-bill occupational medicine services.

"I'm really surprised at the hyperspeed of the market for new services," says Charles Carlson of Benefit Intelligence. "This year alone we've put thousands of employees into a telemedicine program for our self-insured employers. We literally walk in and present the strategy to the employer and walk out with a directive to implement it."

Carlson says the mechanisms for doing direct contracting are so much easier when dealing with self-insured employers.

"It's going to be a different landscape in three years," he says.

Jack Curtis from Community Health does not believe high-deductible health plans are a requirement for this to happen.

"We see some uptick in high deductibles," he says. "But I still see that as an exception, not the rule. When employers have flexibility on the plan design and can get detailed claims data, they may not need to move to high deductibles."

Instead, Curtis sees a world with a lot more direct-bill contracting. Employees will have strong incentives to go to certain clinics where the employer has direct-bill arrangements.

"There will be lots of on-site and near-site clinic arrangements with discounted fees, maybe coupled with aggregate reporting back to the employer," he says. "I think the near-site clinic model could serve 80 percent of the employers without any up-front investment. You can tell these employers, 'Send your folks here and you get savings plus reporting, but no startup costs.'"

A Changed Landscape

Healthcare reform doesn't kick in fully until 2014, so it is still too early to know how many employers will move to self-funded arrangements and how quickly. But many experts believe this momentum has much less to do with healthcare reform and everything to do with the marketplace taking over where government and commercial insurance have failed.

Even if half of the employers with between 10 and 200 employees become self-funded, it will mean an explosion of employers looking for new direct-bill services.

"Those with under 200 employees who are fully insured should

(continued next page)

Top Multistate Urgent Care Operators

Operator	1-June	1-May	+/-	States
Concentra*	312	320	-8	40
US HealthWorks*	139	139	0	17
MedExpress	110	107	3	8
NextCare	75	73	2	7
Doctors Express	68	67	1	23
FastMed	53	53	0	2
Doctors Care	52	52	0	2
Patient First	45	45	0	3
American Family Care	37	37	0	3
CareSpot	41	41	6	4
Hometown	27	27	0	3
Physicians Immediate Care	29	27	2	4
WellNow	17	17	0	3

**Filtered for non-urgent care centers.*

(continued from page 5)

have been looking at this much earlier because theirs costs have been escalating at double-digit rates and they don't have a way to control it," says Curtis. "But with the Affordable Care Act, they would be almost irresponsible if they don't look around. I see fully insured groups going to self-insured in droves."

So where will the new cutoff end up? Curtis says he sees it "well under 50."

As the health underwriter community becomes more familiar with the products available and the process of switching, there will be a groundswell of conversions because smaller employers will have all the help they need.

And if every employer with 10 or more employees becomes self-funded, what becomes of the commercial insurance companies?

"I think the writing is on the wall," says Tim Bowman at Pantheon. "All of the health management and medical care is moving over to the health systems and clinic operators. What's left will be the transactional parts of healthcare."

Funny thing. Maybe it's not a coincidence that health insurance companies are suddenly investing in the urgent care market.

Retail Clinic Openings and Closings

OPENED (11)

MinuteClinic (5 CVS)

- Granger, IN (South Bend)
- Warsaw, IN
- Fort Wayne, IN
- Upper Marlboro, MD (DC Metro)
- Hixson, TN (Chatanooga)

Take Care Health (5 Walgreens)

- Windermere, FL (Orlando)
- Madeira, FL (Tampa)
- Williamstown, NJ (Philadelphia/Re-Open)
- Warminster, PA (Philadelphia/Re-Open)
- North Huntingdon, PA (Pittsburgh)

Hudson Physicians Quick Care

- Hudson, WI (Minneapolis/St. Paul)

CLOSED (1)

MinuteClinic (1 CVS)

- Lexington, SC

Retail Clinics By the Numbers

Retail Clinics on June 1, 2013: 1,437
Retail Clinics on May 1, 2013: 1,427
Net One-Month Change: +10
Retail Clinics on Jan. 1, 2013: 1,417
Net YTD Change: +20
Retail Clinics on June 1, 2012: 1,357
Net 12-Month Change: +80

Retail Clinics by Operator
May - June 2013

Operator	1-June	1-May	+/-
MinuteClinic	650	646	4
TakeCare	371	366	5
The Little Clinic	92	92	0
Target Clinic	53	53	0
FastCare	26	26	0
RediClinic	30	30	0
Baptist Express Care at Walmart	18	18	0
DR Walk-In Medical Clinics	13	13	0
Aurora QuickCare	10	10	0
Lindora Health Clinics	7	7	0
Alegent Quick Care	6	6	0
Cox Health at Walmart	5	5	0
Family Statcare	5	5	0
Access Health	4	4	0
Family Medicine Specialists at Walmart	4	4	0
Family Quick Care	4	4	0
Living Well Express Care	4	4	0
Owensboro Medical at Walmart	4	4	0
PPH Express Care	4	4	0
St Vincent Health at Walmart	4	4	0
Community Express Care	3	3	0
Geisinger CareWorks	3	3	0
Heritage Valley Health	3	3	0
Lancaster General Health Express	3	3	0
Mayo Express Care	3	3	0
MedCheck Express at Walmart	3	3	0
MedPoint Express	3	3	0
Memorial Care Health Express	3	3	0
Mercy Health of OK at Walmart	3	3	0
Mercy QuickCare	3	3	0
Rocky Mt Internal Medicine at Walmart	3	3	0
St Dominic Hospital at Walmart	3	3	0
Sutter Express Care	3	3	0
All Others (fewer than 3 clinics)	80	79	1
Totals	1437	1427	+10

MERCHANT MEDICINE®
Taking Medicine to the Marketplace

Merchant Medicine, LLC
3550 Lexington Avenue N, Suite 302
Shoreview, MN 55126
(651) 483-0450
info@merchantmedicine.com