



# The Demand for Healthcare Consumerism

Challenges, Solutions & Suggestions  
for Payer Organizations

**INDUSTRY WHITEPAPER**

From HighPoint Solutions

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## INTRODUCTION

Not very long ago, healthcare benefits for workers in the United States were entirely employer-directed. It was up to the company to research, select, and pay for the health plans that were part of the employees' compensation packages.

A combination of ever-rising healthcare costs and almost continuous pressure to trim costs has given rise to consumer-driven healthcare (CDHC), an approach that is appealing to employers and consumers as well as payers. At their most basic level, consumer-driven health plans include high deductible health insurance coupled with personal health accounts that workers use to pay for qualified medical expenses. Major medical care is covered by the insurance portion of the plan, while preventive maintenance and minor medical needs are paid out of an account that the employee manages directly. CDHC, therefore, involves: 1) an employer making a contribution to a "trimmed down" health insurance plan and/ or an account, like a health savings account (HSA), and 2) employees/consumers choosing how HSA money is spent.

According to Forrester Research, HSAs are now available to 250 million non-elderly Americans; further, the number of people with personal health accounts is expected to grow from 1.5 million in 2002 to more than 18 million by 2012. This huge increase over only one decade points to a highly competitive market in which payers must participate in order to grow.

What changes must a payer enterprise make to successfully compete in a burgeoning CDHC market? Among other things, attention must be paid to (and investment must be made on) the back office functions that help power a potentially enormous healthcare provision engine. In that back office, effective technology implementation across the board is a critical success factor.

## THE RISE OF CDHC: AN ECONOMIC NECESSITY

The move from traditional employee healthcare plans to consumer-driven healthcare instruments tracks in many ways with the move from defined benefit to defined contribution retirement plans across corporate America.

Defined benefit plans entered the U.S. private business sector in the 1870s, when railroad companies and the firms that serviced them needed a stable workforce to succeed. These plans helped give employees incentive to stay with the company over time. Over the next hundred years or so, defined benefit retirement plans became embedded in corporate culture — until economic conditions called for something different.

The defined contribution plan evolved as a solution to the heavy financial pressure and tax burden that defined benefit plans exerted on corporations. With the bulk of plan funding derived from deferred employee compensation—and the actual amount being deferred determined individually by each employee— companies were quick to adopt defined contribution as the

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primary retirement plan vehicle going forward.

Since the 1970s, when the defined contribution plan took center stage, there have been some fundamental shifts in how companies and employees view the retirement portion of corporations' compensation packages:

- Due to their flexibility and cost-effective features, defined contribution retirement packages have been implemented in companies across the entire size spectrum, from one-person firms to Fortune 100 giants.
- Because of the self-directed nature of these plans, employees have by necessity become better-educated investors.
- A robust market of plan vehicles has been created, with banks, investment firms, insurance companies, and other enterprises competing for employees' tax-deferred dollars.

The medical portion of the corporate compensation package is rolling down very similar tracks:

- As consumer-driven instruments such as HSAs become more prevalent, they will be taken up by businesses that were too small to afford traditional employee health plans.
- As employees take over the wheel of their health care "vehicle," they will seek education—not just about medical science, but about delivery options and associated costs.
- Healthcare providers and payors will operate in an increasingly competitive market, vying to secure as many of the employee's medical care dollars as they can.

The rising costs of health care, with the parallel rise in healthcare insurance costs, exert serious financial pressures on corporations, insurers, and payers. The response to this negative stimulus is to cut costs (or at least stop the increase), which in turn leads to strategies to shift some of the costs to employees. At the same time, the growth of medical information resources on the Internet fostered a change in the medical consumer population. Over time, employees are becoming better informed consumers, and their expectations are changing in terms of their healthcare benefits. Further, they are now more interested in participating in health care buying decisions.

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## CDHC PLAN TYPES

There are four main CDHC plan types currently offered by employers and insurers. These are:

1. Multi-plan option, offering a choice of insurers/plan designs with a fixed employer contribution. The employee selects the plan and pays the cost difference.
2. Supermarket option, including a Personal Health Account (PHA) and/or Flexible Spending Account (FSA). A third party provides an array of plans and administrative services, with the employee setting aside pre-tax money to pay for costs not covered by the plan.
3. High deductible plan plus a PHA and/or FSA, similar to the supermarket option but with the plans limited to high-deductible vehicles.
4. PHA and FSA. Each employee builds a personal benefit plan with the level of managed care and provider features that fits their personal budget.

## THE CDHC-TECHNOLOGY CONNECTION

There is a far wider range of employee healthcare plan choices and combinations than ever before. And the reach is farther than ever—offering micro- and small businesses healthcare approaches that were not available just a decade ago. As previously noted, this trend toward high diversity and flexibility is rooted in the need for more cost-effective benefit options. It has also been enabled by significant advances in technology. These advances have also spawned a lot of confusion, false starts, and low-ROI technology strategies among payer organizations.

The emergence of web-enabled tools made it easy for plan administrators to offer more choices to consumers while reducing administrative costs. Technological breakthroughs in processing and electronic data transmission contributed greatly to the creation of allowed new health care plans tailored to consumers and businesses of all sizes. Advances in .NET, XML, and form technologies made plan administration feasible across a wide range of platforms, including online venues.

Consumers can access plan information via the Internet, select the plan that best fits them, and make independent, informed decisions about healthcare coverage. Providing the right technology environment to attract consumers and provide them with great access to plan information and decision making tools is the main challenge for both insurers and payers. Often, the platforms and systems that are appropriate for the traditional plans still being offered by employers are quite different from the infrastructure that best suits CDHC. To keep a foot in both worlds, payers must incorporate a CDHC system into operations, and essentially operate the two systems side by side. This can end up exerting all kinds of pressures as new processes must be established, personnel must learn and adapt to unfamiliar technologies, and management must allocate resources effectively to ensure success.

## BUSINESS IMPLICATIONS OF CDHC TECHNOLOGIES

Serving the CDHC market while at the same time continuing to serve traditional healthcare insurance programs presents a number of challenges to payers:

- Employees' unprecedented participation in spending decisions opens a whole new area for attention: Marketing. Packaging plans and services that gain "wallet share" now has a "business to consumer" angle, and payer organizations must beef up their direct-to-employee marketing in order to succeed, with most of the effort focused on Web-based programs.
- The business-to-consumer angle also demands top line customer service in order to retain customers. This often means improving call center processes and technology in order to better meet customer needs.
- Similarly, payment processing is changing, with new technologies and processing that must be incorporated into operations.

## **CDHC FORMS NEW RELATIONSHIPS IN THE EXECUTIVE SUITE**

The brave new world of the CDHC market requires different connections between an organization's business functions, and executive roles may become more blurred at the edges as they overlap with each other.

With technology-enabled marketing at the strategic core of this line of business, IT and marketing executives must collaborate closely to design and deploy the systems needed to generate leads, capture new customers, and retain current ones. The chief medical officer must take on the mantle of "product packager," working with marketing and sales to craft offerings that answer the needs of the market.

These new connections in the executive suite will likely foster new levels of innovation in the business, which will enhance competitive position in the CDHC arena.

- The competitive landscape is "hotting up" with new entrants using new technologies, in turn putting pressure on payers to stay up to date.
- Technology providers are offering a wide range of innovative infrastructure and application solutions to payers.

Technology is the key to success in the CDHC arena, and it is also a high-risk proposition. CDHC technology infrastructure requires a large capital investment along with a commitment to change management in order to accommodate new processes and programs. With a seemingly endless number of solutions being pitched by almost as many providers, payer organizations often don't know which strategic direction to take their CDHC technologies, nor where to start.

Making appropriate selections among a complex array of choices, and then implementing those selections effectively within current infrastructure and operations, takes a degree of experience and know-how that many payers do not retain in-house. The best strategy for stacking the deck in favor of success in the CDHC market is to partner with a trusted technology advisor that can bring the right experience and know-how to the table.

## **SETTING COURSE FOR THE RIGHT SOLUTION**

Crafting a successful CDHC strategy requires a multi-pronged approach which includes marketing, product development, and technology configuration. The marketing part of the equation involves raising awareness of your organization and services in your target consumer population, capturing them as customers, and then serving them in ways that will keep them with you. The right sales channels for your particular situation must be identified and activated, and metrics/methods to assist increased customer acquisition and retention rates must be part of the ongoing program.

Product packaging takes center stage in the CDHC market. Elements of the retail consumer products industry need to be "lifted" for application. These include putting together and branding wellness programs, planning and implementing product launches, and devising incentive and loyalty programs that will appeal to your market.

All of this marketing and product management takes place in a multimedia technology environment, where traditional computing environments mesh with web-based technologies. Consumers need to have easy online access to their plans and transactions, and the customer service function must keep pace technologically in order to delight your customers.

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## HOW HIGHPOINT SOLUTIONS CAN HELP

HighPoint Solutions serves the CDHC market as a trusted advisor to payer organizations. We have the right people, process, and technology background to point the way to effective implementation of the right technologies. We can also provide value-rich analysis and assessment that allow management to make informed, success-enabling decisions. Our Rapid™ Program includes web strategies that address the marketing and operational needs of CDHC. Our team understands the business and technological aspects of lead generation, customer acquisition, and customer retention, and will craft the right solution for your needs. Across the larger scope, our Rapid Program includes analyses and assessments for use in infrastructure/process planning and design, including:

- Customer experience analysis, which provides insight into attitudes and needs of the CDHC consumer population.
- Internal infrastructure analysis, which indicates the status of your current technology infrastructure.
- Planning and readiness assessment, which provides insight into how CDHC oriented initiatives would fit and be deployed in your current operations.
- Technology assessment, to identify solutions and strategies that are appropriate for your objectives and current environment.
- Vendor analysis, which assesses and indicates technology providers that are appropriate to your needs.
- Implementation roadmap, to clearly lay out how CDHC technology will be deployed in your organization
- Process design, to devise workflows that apply to the new technology.
- Education and training, to facilitate adoption and application of CDHC systems and processes.

Contact HighPoint Solutions today to start the conversation about your CDHC strategy and implementation and how our Rapid Program can navigate your organization through this complex environment. We have the right combination of marketing, IT, and business experience to ensure your success.



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