

# Buying Trends

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

*It is no secret that the private healthcare system in the United States is struggling for long-term viability. Ever 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 demonstrable and sustainable impact is still developing. After the economy, voters rank healthcare as the most important topic in the upcoming national election (more than the war in Iraq)—and some candidates endorse governmental involvement that would radically change the system we know today.

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.

ChapterHouse 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. The purpose of this white paper is to share the insights gained in this research, which sheds light on the impact of today’s strategies, and provides an early glimpse of future broker business models.

### The Direction of the Marketplace

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

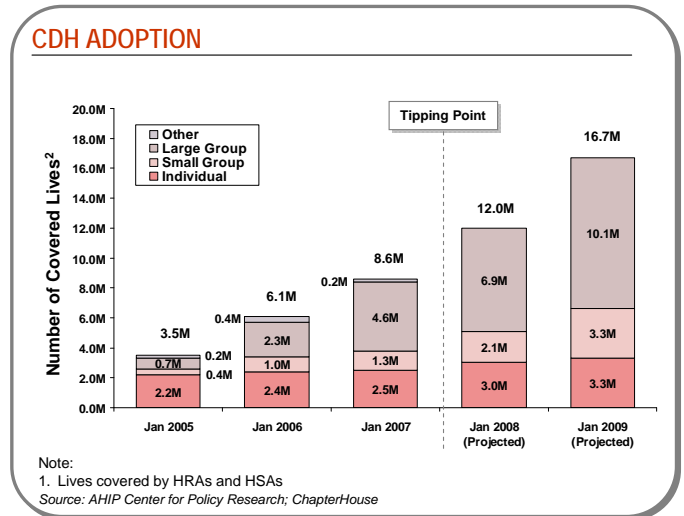
In response to cost escalation, employers are routinely seeking to either reduce benefits and/or

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.

“[Cost shifting’s] destructive effect is increasing and threatens the viability of healthcare financing in this country,” exclaimed one broker.

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 (see Figure 1). Varying uptake is largely due to employers’ lingering paternalist view of their role in providing health benefits.

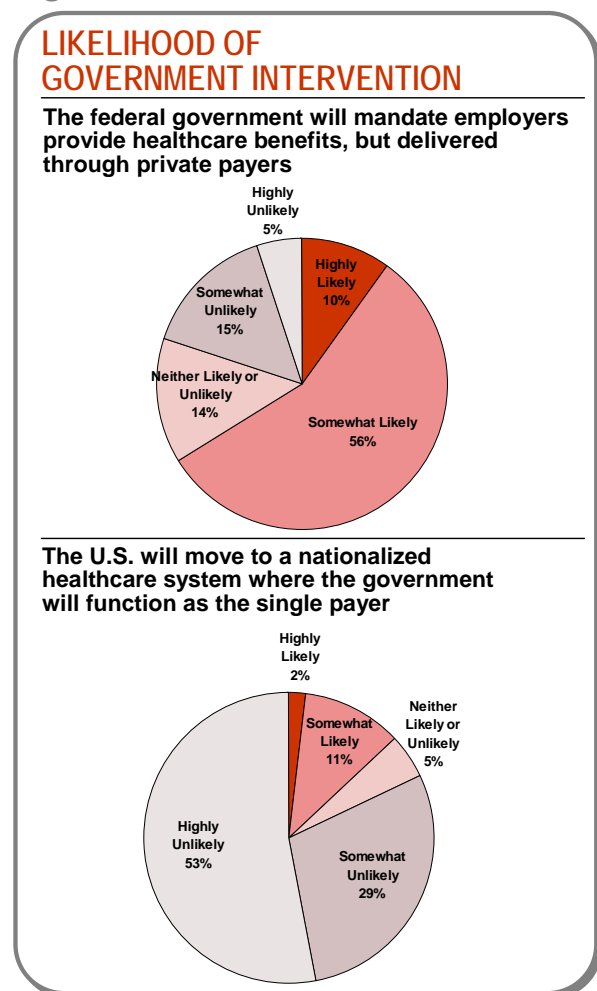
Figure 1:



It is interesting to 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. The final third quotes CDH to less than 25% 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 spread 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 there is general agreement that it is unlikely the United States will move toward a nationalized healthcare system (i.e. government as a single payer), the majority of brokers believe that the federal government will mandate employer sponsored healthcare benefits through private payers (see Figure 2).

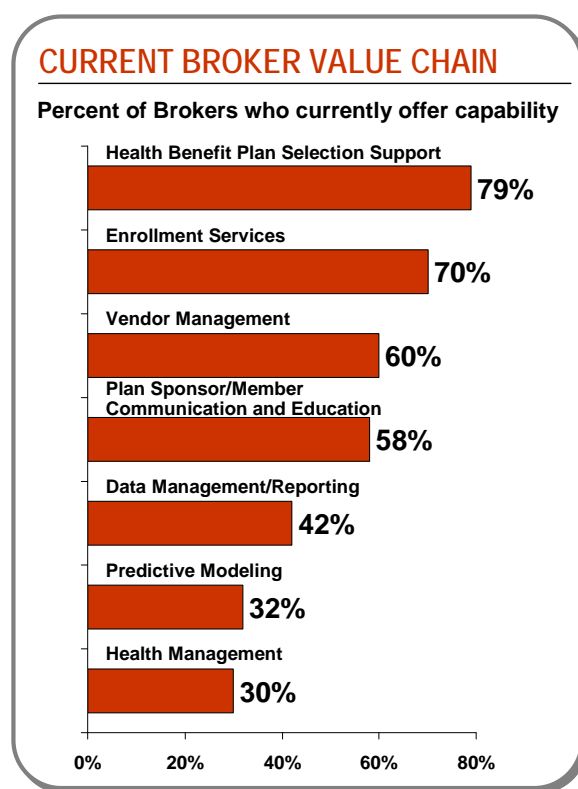
Figure 2:



## 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 other innovations that might have longer term positive implications (see Figure 3).

Figure 3:



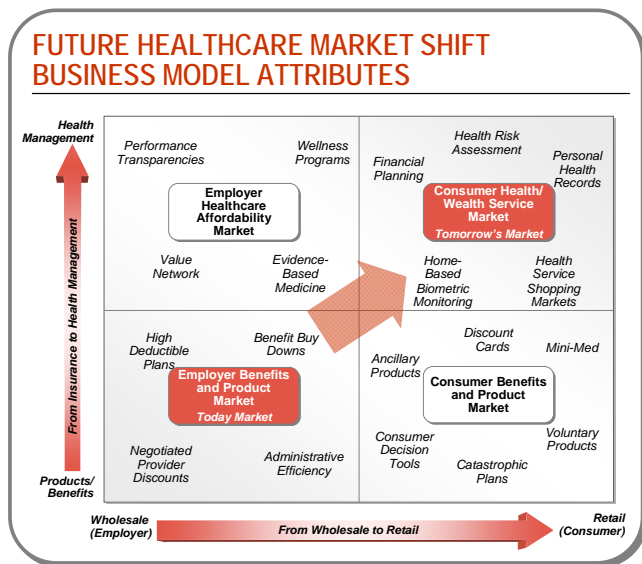
There are, however, some interesting signs of change in the market. As competition intensifies for a fixed population of commercial lives, brokers are allocating an average of 40% of their time to expanding their books of business. Such a profound focus on growth has significant implications for service 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, 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

Figure 4:



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.

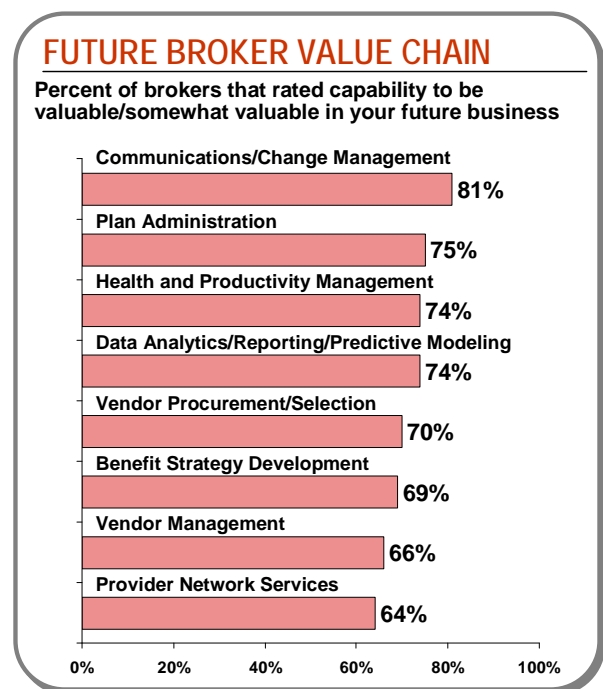
## Broker Innovation Toward A Solution

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

Figure 5:



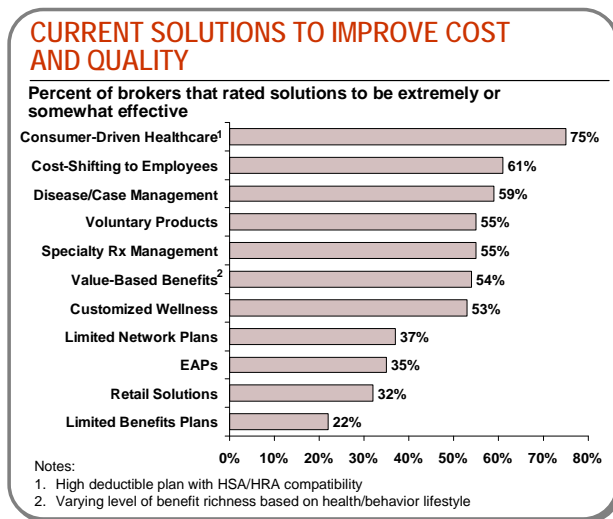
## Stemming Consumption (Reducing Demand)

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

This message is informed by one broker who stated, “Behavior education and change will be critical in my offering due to its direct impact on utilization, which ultimately impacts total healthcare costs.”

Wellness programs are beginning to play a more important role in stemming health consumption (see Figure 6). They are also beginning to show 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.

Figure 6:



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 stated, “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

percent 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 will represent an important key to solving the healthcare crisis.

One example of this includes brokers offering nurseline services to their accounts. Brokers are 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,” asserted a study participant.

## 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. One broker stated, “Change management is often overlooked and a good health management strategy can fail without one.”

As with other health innovations, employers will likely separate into three segments along the adoption continuum: “Innovators,” “Fast Followers,” and “Traditionalist/Laggards.” Innovators are being observed embracing new solutions and innovating themselves. Brokers will have to work hard to stay up 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-set 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 and then use these assets to actively engage both consumers and employers, carefully measuring performance against efficacy benchmarks. The results of this approach are promising as these brokers realize high close ratios, greater account penetration, more products per employee, higher revenue/margin and better persistency.

### *From Concept to Impact*

The coverage and affordability crisis is real and continues to threaten 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 are arguably in a strong position 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.

*ChapterHouse, a leading healthcare strategy consulting firm, has worked with prominent brokerage firms and managed care organizations to assess the current health benefits marketplace and build strategy and implementation plans for improvement. For additional information on ChapterHouse and our Buying Trends research and strategic analysis, please contact Michael Main at 630-324-1229 or mmain@chapterhouse.com*



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