

Betting on a change in health insurance

■ A local startup is looking to offer high-deductible plans to smaller groups and individuals.

By KRIS HUNDLEY
Times Staff Writer

Chuck O'Neill and Drew Cassidy think the health insurance market is about to change dramatically.

And they hope to persuade investors in a presentation today to help their local startup, Avalon HealthCare Holdings Inc., play a major role.

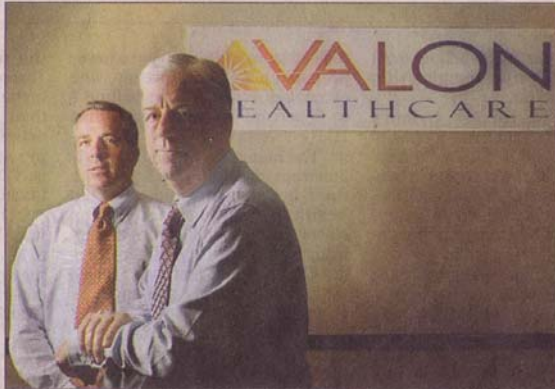
O'Neill and Cassidy, former executives with Oxford Health Plans Inc., have started Avalon in Tampa's Rocky Point area to

offer high-deductible health plans and health savings accounts to individuals and small to midsized groups. If their policies are approved by Florida regulators, Avalon will become the first new health insurer to operate statewide in five years.

"There's been tremendous consolidation in the health insurance industry over the past 10 years and those companies left in the market are extremely profitable," O'Neill said. "What better time to start a new plan?"

Avalon is targeting individuals and employers who cannot afford double-digit premium increases for traditional HMO and PPO plans. By tying lower premiums to out-of-pocket deductibles ranging from \$1,000

Please see **AVALON 2D**



Times photo — DANIEL WALLACE

Charles O'Neill, left, and Drew Cassidy have started Avalon HealthCare Holdings Inc. "If you buy health care like you buy groceries, paying for an item at a time, you'll become a more astute customer," Cassidy said.

Avalon from 1D

to \$5,000, consumers are expected to pay closer attention to their medical spending.

"You'll think twice about getting an X-ray for a sprained ankle when you're paying for it," said Cassidy, who said Avalon's customer hotline will help members price medical services. "If you buy health care like you buy groceries, paying for an item at a time, you'll become a more astute customer."

Cassidy, Avalon's chief operating officer, and O'Neill, its chief executive, have experience with HMOs. Cassidy, 60, was chief financial officer at Oxford from 1991 until 1998, during a period when the company went public and its

revenues grew to \$5-billion from \$50-million, while membership grew to 2-million.

O'Neill, 44, handled Oxford's public relations and ran a subsidiary in Sarasota in the late 1990s; he returned to the company's benefits management division in Tampa in 2001 and left when Oxford was acquired by UnitedHealthcare in late 2004.

Despite their managed care background, both men are convinced the days of HMOs with high employer contribution and low employee co-pays are numbered. They believe experts who predict that by the end of the year, as many as 25 percent of health plans sold will be high-deductible, even though migration to the new model has been slow.

"If you're a healthy 25-year-old

male, why wouldn't you get a lower premium plan?" said Cassidy, who estimated Avalon's plans will be 8 to 9 percent less expensive than HMO coverage.

The men have raised \$5.75-million from investors who agree with their bet on consumer-directed health plans. In June, Avalon closed on a \$3.5-million investment from New York City's Inter-Atlantic Group. The rest was raised from family, friends and angel investors. O'Neill and Cassidy invested \$900,000 in the company.

"It's been extremely painful," O'Neill said of the money-raising, which took over a year. "There's not a lot of seed capital out there and we had to raise most of our money outside Florida."

O'Neill's experience was much different in 1999, when, as one of

the founders of TechHealth in Tampa, he raised \$5-million in a matter of days with nothing more than a business plan. O'Neill remains a shareholder in the company, which helps insurers provide services to medically needy patients.

This morning, O'Neill will continue his search for capital, making a 12-minute pitch to investors at the annual Florida Venture Capital conference in Ponte Vedra Beach. Avalon hopes to raise \$5-million to meet state reserve requirements for insurers and fund the company's operations.

Avalon, which has six employees, expects to employ about 24 people by year-end. The insurer will outsource customer service and claims collection. It will rent provider networks throughout the

state, rather than contract directly with doctors and hospitals.

Based on the growth they witnessed at Oxford, O'Neill and Cassidy are confident that once high-deductible plans catch on, membership will spread like wildfire. By year-end, they hope to enroll 8,000 members in Avalon's plans, increasing the pressure for additional capital.

"You've got to raise money when you think you can get it, not when you need it," Cassidy said. "If you wait till you need it, your bargaining power is less and it's no fun."

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