



Executive Briefing

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Oliver Wyman's analysis of the seniors market points to one inescapable conclusion: The steps companies take over the next two to three years will shape the seniors market for decades to come.

Three Mountains to Climb

Companies in the seniors market face three massive challenges if they are to survive and prosper in the post-reform world. And the clock is ticking on all of them.

Picture a traveler struggling up a mountain. As he nears the summit he discovers that beyond the peak, there's another, hidden from view until now, and beyond that a third. He's only begun to climb.

That's not a bad image of the situation faced today by managed care's seniors market: Most companies are in the midst of climbing a mountain of change: responding to changes in Medicare Advantage. Already, though, it is becoming clear that the aging of the Baby Boom, healthcare reform, and the looming Medicare crisis have given rise to a second peak to climb: developing new products to respond to new consumer needs created by these events. And beyond these two is the third mountain: positioning themselves to profitably serve Medicare as it looks to incorporate elements of Integrated Healthcare Management (IHM) into the traditional fee-for-service population.

There is one crucial difference between our traveler and healthcare companies, however: The traveler can climb his mountains one at a time. Companies in the seniors market, if they are to survive the challenges and seize the opportunities of the next few years, must climb theirs simultaneously—and now. Oliver Wyman's in-depth analysis of the seniors market points to an inescapable conclusion: The steps plans take over the next two to three years will shape the seniors market for decades to come. It's true that the ongoing process of healthcare reform has created many uncertainties. But in the Medicare space, at least, the broad outlines of change are relatively clear. In this segment, not only is it necessary to act, it is possible.

There are serious penalties for failure, and just as important, rich rewards for success. But to win them, you have to make it up all three mountains.

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Mountain #1: Preserve earnings in the face of Medicare Advantage cuts

For those in the MA market, this is an enormous concern: Over the next four years, rate cuts are expected to reach \$75 million for every 50,000 members. Many plans are currently addressing the 2010 cuts, but that gets them only one-third of the way toward the cumulative reductions expected by 2014—a date that is just around the corner.

After having successfully worked with clients to deal with MA cuts, Oliver Wyman has come to understand what healthcare plans need to do. Many tools can be used—including traditional ones such as benefit design, reduced administrative costs, risk adjustment, geographic selection, product portfolio, and pricing optimization. But for many organizations, these traditional levers will not be enough. Health plans will need to engage providers and members to attack the basic drivers of quality and cost. In our experience, the most promising approach today is Integrated Health Management (IHM), which has demonstrated significant success in enhancing quality of care while reducing costs. IHM is different from the health management approaches familiar today. It is new territory for most companies, but it will be vitally important to their futures.

It is crucial for health plans to succeed at Medicare Advantage, and not just because of the need to preserve earnings. Their performance here will help to determine whether they are able to participate in the market going forward. Right now the nation is weighing reform options, and plans that do not demonstrate an ability to cut costs, deliver quality, and evolve to meet new societal needs may well find themselves out in the cold.

Mountain #2: Broaden and create new offerings to target total seniors' needs

As the Baby Boomers flood into the seniors space, they are not just growing but transforming the market with their aggressive demands and their strong preference for personal choice. They won't settle for one-size-fits-all Medicare, especially the trimmed-back Medicare many of them will encounter as the Medicare Trust Fund becomes insolvent as early as 2017. Leading players are looking more holistically at seniors, who promise to create a perfect storm of unmet demand not just in healthcare but in the adjacent, multibillion-dollar segments of health and wellness services, financial planning, and retirement products. The economic turmoil of the past few years has taught Boomers the benefits of security. There's an enormous market today for companies that are able to come to market with products and services that address their needs.

When the dust settles after the chaos of healthcare reform, the senior market will remain the most significant, fastest-growing segment of healthcare—a segment you must play in.

Mountain #3: Partner with the world's largest healthcare provider

As budgets for traditional government-provided Medicare get squeezed, CMS will likely turn to Integrated Health Management to control costs. But it will need help in bringing this new approach to traditional fee-for-service Medicare. Providers are ill-equipped to take on the job, government shouldn't and probably can't. That means a large potential opportunity for companies—especially the first movers—that master community-based coordinated delivery models, value-based reimbursement, and other core elements of IHM. At the moment, it is not clear how quickly the President and Congress will act on healthcare reform. But they are unlikely to wait until they have a perfect solution. IHM capabilities will pre-position companies to serve the government's next generation fee-for-service program.

How do I get started?

Make no mistake, when the dust settles after the chaos of healthcare reform, the senior market will remain the most significant, fastest-growing segment of healthcare—a segment you must play in. In this difficult and rapidly changing marketplace, the key to long-term competitive advantage is thinking and acting strategically across a wide range of activities. A holistic approach is essential. To help set plans on the right path, Oliver Wyman has prepared a playbook for senior care, designed to enhance your effectiveness as you analyze and plan in this important arena. We would welcome the chance to make a complimentary presentation of the playbook to you and your team.

For further information on the playbook, for details on Oliver Wyman's exclusive diagnostic to determine your plan's exposure to changes in Medicare Advantage, or to discuss your market situation with one of our seniors experts, e-mail seniors.strategy@oliverwyman.com or contact a member of our team directly.

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