The Health Plan of Tomorrow

The increased role of consumers, along with increased healthcare costs, will compel health plans to use technology so everyone in the equation comes out a winner.

By Jeffrey H. Margolis

Ready or not, the age of consumerism has descended upon healthcare.

With health insurance premiums rising an average of 11 percent annually, most employers are shifting more costs to employees. Some are dropping benefits altogether. As they pick up more of the tab each year, consumers will expect more say in the delivery of their healthcare. They'll demand better service from health plans, more information about doctors and hospitals, and more help navigating the healthcare system.

Macro-level cost pressures also are driving efficiency and modernization in healthcare. Employers' tolerance of double-digit premium increases is wearing thin. That means health plans need to uncover more internal efficiencies and cost savings, and prove they add value. Better use of technology can help them achieve those goals.

Preparing for Tomorrow: A Cycle-by-Cycle Approach

To prepare for the future, health plans must streamline and integrate eight key "business cycles." Information must flow smoothly across these cycles and outward to the plan's constituents. The following changes are likely to occur as health plans transform themselves into more consumer-oriented organizations.

Product development. Health plans are developing products that appeal to consumers as well as employers. Soon, they will employ mass customization via the Internet. Consumers will be able to build their own benefit plans with options like provider panels, premiums, copays, coinsurance and drug formularies.

Revenue management. Health plans will use automation and e-business to generate more revenue with less effort. Quotes will be delivered to brokers in real time via the Web. New members will enroll online, replacing paperwork and manual processing. Premium bills will be sent to employer groups for electronic review and reconciliation, versus manual corrections that span several billing cycles and result in perpetually inaccurate balances.

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Risk management. Underwriting will occur prospectively and in real time, relying on risk factors tied to individual demographics (e.g., college students, childbearing-aged women, etc.) and medical data including diagnostic codes and prescription histories. The benefit? More precise risk assessment, more competitively priced premium rates and more accurately calculated financial reserves.

Customer service. Self-service over the Internet will become the rule, not the exception, for health plan constituents. Health plans will also adopt sophisticated techniques that allow members to obtain live assistance when necessary. Members will receive monthly statements, similar to bank statements, that reflect money paid into and out of their health savings accounts.

Reimbursement management. Over time, healthcare will be funded from multiple sources, including employer contributions, medical reimbursement accounts and out-of-pocket spending. To deal with this complexity, health plans will continue integrating their information systems and automating claims payments. Eventually, claims adjudication will happen in real time, while the patient is still at the physician's office.

Care management. Chronically ill and high-risk members will be identified proactively through patient-authorized health questionnaires, historical claims and other data sources. A member will self-manage her illness over the Internet by following an online disease-management program tailored to her benefit plan and provider network.

Network management. Health plans will automate management of their provider networks, a growing challenge as benefit plans and network options become more complex. Predictive-modeling programs will help

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with provider negotiations, and new natural language capabilities will make it easier for non-IT staff to load reimbursement rules into the system. Health plans will also open their internal information systems to the Internet, arming consumers with easily accessible information such as a surgeon's patient-satisfaction rates, surgery success rates and fees.

Finance and administration. Health plans will move toward integrated information systems and more sophisticated business intelligence, critical for effective data collection, analysis and reporting. As a result, management will make more informed decisions and spend capital more wisely.

Most organizations will move toward this future state gradually, with some business cycles advancing more rapidly than others.

The Role of Technology

Whether a health plan's evolution is gradual or rapid, technology will play a critical role. The innovations described above require an enterprisewide administrative system that extends the business beyond organizational boundaries, via the Internet, to the health plan's constituents. This will result in high levels of automation and better, more accessible information.

Following are five IT concepts that will be critical to the health plan of the future. Some may be commonplace in other industries, but they are greatly underutilized in managed care today.

Automation and efficiency. According to Gartner, health insurers spent only 2.5 percent of their gross revenues in 2002 on IT, compared with 6 percent spent by financial services firms. A huge gap exists between healthcare and other industries in the cost and efficiency of processing basic transactions. A single healthcare transaction can cost as much as $25. Banks and brokerages, which rely heavily on automation and technology, have cut their costs to less than a penny for certain transactions.

HealthNow New York in Buffalo, N.Y., has achieved significant efficiencies by automating most of its administrative functions. Since implementing an advanced software system in 1998, HealthNow has been able to improve timeliness and accuracy in its enrollment, claims and customer service departments. The health plan now processes about 75 percent of all claims automatically, freeing analysts to focus on complicated claims that require human intervention. Scanning and optical character recognition technology have reduced manual entry of pended claims, boosting productivity by 300 percent. Each analyst handles approximately 37 pended claims per hour, an increase of 76 percent from earlier rates.

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e-Business. Internet-based applications build customer intimacy by allowing user-friendly, 24/7 access to important information and transactions. Mass customization of benefit plans, Internet self-service for health plan constituents, and personalized programs for acute and chronically ill individuals are all possible through e-business.

Presbyterian Health Plan of Albuquerque, N.M., uses an Internet platform to reduce costs while improving customer service. Since the health plan introduced Web capabilities in mid-2001, inbound phone calls have decreased by 50 percent, saving 750 hours of staff time per month. Employees now have time to place outbound calls, asking new members, for instance, whether they have questions or have selected a primary care physician. One large provider group that uses Presbyterian's Web services eliminated 75 percent of its calls to the health plan.

Deep integration of front-end and back-end systems. A Web site is merely "brochure-ware" unless customers and partners can complete business transactions online. That requires deep integration of a health plan's customer-friendly, Web-based system with its workhorse back-end system. Unlocking a back-end system to the Internet also enables "straight-through processing" of an entire business process.

Blue Cross Blue Shield of Tennessee (BCBST), based in Chattanooga, is on its way to automating the entire customer-acquisition process through online broker quotes, member enrollment and premium billing. In 2002, BCBST saw immediate benefits from online member enrollment. Accuracy improved because members usually type their family members' names and birth dates correctly. The Web-based system also prevents members from submitting incomplete forms. Approximately 33 percent of BCBST's electronic enrollment submissions are accepted on first pass, requiring no human intervention. The average time required to enroll an employer group subsequently dropped to 1.2 days, compared to seven to 10 days for the average paper-based enrollment. The health plan expects to reduce enrollment costs by 33 percent this year. In April 2003, BCBST also introduced online premium billing for its customers.

Business intelligence. Health plans capture volumes of data in

their systems but, on average, use only 10 percent. Most health plans lack a cohesive strategy for organizing data and turning it into useful information that's readily accessible to the departments that need it. The health plan of the future will rely heavily on better information from all eight business cycles.

MVP Health Care in Schenectady, N.Y., took a practical approach to building its business intelligence strategy. Constructing a grandiose data warehouse could have taken years to produce results. Instead, MVP started with a more manageable operational data store linked to its administrative system. Employees were able to pull reports almost immediately and without assistance from IT staff. Meanwhile, the company developed a series of integrated data marts to hold historical information from each major department. Cross-departmental reports give MVP's executives insight on long-term trends so they can make better decisions. With this solid foundation in place, MVP can add to its business intelligence strategy incrementally as new business needs arise.

Outsourcing. Health plans increasingly will turn to outsourcing partners that can offer advantages of scale in administrative areas (e.g., claims processing, member enrollment and billing functions) that are important, but nonstrategic. Health plans are beginning to outsource hosting and management of their software applications, as well as staffing and operations of their entire IT department. According to Gartner Dataquest, by 2007, 60 percent of healthcare organizations will spend more on external IT support, consulting and outsourcing services than on internal staff.

QualChoice of Arkansas, in Little Rock, outsources its information systems, IT staff and myriad administrative functions, from claims processing to medical management. By focusing on its core competencies, QualChoice has undergone a massive turnaround over four years, from a $10 million loss in 1999 to a projected $3 million profit by the end of 2003. Improvements in premium billing alone are saving the health plan $50,000 each year. Since 2000, the number of claims processed within 30 days has increased from 54 percent to 87 percent. The average turnaround time has been cut almost in half, from 28.8 days in 2000 to 16.4 days in 2003, and auto-adjudication rates have increased by 42 percent.

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Technology That Pays for Itself

With money in short supply, health plans need to fund new technology with savings from increased internal efficiencies. In other words, technology initiatives must pay for themselves. When applied in a coordinated manner across the business cycles, these technologies not only pay for themselves, but they can also fund other initiatives to grow the business.

The combination of a powerful enterprisewide system, software hosting and management, and business-process outsourcing can deliver a high return on investment (ROI). A million-plus-member plan that outsources its applications and many of its business processes can achieve an internal rate of return (a more precise way of looking at ROI) of 100 percent in two years. If that same health plan licensed and ran the software in-house, the internal rate of return would drop to about 33 percent in three years.

A two-year payback period should appeal to anyone who has endured a never-ending systems implementation. Factor in savings from the permanent efficiencies that technology can create throughout the organization, and that's money for growth initiatives. Blue Cross Blue Shield of Tennessee saves $5 million annually through its investment in a state-of-the-art administrative system. The plan also has the state's leading market share and is experiencing the highest customer-satisfaction ratings in its 57-year history.

The age of consumerism is upon us, bringing with it great expectations that will push our industry to new levels of innovation and efficiency. Technology can help us get there faster and in ways we never expected.

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