

Perspectives

MANAGED SERVICES

CONSUMER-DEFINED HEALTHCARE: ARE YOU READY TO SEIZE THE OPPORTUNITIES?

Robert O'Meara is a managing director with BearingPoint Health Services Practice and is BearingPoint's National Consumer-Defined Healthcare (CDH) solution leader. Robert discusses steps that managed care organizations can take to compete effectively in the booming market for consumer-defined healthcare products.

Consumer-defined healthcare (CDH) is ushering in radical changes in the way people pay medical bills and save for the future. According to Forrester Research, premiums and premium equivalents paid to CDH plans, such as Health Savings Accounts (HSAs), are expected to grow from \$1 billion in 2002 to a staggering \$413 billion by 2010.*

The CDH market represents a huge growth opportunity for your organization and other managed care organizations—if you can get out in front of the issues, build an effective strategy, and roll out well-structured and timely products and services. Building on current member relationships, you can leverage new plan designs and savings products to create customers for life.

But you're not alone in wanting to enter the CDH marketplace. Financial institutions are entering the market, using their considerable means to market services aggressively and acquire needed systems and expertise. At the same time,

new market entrants focused exclusively on CDH products are deploying cutting-edge, feature-rich functionality and leveraging their agility to capture market share.

All of these players, from the national powerhouses to the new CDH niche organizations, represent a major threat to your organization. A CDH account won by a competitor means not only the loss of potential new business but also possibly that of an existing customer. Therefore, time is of the essence. You must act quickly or risk lagging behind.

Are you ready to compete in the CDH marketplace? Are you developing the systems and operational capabilities to meet customer expectations, such as online enrollment, Web-based access to account information and decision support tools to compare coverage options? What will it cost? And can you move quickly enough to meet market demand effectively?

*Source: Consumer-Directed Health Plan Leaders Poised For Growth, Forrester Research, Inc., July 2003

BALANCING THE COSTS AND THE NEED FOR SPEED

Many companies are entering the CDH marketplace as more and more employers provide their workers with the option. BearingPoint predicts CDH participation will begin to rise significantly in 2005 following 2004 open enrollments, grow steadily through 2006, and then dramatically increase through the end of the decade.

Yet the CDH marketplace is a conundrum. How heavily should you invest in CDH, when it is hard to predict how big a part of your business it will become? What regulatory changes can you expect in this still-developing market? Can you afford a major investment today when the opportunities for rapid growth won't fully materialize for a couple of years?

Perhaps teaming with a financial services firm or a CDH-focused company to obtain needed capabilities or assemble an array of products and services provides an easy point of entry. However, remember that in doing so, you may risk losing the primary rela-

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tionship with the customer—which becomes an even bigger problem if the third party plans to market other products and services to the customer, potentially weakening your relationship further.

Another approach is a “check mark” strategy, in which you create minimal CDH offerings simply to say you have CDH products. This may seem like an attractive option if you do not believe strongly in the future of CDH or if you have introduced earlier CDH products with little or no success. With this approach, you leverage existing products rather than shift to lower-margin CDH products. Whatever the reason-

ing, you spend the minimal amount needed to implement a disposable solution for administering the program. However, this strategy does not allow you to become a long-term viable competitor in the CDH marketplace.

Cobbling together a solution with databases, spreadsheets and manual processes may work in the short term, if CDH remains a small piece of your business. But what if CDH becomes 20 percent of your operation? Can your infrastructure and systems scale to accommodate the growth?

MAKING A TRUE CDH COMMITMENT

An alternative to both of these scenarios is to adopt a growth strategy. Pursuing such a strategy, you move aggressively into the CDH marketplace, both to protect current market share and gain new customers. Your executive team commits to the future of CDH and takes accountability for the performance of new products, striving for continuous process improvement to lower the cost of operations.

A growth strategy recognizes that CDH does not lend itself to a one-size-fits-all approach. You tailor initiatives to address a wide and varied array of operational requirements, from decision support tools and online enrollment, to HSA payment options and integration with financial systems to allow debit and credit card transactions. Compounding the urgency is the January 1, 2006, requirement that HSA plans provide a combined deductible for medical and pharmacy claims, versus the separate deductibles typical in current plans.

Plan design will be another critical component to CDH success. Employers have been faced with several years of double-digit increases and are looking to health plans for more options to manage their healthcare dollars better. CDH plan designs will need to go beyond high deductible plans that generate lower premiums. Health plans must employ a short-term as well as a long-term approach to lowering healthcare costs. Tackling the issue of utilization will be an important and necessary exercise to lowering

healthcare costs. Health plans will need to layer other plan design components, such as wellness and incentives and rewards programs, with a high deductible health plan that will address this issue.

Comprehensive customer services will be critical to the success of your CDH effort. Members will expect easy access to tools for managing their healthcare, such as account information, cost and quality comparisons for making coverage decisions, health assessment tools, and incentives and rewards for maintaining good health. They will demand these resources be available through all customer service channels, including call centers, member portals and interactive voice response systems.

Preparation activities to achieve these capabilities do not come cheaply. Purchasing and integrating software, rewriting procedures, re-engineering processes, training staff to support the new products, and preparing a market rollout for CDH can cost millions of dollars, with expected returns delayed perhaps two or three years in the future.

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There is an alternative to this substantial upfront investment, however, in outsourcing CDH administration and operations.

SETTING A CDH GROWTH STRATEGY

If you hope to capitalize on the emerging CDH market, you will soon confront the issue of whether to purchase the technology and build the operational capabilities to run programs yourself or to align with a business process outsourcing (BPO) provider.

Purchasing the technology involves a variety of one-time costs, including licenses, implementation, consulting and hardware. Ongoing expenses can include software maintenance and upgrades, application support, sales and marketing, as well as internal support for CDH operations, including claims handling, check printing and customer service.

Outsourcing involves smaller initial costs, principally for implementation and consulting. On a recurring basis, outsourced CDH services will still require sales and marketing outlays. However, the variety of expenses incurred to maintain systems internally would be replaced by per-member, per-month outsourcing charges. This payment method brings CDH costs more in alignment with revenues.

Is your organization a good candidate to outsource CDH operations? Each organization is different, but factors recommending such an approach include limited internal CDH expertise, overextended information technology staff, and major issues related to

integrating new products into key core claim systems and operations.

Selecting an outsourcing option can provide an array of benefits in the rapidly evolving CDH marketplace. Infrastructure costs are spread across the customer base of the BPO provider. Outsourcing also minimizes the impact that introducing new customer products can have on your current business operations and technology systems.

In addition, by working with a BPO provider using nonproprietary systems and software, you can enjoy the advantages of a pay-as-you-go approach. Then, if interest in your CDH products soars, you have the option to bring the operation in-house and capitalize on your own economies of scale.

TAKING THE RIGHT STEPS TO CDH IMPLEMENTATION

You should carefully—but rapidly—decide how to move forward in the CDH market. We've identified four key steps in creating flexible, tailored CDH solutions:

- **Perform a quick assessment**—Working with an experienced consultant, you can review your current CDH strategy and products, assess your operational and technical readiness, and identify service gaps. This one-week review process helps determine if outsourcing is a desirable approach.
- **Conduct implementation planning**—Throughout a two-month period, you can develop a business case, design products and processes, create marketing plans, select software vendors or an outsourcing provider, and align with financial services partners.
- **Implement the CDH strategy**—During the next six months, you and your partners configure, customize and test systems and train internal support personnel.
- **Provide ongoing CDH operations**—You or your outsourcing provider will maintain member services, adjudicate claims, distribute reimbursements, provide Web and call center services, and coordinate with financial partners.

If you hope to capitalize on the emerging CDH market, you will soon confront the issue of whether to purchase the technology and build the operational capabilities to run programs yourself or to turn the work over to a business process outsourcing provider.

CDH is reshaping the healthcare landscape. You can capitalize on this major shift by assessing your readiness, developing a strategy, rolling out new products and implementing required support systems.

But do it quickly! The CDH shift is already well underway.

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