

New Rules in a New Game: Brokers Reposition in the Coverage and Affordability Crisis

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With the U.S. private healthcare system in crisis, we are beginning to see a divergence in the health benefits distribution marketplace. While some brokers are perpetuating legacy models, an increasing number are devising and delivering innovative solutions to employers. This emerging generation of distribution is directly addressing medical inflation through cost and quality solutions that keep employers and brokers in the game.

It is no secret that the private healthcare system in the United States is struggling for long-term viability. Rising medical costs continue to drive employers out of the health benefits marketplace. Remaining employers are searching for solutions that mitigate price acceleration and system complexity.

Meanwhile, the payer community continues to promote an expanding portfolio of solutions. Yet voters in recent elections rank healthcare as one of their top concerns, and some candidates endorse governmental involvement that would radically change the current system.

While this might appear to paint a bleak picture for the broker, it is out of such desperate situations that innovation and creativity often spark transformative change. The health benefits distribution marketplace is ripe for such change, and the rewards for the innovators, as well as the implications for the laggards, will be significant.

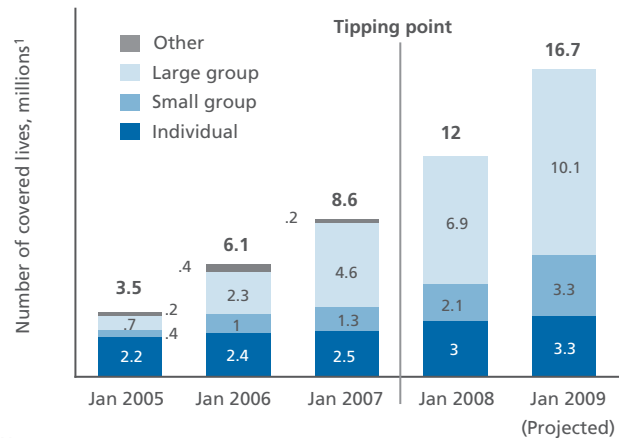
Oliver Wyman teamed up with *Benefits Selling* magazine to assess the tenor of the market, and to identify innovative broker strategies that are beginning to contribute to a healthcare affordability solution. This white paper reports on the results of that research, which sheds light on the impact of current broker strategies and provides an early glimpse of future broker business models.

The Direction of the Marketplace

The employer-broker dialogue continues to focus on the rising cost of benefits. In fact, the bottom-line impact of escalating costs is one of the most pressing issue for employers, outweighing other concerns such as employee productivity or retention.

In response to cost escalation, employers are routinely seeking to either reduce benefits or shift costs to employees. While such tactics address near-term budget issues, they are insufficient in addressing the underlying factors impacting the cost of care.

Exhibit 1 Consumer-driven health benefit adoption



Note:
1. Lives covered by HRAs and HSAs
Source: AHIP Center for Policy Research; Oliver Wyman

“Cost shifting’s destructive effect is increasing and threatens the viability of healthcare financing in this country,” said one broker we spoke with.

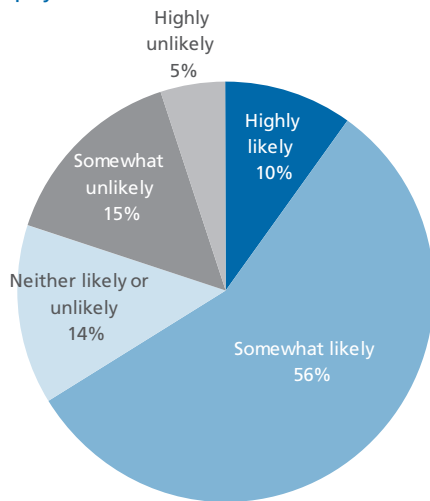
According to brokers, consumer-driven health benefit designs are perceived to be the most effective means of controlling cost, yet continue to show mixed adoption rates (Exhibit 1). Varying uptake stems largely from employers’ lingering paternalist view of their role in providing health benefits.

Note that a divide has emerged in the broker community. Roughly one-third of brokers report that they quote CDH to less than 25% of their groups. Another third reports that they quote CDH designs to the vast majority—more than 75% of their groups. As more and more brokers report that larger portions of their books are buying CDH products, it seems likely that the market is near a tipping point of wider adoption.

Looming over these shifts in the commercial marketplace is the specter of government intervention. The brokerage community anxiously awaits the coming presidential election as it perceives that the result could have a significant impact on the current health delivery model. While it is unlikely the United States will move

Exhibit 2 Brokers' opinion about the likelihood of government intervention

The federal government will mandate employers provide healthcare benefits, but delivered through private payers.



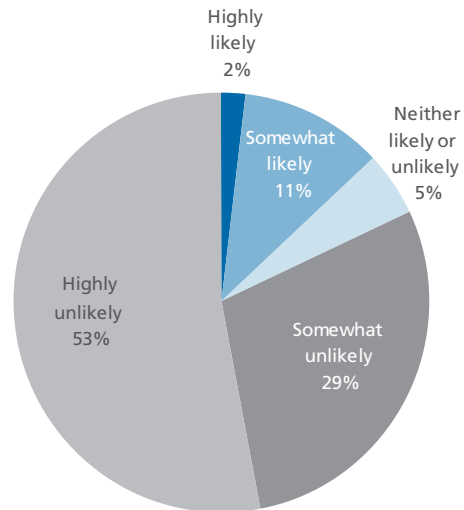
Source: AHIP Center for Policy Research; Oliver Wyman

to a nationalized healthcare system, with the government as a single payer, the majority of brokers believe that the federal government will mandate employer sponsored healthcare benefits through private payers (Exhibit 2).

Complacency vs. Creativity

In the midst of this healthcare crisis, most brokers actively seek customer growth to counter the impact of lower-cost products and leveled commission structures. However, the strategies they deploy to capture this growth can best be described as business as usual. That is, brokers continue to place a heavy emphasis on targeting employers as customers, reaching out to new prospects through personal referral networks, and relying on an integrated product offering (e.g. medical, dental, life, disability) to create differentiation. Further, the broker community acknowledges that the majority of value is created by providing counsel on benefit design and vendor selection for the employer group rather than through other innovations that might have longer-term positive implications (Exhibit 3).

The U.S. will move to a nationalized healthcare system where the government will function as the single payer.

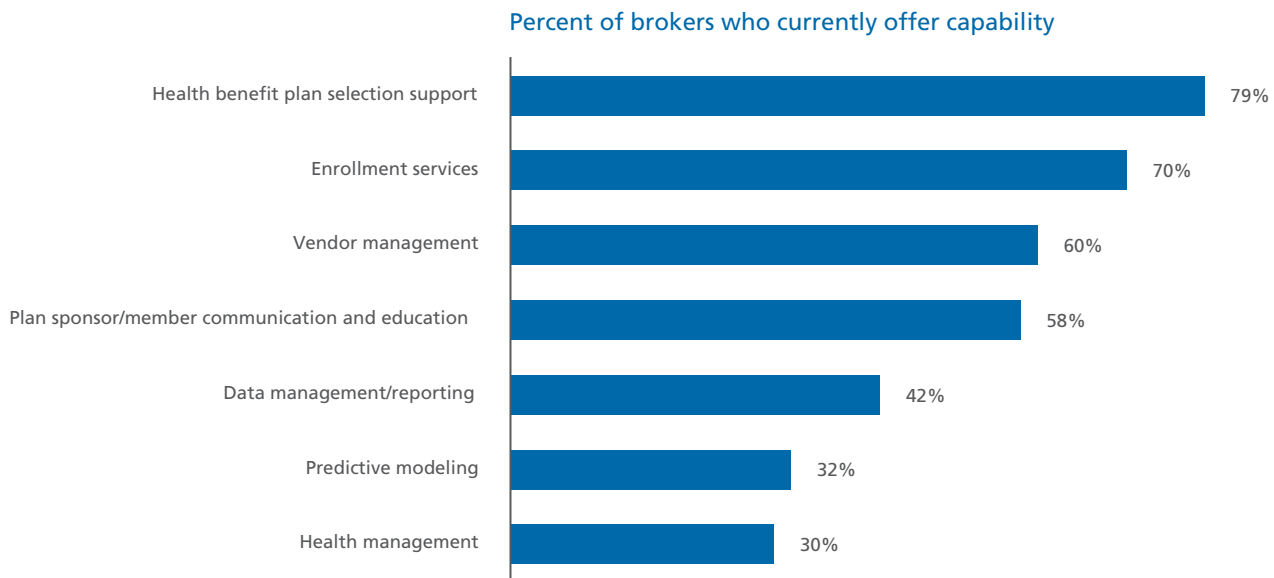


There are, however, some interesting signs of change in the market. As competition intensifies for a fixed population of commercial lives, brokers are allocating an average of 40% of their time to expanding their books of business. Such a profound focus on growth has significant implications for service models, and, indeed, there is an increasing reliance on tools and technologies that automate service components that traditionally consume large amounts of time. In fact, when asked about capabilities that create differentiation in the marketplace, one broker stated, "Technology will help streamline basic, transactional services in order to focus more time on growth, consumer engagement, and benefits strategy development."

Within some corners of the brokerage community, there is a growing movement aimed at fortifying the employer-broker relationship through an expanded service offering.

In addition to traditional partnerships, brokers are aligning with potentially disruptive market entrants that provide wellness, nurselines,

Exhibit 3 Current broker value chain



Source: Oliver Wyman analysis

data warehousing, consumer portals, disease management, and more. Through these arrangements, they are able to deliver more robust and tailored services to assist cost containment strategies. Some brokerages are bolstering their staffs with actuarial and analytical personnel. These integrated capabilities enable brokers to deliver more comprehensive, analytic-driven services that change the nature of the benefit selection process, the relationship with employers and members and, ultimately, the underlying brokerage business model.

Broker Innovation Toward a Solution

In aggregate, the broker community's feedback speaks volumes about the emerging health benefits marketplace. Consider for a moment the prevailing hypothesis: Free-market forces within a private-payer system are necessary to correct price and utilization trends, and CDH has opened consumers' minds to alternatives beyond fee-for-service medicine.

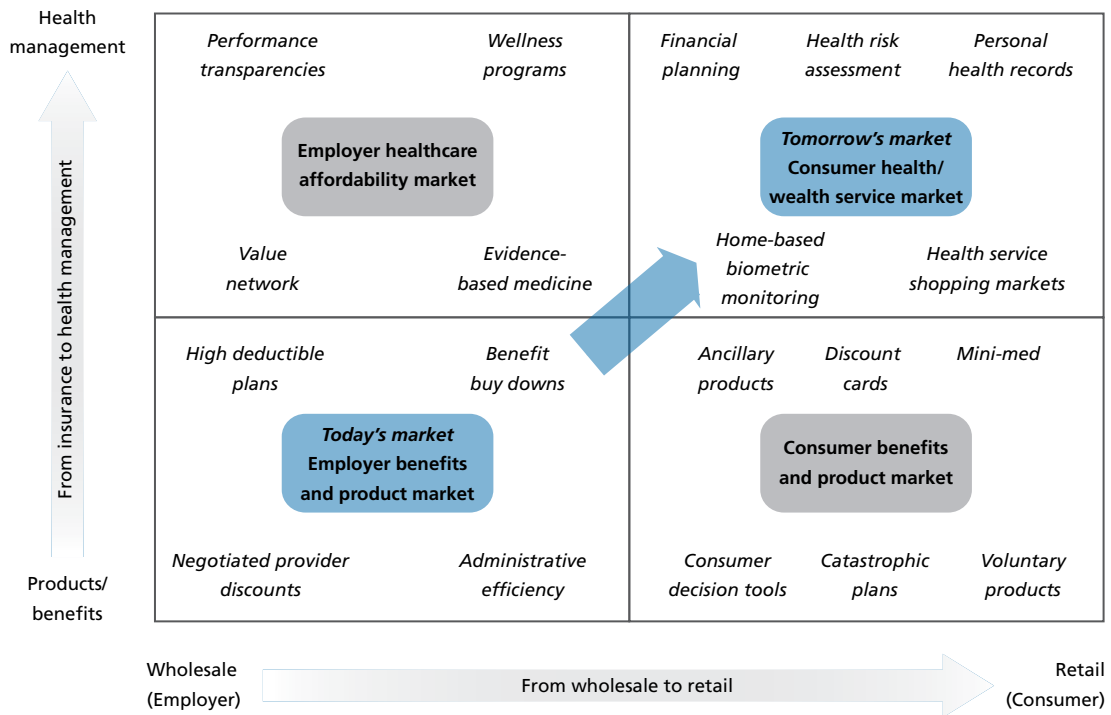
Against this developing market backdrop, the payer community is attempting to create greater consumer engagement and a more efficient consumer-provider relationship for the purpose of improving healthcare quality and affordability (Exhibit 4). To keep pace, brokers will soon have to make critical decisions about the evolution of their business models (Exhibit 5). Some of the key themes that will drive this change are described below.

Stemming Consumption (Reducing Demand)

The focus of the employer-broker conversation will shift from premium comparisons or "spread-sheeting" to addressing the root causes of healthcare cost inflation.

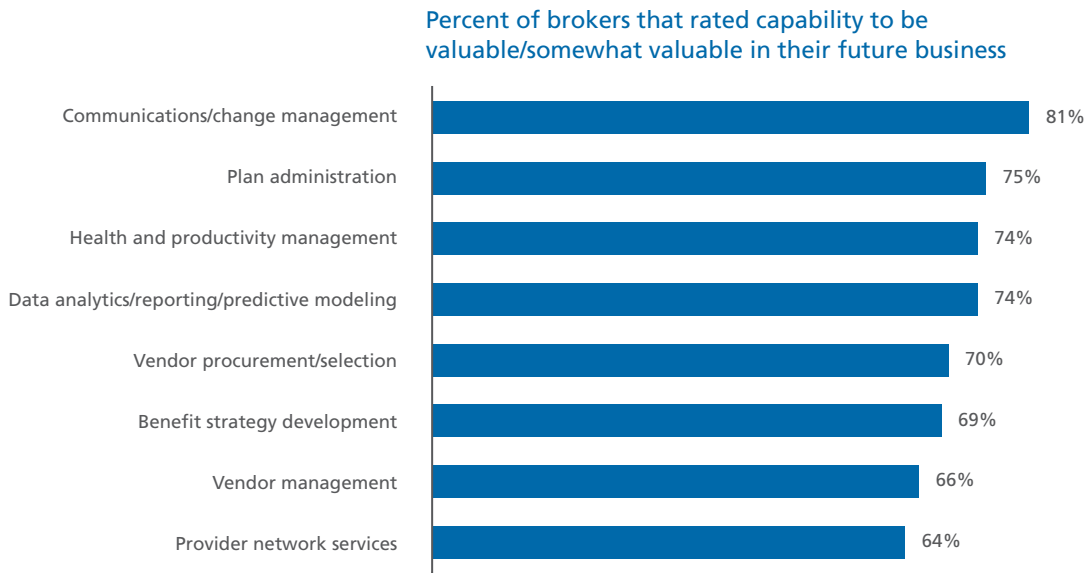
One broker said, "Behavior education and change will be critical in my offering due to its direct impact on utilization, which ultimately impacts total healthcare costs."

Exhibit 4 Future healthcare market shift business model attributes



Source: Oliver Wyman analysis

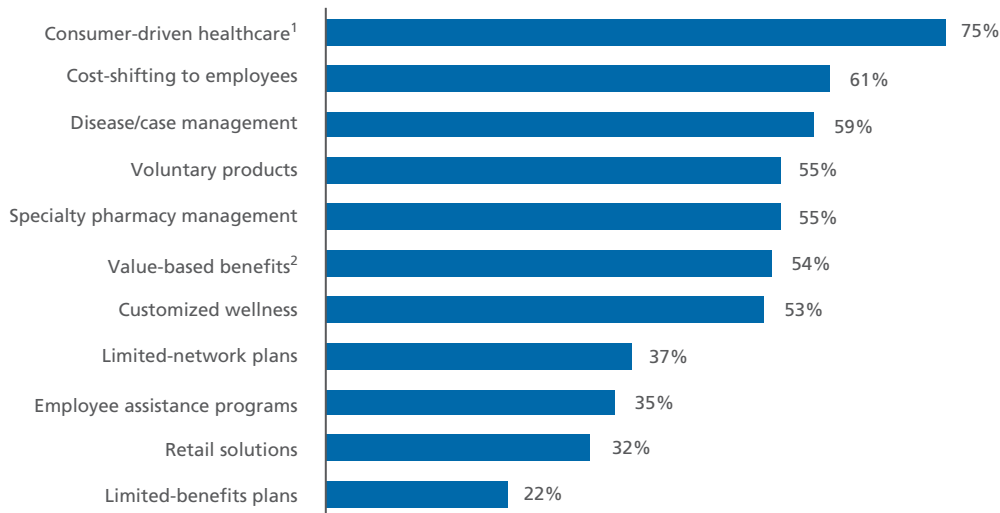
Exhibit 5 Future broker value chain



Source: Oliver Wyman analysis

Exhibit 6 Current solutions to improve cost and quality

Percent of brokers that rated solutions to be extremely or somewhat effective



Notes:

1. High deductible plan with HSA/HRA compatibility

2. Varying level of benefit richness based on health/behavior lifestyle

Source: Oliver Wyman analysis

Wellness programs are beginning to play a more important role in stemming health consumption (Exhibit 6). They are also beginning to show a positive impact on employee productivity. As a result, more innovative brokers are developing wellness offerings, or forging partnerships with wellness providers. Health (disease and care) management programs, targeting higher risk members, are migrating into smaller employers.

These programs engage high-risk individuals not only to improve member compliance, but also to identify more cost-effective treatment options. Expressing frustration with the return on investment of payer-provided programs, some brokers are inventing their own solutions to improve outcomes. As one broker said, “We see these programs as an important differentiator and ‘hedge strategy’ against a mandated market.”

Building Consumer Engagement

Shifts toward wellness and health management imply a far more consumer-centric model. More

than 40% of brokers believe that consumers will either play a joint role in healthcare decision-making with their employers or be the primary decision-maker. Increased consumer engagement represents an important component of solving the healthcare crisis.

One example is brokers offering nurseline services to their accounts, contracting with registered nurses who rely on evidence-based medical information to provide consumers with treatment guidance. In another example, brokers who provide healthcare and retirement services are converging the two practices to provide healthcare savings account management and planning for consumers (integrated health-wealth management). Other brokers are filling a life-stage-management role by providing benefit navigation support throughout a consumer’s life-stages including education, career progression, and pre-and post-65 retirement solutions.

These offerings are shifting the role of the broker

from a purveyor of benefit design and selection to consumer healthcare advocacy.

“Our success in establishing and maintaining consumer relationships will be critical if the healthcare market becomes more retail in nature,” said one broker.

Demonstrating Improved Performance

Employers are overwhelmed by the expanding array of health management options available in the marketplace. Brokers will play an important role in helping these employers identify solutions with meaningful, quantifiable results. In addition, it will be important that they can provide guidance and benchmarks to help employers gauge program efficacy.

A number of brokers are actively investing in analytic services to measure and benchmark program offerings to support their employers' innovation. Over time, such offerings will evolve into core capabilities that enable savvy brokers to demonstrate value and displace more complacent brokers.

Stimulating Behavior Change

Adoption of innovative health-benefits solutions will not be uniform, and brokers will increasingly find themselves acting as a change agent for their employers. “Change management is often overlooked and a good health management strategy can fail without one,” one broker noted.

As with other health innovations, employers will likely separate into three segments along the adoption continuum: innovators, fast followers, and traditionalist/laggards. Innovators are embracing new solutions, and brokers will have to work hard to keep pace with these market makers, while at the same time carefully helping the other segments gain needed confidence to achieve transition.

Broker success will depend on identifying employers on the basis of their belief and re-orienting value propositions and service

offerings to address employers' different needs. Brokers that make this shift will be able to support the innovators, convert the fast followers, and educate the traditionalist/laggards to engage in more effective health solutions.

These brokerage companies assess employers' readiness for change, and are disciplined such that they only engage high-fit groups. Further, these brokers invest heavily in services and technologies that enable greater engagement with both consumers and employers, carefully measuring performance against efficacy benchmarks. As a result, these brokers realize high close ratios, greater account penetration, more products per employee, higher revenue/margins, and better persistency.

From Concept to Impact

The coverage and affordability crisis threatens the employer-sponsored health benefits marketplace. Employers are frustrated with short-term solutions focused on cost-shifting and are looking to their brokers to offer a fresh approach. Given their intimacy with both employers and members, brokers should be able to drive innovation and the market change necessary to provide long-term stability in the private U.S. healthcare system. However, for this to happen, brokers must make strategic investments and open their minds to possibilities that will enable them to engage their customers with high-impact health solutions. ❖

About Oliver Wyman

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Oliver Wyman's Health & Life Sciences practice serves clients across the health sector with strategic, operational, and organizational advice. Deep healthcare knowledge and capabilities allow the practice to deliver fact-based solutions with real impact.

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